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THE STATE OF THE UKRAINIAN ECONOMY IN THE CRISIS PERIOD AND FORECASTING DIRECT FOREIGN INVESTMENTS

***Annotation** The paper deals with the state and openness Ukraine's economy in crisis, the reasons of the low investment activity in the country and the growth of import dependence on foreign producers, as well as the needs of the country in attracting foreign investments are investigated. A comparative analysis of the indicators of foreign economic activity in the dynamics from 2000 till 2010 has been made. The main factors of the projected influx of investment in fixed assets for 2011-2015 are given. Under the conditions of the crisis termination in Ukraine gradual diversification of foreign trade and rapid development of industrial products with the release of final consumption are required.*

Key words: economic activity, direct foreign investment (DFI), economic reforms, economy openness, import dependence, investments, innovations, economic crisis.

Economic, social, political and cultural development of countries in the last quarter of the twentieth and the beginning of XXI century takes place under the influence of globalization. The issue of economic globalization was studied by both Ukrainian and foreign scientists: Galchinsky A.S., Lukyanovich N.V., Makagon Y., Filippenko A.S., Rumantsev A.P., Yakovets J., Bransky V.P., Anilionis G.P., Byelorussian O.G., Nikitina M.G., Golikov A.P., Seleznev A.Z., Blank N.V., Varnaly Z.V., Burns B., Brom M., Keynes J., Markvin R., Allais M. et al., but their views are ambiguous and require further investigation and solution.

Manufacturing industries and service sectors, where the flow of capital and skilled labor is primarily brought into effect, dominate in the world economic space. The criteria of economic globalization are the growing interdependence of economies of different countries, the openness of national markets, the deepening of international division of labor. The main economic components are:

- Foreign trade increase;
- The growth of the role of knowledge, new technologies, management, marketing used in the economic systems of developed countries;
- Labour migration;
- International direct and portfolio investment [6, 12, 13].

Considering the world economic development of Ukraine, regional integration processes are the most essential factors in the development of national economy. The main task of the Ukrainian economy is the reorientation of international specialization from primary export-oriented industries to science-intensive ones. Taking into account the development priorities of the leaders of the world economy - EU, U.S., Japan, China and new industrialized economies (NIEs), a promising direction for Ukraine is the development of integration processes within the single economic space. Prerequisites of improving the competitiveness of domestic goods and increa-

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sing the volume of Ukrainian exports not only to CIS countries, but also to other countries are created and thereby the conditions for Ukraine's transition to the innovation model of economic development are provided [2].

There is a risk of displacement of domestic producers by foreign competitors in Ukraine, both in the internal and the external markets. Under the concept of national competitiveness proposed by M. Porter, the competitiveness development of the region, as well as countries in general is carried out via four stages:

- Competition on the basis of production factors;
- Competition on the basis of investments;
- Competition on the basis of innovations;
- Competition on the basis of wealth.

The first three stages provide economic growth, the last one - the stagnation and decline [7].

Modern researchers have proposed to evaluate the level of regional economic development per capita income indicators: the size of the gross regional product (GRP), the value of productive resources (fixed assets, etc.), the value of the natural resources and human resources (education level).

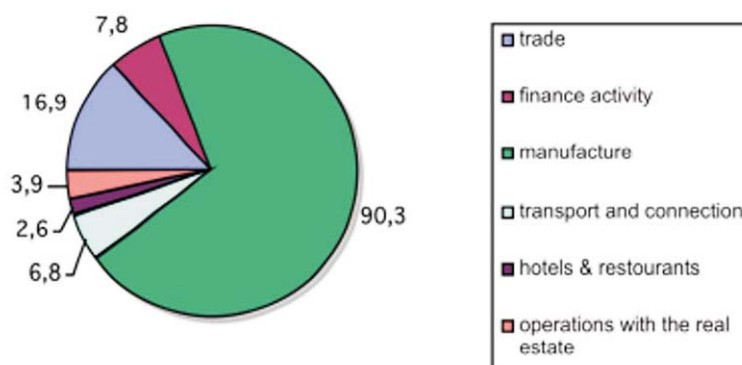
Taking into consideration the significant deterioration (physical and moral) of assets it is necessary to add a level of direct foreign investments (DFI) in the region's economy to the indicators mentioned above, including science intensive manufacture. Competitiveness is estimated by the level of essential services based on international standards and other indicators.

The role of foreign investment and the problems of attracting them to Ukraine. In the modern era of market relations the basis for successful development of the country's economy is the availability of investment potential. Attracting DFI into Ukraine's economy is an effective way of overcoming the economic crisis at the state level. The effectiveness of the process of attracting foreign investment depends on many factors. Namely,

- Political;
- Legislative;
- Economic;
- Demographic;
- Resort;
- Environmental and others. Interactions of all these factors create a country's investment climate [1, 3].

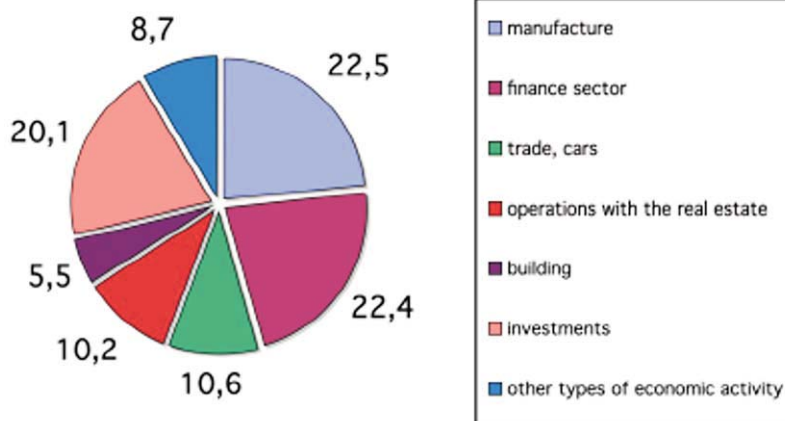
A consequence of the investments attraction into the economy of Ukraine is:

- Domestic savings increase;
- The role of DFI in providing know-how;
- The role of DFI in the access to foreign markets.



The Ukrainian economy has a relatively high investment potential and it has caused considerable interest of foreign investors in the market with 47 million consumers. In 2010 according to the State Statistics Committee of Ukraine the investments increased by 6.2%, despite low business ratings. In the economy of Ukraine received 5.986 mln.dol.US, that is

Picture 1. The structure of direct foreign investments in Ukraine according to the economic activities in 2002 [14].



Picture 2. The structure of direct foreign investments in Ukraine according to the economic activities in 2010 [14].

6.2% more than in 2009 (5.634 mln.dol.US). The total volume of DFI in Ukraine on January 1, 2011 amounted to 44.7 mln.dol.US, that is 11.6% more than in 2010 per 1 person (978.5 dol.US) [4, 10].

According to State Statistics Service of Ukraine the main investors in Ukraine were in 2002: the USA - 17.1%, Cyprus - 10.8%, the UK - 9.1%, the Netherlands - 8.2%, Russia - 6.9% and other countries - 47.9% and in 2010 these countries were: Cyprus - 21.5%, Germany - 16.5%, the Netherlands - 10%, Russia - 6.7%, Austria - 6.5%, which provided almost 90% in foreign capital increase [5, 17].

Table 1.

The structure of foreign direct investments from Ukraine to the economies of the world in 2010 [14].

Country	Index, %
Cyprus	92,9
Russia	2,7
Poland	0,8
Georgia	0,5
Latvia	0,5
Other countries	2,6

Constraints of DFI inflow into Ukraine:

- o Low international rating of Ukraine;
- o Underdeveloped domestic financial market;
- o Weak political responsibility of the state;
- o Low level of political and legal stability (weak legal framework);
- o Lack of government guarantees for foreign investments;
- o Weak innovative component of the economy and outdated technologies;
- o Corruption;
- o Lack of competitiveness of products;

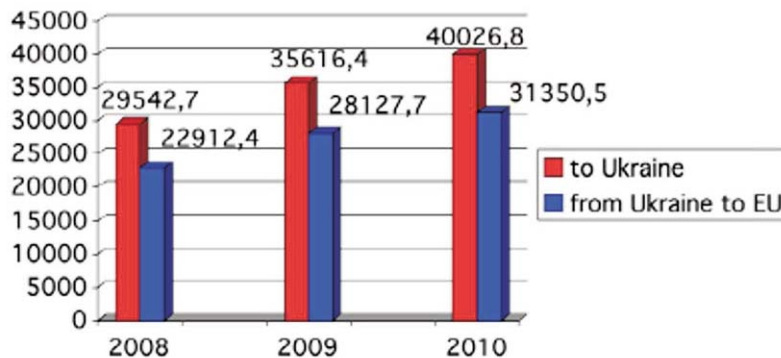
Total direct foreign investment in Ukraine in 2009 was 35723.4 mln. dol.US, which is 20.9% more than in 2008, per person - 775.3 dol.US, investments came from 124 countries of the world. The ten major investor countries were: Cyprus - 7682.9 mln.dol.US, Germany - 6393.8 mln.dol.US, the Netherlands - 3180.8 mln.dol.US, Austria - 2445.6 mln.dol.US, Russia - 1851.6 mln.dol.US, the USA - 1471.5 mln.dol.US, Virgin Islands - 1316.1 mln.dol.US, Sweden - 1263.0 mln.dol.US, France - 1226 mln.dol.US [7,14].

At the industrial enterprises: processing - 6928.0 mln.dol.US and mining - 1001.8 mln.dol.US, production of metal products - 1353.7 mln.dol.US, engineering - 1090.4 mln.dol.US, chemical and petrochemical industry - 952.8 mln.dol.US and others.

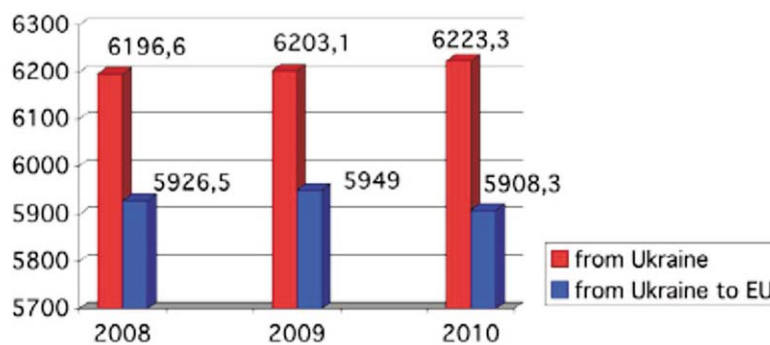
In 2009 direct foreign investments amounted to 6198.6 mln.dol.US from Ukraine to other economies, including the EU countries - 5949.0 mln.dol.US (96% of the total), the CIS count-

ries - 195.7 mln.dol.US (3.1%) in other countries - 53.9 mln.dol.US (0.9%). Direct investments from Ukraine came to 51 countries, most of them - to Cyprus. Total direct investments in the economies of other countries, given the borrowing, amounted to 6321.9 mln.dol.US [8, 17].

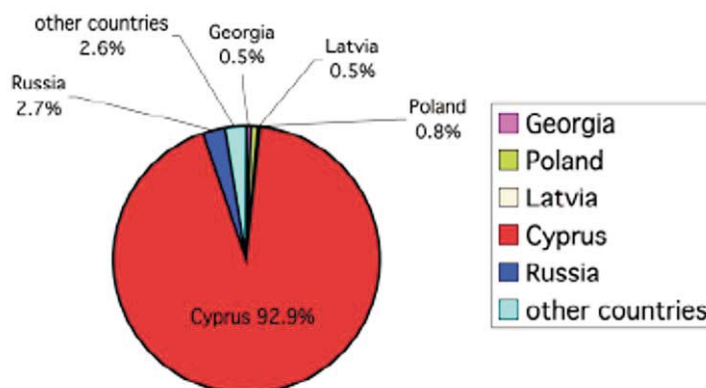
In general, we can conclude that foreign countries, like Ukraine, in crisis need to attract foreign investments that contribute to the formation of national investment markets, macroeconomic stability and makes it possible to solve the socio-economic problems of the country and its regions.



Picture 3. Direct foreign investments to Ukraine, mln.dol.US [9,14].



Picture 4. Direct foreign investments from Ukraine, mln.dol.US [14]



Picture 5. The structure of foreign direct investments from Ukraine to the economies of the world in 2010 [14].

In order to improve policies to attract foreign investment in Ukraine a system of benefits for foreign investors in certain sectors and regions should be created, foreign trade and economic legislation should be improved, the tax burden should be reduced and the structure of taxes sho-

It is rather difficult to work as foreign investors in Ukraine under the circumstances. European Association measured the index of investment attractiveness of Ukraine in the first quarter of 2011 and noted the decline. Thus, 37% of the EBA experts interviewed noted the implementation of Tax Code, which entered into force on January, 1, 2011. The rating conducted by Transparency International organization in 2010. Ukraine was ranked 134th on the corruption level among 178 countries [10, 14].

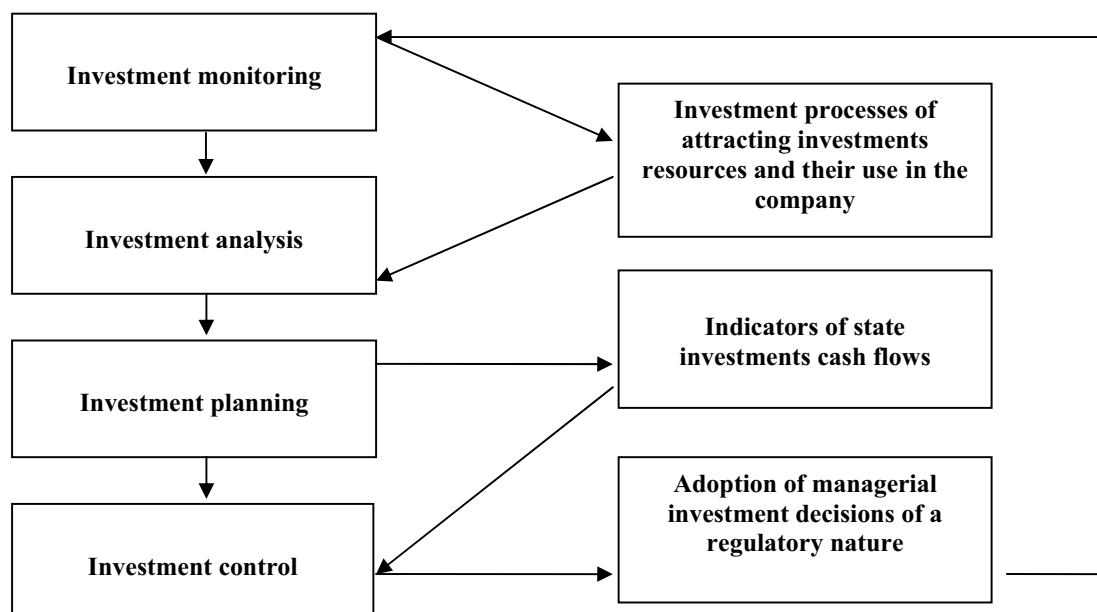
Despite significant investment potential for foreign investors, there are a number of problems constraining DFI inflows:

- Political and economic instability;
- Inadequate legal and regulatory framework;
- High level of taxation and foreign trade duties;
- Weak privatization;
- Inflation;
- Hryvnia exchange rate volatility;
- Acute crisis of the population purchasing power;
- Low wages;
- Semi-criminal nature of many enterprises, etc.

uld be simplified. Thus, the abolition of quotas should be provided, land reform should be carried out and the government must guarantee the implementation of major investment projects and reduce the cost of loans for investors.

DFI into Ukraine's economy in 2011 is expected to reach 7 bln.dol.US, 16.7% or 1 bln.dol.US exceeds the rate of 2010. The main income is expected in the financial sector and capital injections into banks submitted at the Ukrainian market are expected as well [11, 14].

Due to the huge investment potential and public policy, Ukraine has all chances to attract DFI and to succeed in economic development. At the present stage of market processes an essential effective condition of management companies' investments the mechanisms of planning, coordination and investment controlling are applied. Controlling is widely used at the enterprises of the West and brings good results, though in the management of domestic enterprises, it does not find any proper application.



Picture 6. Block diagram of the investment controlling organization system at the enterprise [14].

The figure shows that the controlling as the system of decision-making on investment management at the enterprise is an integral part of modern investment management, which provides a complex approach in dealing with crisis management issues.

The investment controlling functions:

- Monitoring;
- Analysis;
- Planning;
- Control and coordination
- The investment controlling should be an integral part of crisis management of the enterprise [4, 9].

The problems of innovation activity development in Ukraine. Under modern conditions the advanced economies are innovative, i.e. they are based on the application of new knowledge and modern information technology. Ukraine's entry into the World Trade Organization (WTO) and the prospect of joining the EU requires the modernization of enterprises, a complex approach to the effective use of high technology.

The assessment of the level of innovations in the country is produced at a rate of innovation, which is the average 5% for Ukraine, which indicates the low competitiveness of the co-

untry. To assess the level of innovation the term "Global Innovation Index" is used, the technique developed by Boston Consulting Group, the National Association of Manufacturers and the Institute of production [15].

Currently, Ukraine is the 64th in the rating of countries on the global innovation index, despite the fact that the country has a fairly developed infrastructure, the enterprises and research institutes working in the field of innovation, and it also has rich natural resources. Most enterprises use a production base and they are not engaged in new developments and manufacture low-tech products, they are engaged in the assembly of finished products from imported components or produce low-tech "half-finished products" for further manufacturing in more developed countries.

Much of the research on improving the innovation process has no practical application, e.g. due to the lack of equipment at the nano-level. Scientific developments are funded only by public funds; local businesses are not interested in the development of innovative technologies it is cheaper to buy foreign developments. There are no moral encourage meant of young professionals working in the area of innovation field. Many foreign discoveries have "Ukrainian roots", so it is more sensible to solve the existing problems.

It is possible to create a park of high technologies, benefits and tax simplifications for domestic and foreign companies operating in the innovation field. The introduction of innovative technologies in traditional sectors of the Ukrainian economy should increase their competitiveness at domestic and foreign markets [4, 16].

Country's competitiveness is largely determined by the production of innovative technologies. An analysis of statistical data shows that the number of employees in the innovation field has achieved 3.3-fold decrease since 1990, while in the EU and the U.S. it has increased by 2 times and in the Southeast Asia 4-fold; 3.5 – fold decreased the number of scientists in the field of technical sciences has fallen, the development of new technology has gone down – 14,3. The proportion of innovation active enterprises in Ukraine amounted to 12.8%, which is 5 times less than in 1990. The density of sales of innovative products - 4.8%, the share of exports is negligible.

According to analysts of the OECD the annual growth rate of industrial production in the world is 75% at the expense of scientific and technological progress (STP), whose share will grow up to 90% in the future in Ukraine is less than 1%, and the basis for the growth is resource- and energy-intensive production based on outdated technologies, using obsolete equipment.

In the world innovation rating Ukraine was the 88th in 2010; and in 2011 it went down lower than 90th; in the rating of competitiveness it was 89th. The low level of innovation activity in Ukraine is due to the following factors:

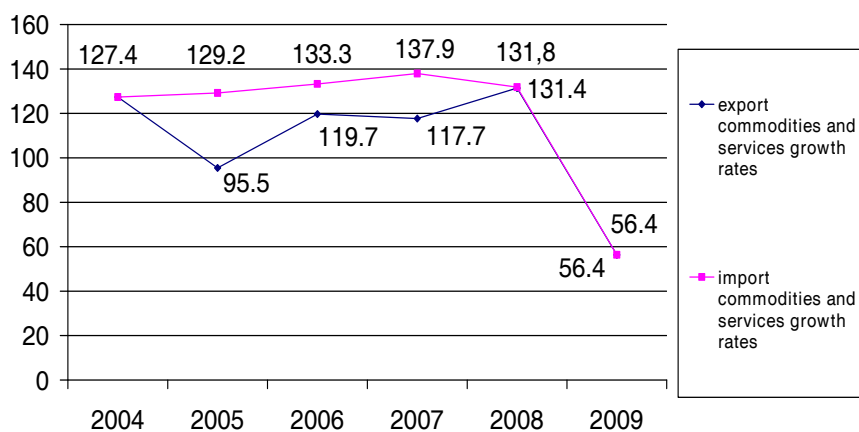
- Unstable economic situation;
- Costs of financing research and education are less than 1% of GDP and make 9.2 billion UAH. embodied in the state budget for 2011, while in the world, the figure is 2-3%;
- Imperfect legal framework;
- Lack of expertise and certification assessment and patent protection;
- Absence of management and marketing knowledge of most managers and researchers;
- Low level of interaction between enterprises and science;
- Organization own funds deficiency .

Overcoming the existing problems is possible under implementing the national innovative development policy. B. Geyets and B. Semynozhenko consider innovative component of the investment processes as the essential prerequisite for economic strategy development, which would give opportunity for Ukraine to take its worthy place in the global economy [2, 17].

Given the current state of development of Ukrainian economy and its desire to exit out of a deep crisis, as well as Ukraine's integration into the EU, we can conclude that innovations can be a driving force for improving competitiveness at domestic and international markets. The experience of industrialized countries can be an example of an innovation strategy increasing production volume and sales, improving productivity, increasing the circulation of capital invested, supplying high quality innovative products to the market. The range of products and technology of its production is being constantly updated and scientific and engineering developments for production-oriented innovations are being implemented. Thus, the fusion of science, technology and production takes place, creating parks, techno, business incubators, etc. For any country, there is a parameter - the coefficient of innovation implementation. This is the percentage of company profits, which is allocated for the modernization and new technology introduction. If it is below 15%, the enterprise is doomed to failure, although machinery and plant shops can be used for many years. The products of such companies are forced out from the market by foreign competitors. For Ukraine, the average implementation indicators does not exceed 5%, many enterprises are closed for this reason. Each State must pay great attention to innovative activity. Innovation is the weapon of competition in the XXI century.

Table 2.
Distribution of total innovation expenditure, % [5, 14]

Index	2008	2009
Internal research and development	8	8
External research	2,4	2,7
Purchasing of machinery, equipment and software	63,9	62,6
Acquisition of foreign knowledge	3,5	1,4
Other costs	22,2	25,3



Picture 7. The dynamics of foreign trade with EU [3, 14].

Export activities of Ukraine. Export potential is an integral part of the national economy. Its strategic role is to activate the existing and potential competitive advantages of economy of Ukraine in the international division of labor. It is a means of stable economic growth in Ukraine in comparison with developed countries.

Ukraine has a well developed industrial base and rich agricultural complex, and a lot of mineral resources for local use and export. The main exports from Ukraine are ferrous and non-ferrous metals, chemicals, machinery, fuel, petroleum products, transport equipment and food products. Currently, the country's GDP is estimated at 136.6 billion dollars. United States, major export partners are Russia, Germany, Italy, Turkey, the United States. Consider the basic indicators of the export potential of Ukraine for 2006-2010 years in the dynamics.

Table 3.
The dynamics of the Ukrainian export potential [14].

Index	2006	2007	2008	2009	2010
Foreign trade turnover (bln.dol.US.)	843,3	109,9	152,5	85,1	170,7
Exports of goods (bln.dol.US.)	38,3	49,2	67	39,7	116,3
Imports of goods (bln.dol.US.)	45	60,7	85,5	45,4	54,4
Balance (bln.dol.US.)	-6,7	-11,5	-16,9	-5,7	61,9
The coverage ratio of export over import	0,85	0,81	0,78	0,87	2,14

In 2009 the exports fell by 40% and the imports decreased by 47%, and the foreign trade turnover went down by 44% respectively. This decline is associated with the global financial and economic crisis. The coverage ratio of up to 2006 and after 2010 was more than 1 (positive trend), and from 2006 till 2009 less than 1 (negative trend), which means the country's dependence on imported goods and reduces the export potential of the region. Promising groups of Ukraine's exports are goods of vegetable origin, mineral products, chemicals and related industries, nonprecious metals and articles thereof, mechanical equipment.

Based on the analysis of export activity in Ukraine it has been determined the moral and technical wear of material and technical basis, which accounts for more than 50% materials consumption of production and the irrational pattern of export flows; debt of Ukrainian companies to foreign investors at the end of 2009 made up 6615.2 mln.dol.US (according to the State Statistics Service of Ukraine).

High risk of financial losses, unprofitable terms in export credit, export duties increase the cost of exports and thus lead to its decline, in comparison to the sale of goods at the domestic market.

On the Day of Unification of Ukraine (News RBC-Ukraine, 2011) V.Yanukovych stressed in his speech that Ukraine was threatened with gaining the status of "poor quality products and cheap raw materials market".

At the Ukrainian-Japanese Business Forum (18.01.2011) Viktor Yanukovych noted that the Government of Ukraine was "to solve hard but realistic problems" to reduce the tax burden on business, to reduce the licensing system. According to the approved program of economic reforms (2014) macroeconomic stability, growth of social standards, improving the business climate, structure of modernizing of basic sectors of the economy must be provided. Ukraine is working currently at the implementation of the economic reform program for 2010-2014. «A Prosperous society, a competitive economy, an effective government and the National Action Plan for 2011» will implement economic reform programs in the relevant directions [15].

The Ukrainian foreign trade turnover in 2008 was 170.7 bln.dol.US, that is 5 times more than in 2000. Due to the crisis in 2009 foreign trade turnover decreased by almost 2 times up to the level of 98.8 bln.dol.US. The foreign trade balance from 2000 till 2005 was positive and since 2006 it was negative, which indicate that import prevails over export.

Table 4.
Indices of the Ukrainian foreign trade [13].

Foreign economic indexes	2000	2004	2005	2006	2007	2008	2009
Export of goods and services, mln.dol.US	18059.3	37980.2	40363.1	45873.2	58237.2	78695.7	49223.6
Import of goods and services, mln.dol.US	15106.9	31054.6	39071.3	48846.9	61478.2	92003.3	50604.4
Economic openness, %	57.8	58.5	46.9	42.6	40.8	43.6	53.1
Import dependence, %	48.3	47.9	45.4	45.3	43.1	51.0	54.6
Balance of foreign trade, mln.dol.US	2952.4	6925.6	1291.8	-2973.7	-3241.0	-13307.6	-1380.0

Analyzing the indices of foreign trade of Ukraine for 2000-2009, a conclusion can be made that the economy of the country is characterized by high openness (53,1%) and the increase of import dependence on foreign producers (53,6%). This demonstrates the shortcomings of the state regulation of foreign trade conditions [2].

Developed countries export high-tech products, as for Ukraine, it exports about 40% of steel products and imports mineral products 32,8% (89% belong to the CIS countries) and about 14% of machinery and equipment.

For the national economies it is the international investment activity that defines the basic mechanisms of long-term economic growth. The Ukrainian need attracting foreign investments is due to 3 important reasons:

- 1) low investment activity of domestic producers;
- 2) technical and technological modernization of production and market and social systems;
- 3) the introduction of new management techniques, management and marketing.

The forecast of the inflow of investments in fixed capital in 2011-2015. Ukraine remains attractive for investment for foreign investors in the medium term (2011-2015). This is facilitated by the implementation of programs of public investment policy: 1) The adoption of the regulatory framework for public and private partnership in Ukraine; legislation on the use of natural resources, the concession activity, industrial parks; the clustering of Ukrainian economy in order to introduce new and to improve the existing instruments to attract investments in the economy; 2) Government support for innovation and investment projects implemented at the enterprises of aviation, space industry, defence industry, mechanical engineering, agriculture, energy, coal mining and construction industries through the cheaper system of loans; 3) The concentration of budget funds for the investment and infrastructure development aimed at contributing the weakening of inflationary indicators and supporting the demand of the domestic goods in manufacturing industry, the retention of the employment rate [3, 18].

Table 5.
Projected DFI volumes distributed from 2010 till 2015
(millions of dollars USA) [2, 13].

Index	2008	2009	2010	2011	2012	2013	2014	2015
	Forecast							
DFI (capital gains) according to the inertial (pessimistic) script	6073,7	4410,4	4500	5000	5500	6000	6500	7000
Dynamics of the change over the previous period, %			-	11,1	10	9,1	8,3	7,7
DFI (capital gains) according to the investment activity (optimistic script)	6073,7	4410,4	5000	5500	6000	6500	7000	7500
Dynamics of the change over the previous period, %			-	10	9,1	8,3	7,7	7,1

The main factors of the projected investment inflows:

- Improving Ukraine's place in the system of international popularity rating;
- Stable hryvnia exchange rate over the forecast period;
- Stabilization of the banking system;
- Overcoming the raise of inflation;
- Development of the insurance and capital markets;
- DFI inflow for the implementation of projects under the State program for the European Football Championship 2012 preparation and holding the finals [4].

According to the investment projects implemented in Ukraine on the 1d of January, 2011 (191 projects) the investments of 2044,0 mln.dol.US. were received (82,4% from the specified volumes). Ukrainian investors placed 1426,0 mln.dol.US. investments are (69,8% of total), foreign investors put – 618,0 mln.dol.US. (30,2%) [5, 14].

The biggest investment levels since the beginning of the projects realization are: - Germany -237,0 mln.dol.US. (38,3% of total DFI); - Cyprus - 62,2 mln.dol.US. (10,1%); - Japan – 44,9 mln.dol.US. (7,3%); - Poland - 43,6 mln.dol.US. (7,1%); - France - 29,6 mln.dol.US. (4,8%); - USA – 23,8 mln.dol.US. (3,9%); - Italy - 22,7 mln.dol.US. (3,7%); - New Zealand - 19,9 mln.dol.US. (3,2%) [17, 19].

Ukraine joining the WTO has increased the role of external economic factors. Under the conditions of Ukraine's exit from the crisis the gradual diversification of foreign economic activity, and the accelerated development of the industries producing final consumption goods are required.

Science and technology programs and projects related to the development, introduction and adaptation of complex technological systems in production can be accepted as a basis to contribute to the competitive product output.

Thus, in the context of the global crisis, under the pessimistic assessments of the economic situation in Ukraine, the only strong point is the high investment attractiveness of Ukraine for foreign investors.

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