

DIGITALES ARCHIV

ZBW – Leibniz-Informationszentrum Wirtschaft
ZBW – Leibniz Information Centre for Economics

Harkavenko, Valentyna; Yershova, Galina

Article

Impact of foreign capital on the economic development of Ukraine

Reference: Harkavenko, Valentyna/Yershova, Galina (2020). Impact of foreign capital on the economic development of Ukraine. In: Economy and forecasting (1), S. 43 - 56.
http://econ-forecast.org.ua/?page_id=189&lang=uk&year=2020&issueno=1&begin_page=43&mode=get_art&flang=en.
doi:10.15407/econforecast2020.01.043.

This Version is available at:
<http://hdl.handle.net/11159/6939>

Kontakt/Contact

ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics
Düsternbrooker Weg 120
24105 Kiel (Germany)
E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)
<https://www.zbw.eu/econis-archiv/>

Standard-Nutzungsbedingungen:

Dieses Dokument darf zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden. Sie dürfen dieses Dokument nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, aufführen, vertreiben oder anderweitig nutzen. Sofern für das Dokument eine Open-Content-Lizenz verwendet wurde, so gelten abweichend von diesen Nutzungsbedingungen die in der Lizenz gewährten Nutzungsrechte.

<https://zbw.eu/econis-archiv/termsfuse>

Terms of use:

This document may be saved and copied for your personal and scholarly purposes. You are not to copy it for public or commercial purposes, to exhibit the document in public, to perform, distribute or otherwise use the document in public. If the document is made available under a Creative Commons Licence you may exercise further usage rights as specified in the licence.



<https://doi.org/10.15407/econforecast.2020.01.043>

УДК: 339.727.22:330.34 (477)

JEL: O190

Valentyna Harkavenko, *Researcher*
Institute for Economics and Forecasting, NAS of Ukraine
e-mail: gvi1953@ukr.net

Galina Yershova, *PhD in Economics, Senior Researcher*
Institute for Economics and Forecasting, NAS of Ukraine
ORCID 0000-0002-8807-130X
e-mail: galina_yershova@ukr.net

IMPACT OF FOREIGN CAPITAL ON THE ECONOMIC DEVELOPMENT OF UKRAINE

The article examines the impact of foreign capital on the economic processes that took place in Ukraine during 2000–2019 pp. Among foreign investors, Ukraine seeks to position itself as an investment hub, in which it is profitable to invest and develop business. In some places, the impression is that foreign investment is identified with a panacea that will enable Ukraine to reach the level of development of world leaders. At the same time, the study concluded that the efficiency and quality of FDI, portfolio investment and debt capital raises considerable doubts. For 2000 and 10 months of 2019, the total net inflow of direct, portfolio foreign investments and foreign loans to Ukraine amounted to \$ 185.3 billion. USA. At the same time, such a large financial resource did not become a catalyst for structural changes in the economy and the development of high-tech production. Instead, the concentration of foreign capital in certain economic activities contributed to the consolidation of the raw material orientation of this country's economy and exacerbation of domestic economic problems against the backdrop of a large influx of speculative capital.

Much attention is paid to the geographical structure of foreign investments and debt capital, which testifies to the significant influence of offshore jurisdictions on the activities of domestic businesses and the formation of their behavior. Offshore capitalization is a defining feature of national business, which has become one of the main causes of the distortion of the model of Ukraine's economic development.

The article focuses on the need to improve public policy on attracting foreign capital in Ukraine. In particular, it is proved that the lack of proper control over the concentration of foreign capital in certain sectors causes significant imbalances, which, under the influence of other factors, exacerbate the crisis. In view of this, it is advisable at the state level to analyze the "toxic impact" of foreign capital on structural changes in the economy and its impact on the economic security of Ukraine.

The article was prepared in the framework of R&D on "Financial risks of doing business in Ukraine: non-financial corporations sector" state registration No 0118U006088.

Keywords: *foreign capital, foreign direct investment, economic development, foreign loans, offshore capital*

Foreign investment in the modern world is a long-awaited treasure for many countries, in particular, the developing ones, and Ukraine is no exception. The domestic economy, which is experiencing a chronic shortage of financial resources for large-scale modernization, could use foreign capital to compensate for the lack of domestic sources of funding and improve economic situation. This is what is behind the ambitious plans of the leaders of the current government, who intend to attract 50 billion USD of foreign direct investment (FDI) [1] in the next five years.

Without delving into the analysis of probability of the government's plans, it is worth paying attention to another aspect of foreign capital, namely its efficiency. By its economic essence, FDI, stimulating the redistribution of investment resources in the economy, has the ability to lead to uneven development of economic sectors, which may exacerbate domestic economic problems. This issue is currently out of focus, although its relevance for any country is clear.

Domestic scientists and practitioners in their research pay much attention to attracting foreign direct investment, so they develop numerous recommendations for improving the investment climate and encouraging foreign investors [2, 3]. At the same time, in our opinion, the issue of "toxic" impact of foreign capital on structural changes in economy, its impact and "contribution" to the aggravation of domestic economic problems and economic security of the country still remain insufficiently studied.

In Ukraine, in contrast to most developed countries, there are no restrictions on attracting foreign capital, and recent years are characterized with a policy of liberalization of currency legislation [4], one of whose goals being increased foreign investors' interest in investing in this country's economy. This is due to the lack of a comprehensive analysis of the effectiveness of foreign capital already involved in Ukraine's economy, and its impact on economic processes in this country. And without a proper analysis of the past and "work on mistakes", it is impossible to build any effective policy able to yield positive results for economy.

An important issue for Ukraine at the moment is to conduct an in-depth analysis of the efficiency of already attracted foreign capital and its quality, which determines the relevance of the topic of the present article.

Thus, **the purpose of the article** is retrospective analysis of the role of foreign capital in Ukraine's economic development, its efficiency and quality, and the use, on this basis, of the obtained conclusions to properly adjust this country's investment policy.

Presenting the main content. Despite the fact that in recent years the volume of FDI in Ukraine's economy of Ukraine has considerably declined, throughout the period of independence, this country's economy has attracted a fairly large amount of foreign capital. In particular, during 2000 - 10 months of 2019, total net inflow of direct and portfolio foreign investments and foreign loans to Ukraine amounted to 185.3 billion USD¹. Such a significant

¹ The actual amount of receipts is much higher, as net receipts are the difference between borrowed and returned funds, but the report of the National Bank of Ukraine on the balance of payments does not provide information on the amount of attracted and returned investments and loans received and repaid since 2015. Instead, the information for 2000–2014 shows that during this period: all sectors of the economy received long-term loans in the amount of 88.9 billion USD and repaid 146.3 billion USD. The largest amount of long-term loans was received by the non-financial sector - 117.2 billion USD or

financial resource could have provided important structural changes for Ukraine's economy, positively influenced its economic development, promoted domestic production and so on. However, during this time in Ukraine no structural changes occurred in the economy or in the development of domestic high-tech production. In particular, in 2017, exports of high-tech goods in Ukraine accounted for only 5% of this country's industrial exports, while in OECD countries the figure was 13.9%, and in China - 23.8% [5]. Moreover, during 2015–2017, Ukrainian high-tech exports even decreased by 1.3 percentage points.

Today, the domestic economy is losing positions in innovative development. In particular, in the global ranking of innovative economies in 2020, Ukraine has lost three positions and only occupies 56th place [6] out of 60 countries. Low productivity, low rates of value added, and insufficient investment in high-tech production are stifling the economy's ability to innovate.

At the same time, during 2000 - 10 months of 2019, 104.4 billion USD worth of incomes from foreign investment (direct, portfolio and other) was transferred from Ukraine to non-residents, including 7.2 billion in January-October 2019. The factor of repatriation of non-residents' income has a negative impact on Ukraine's current account balance. For eleven years in a row, income repatriation by non-residents accounts for about 10% of all payments on the current account in the balance of payments, and in some periods the negative balance of investment income even exceeded the negative balance of the current accounts for goods. Such a steady trend towards significant payments to non-residents for their direct and portfolio investments and loans has led to the situation that income payments to non-residents negatively affect Ukraine's overall economic development and in particular this country's current account.

The dynamics of debt and investment flows to Ukraine during 2000–2019 in terms of net funds inflow in the form of direct and portfolio investments and loans (Table 1) allows a few conclusions:

Table 1

Net funds inflows to Ukraine on foreign direct and portfolio investments and loans in 2000–2019, million USD

Indicator	2000 –10 months 2019	including					
		2014		2014		2014	
1. Total direct investments to Ukraine	85 481	847	3 050	3 441	2 827	2 476	2 205
Banks	23 542	499	2 384	2 257	1 034	974	520
Other sectors	61 939	348	666	1 184	1 793	1 502	1 685
<i>1.1. Capital participation instruments</i>	74 652	712	4 003	3 550	1 934	1 969	1 594
<i>1.2. Debt instruments</i>	10 829	135	-953	-109	893	507	611
2. Total portfolio investments to Ukraine	38 211	-2 701	370	216	1 803	2 094	4 232
<i>2.1. Capital participation instruments</i>	4 486	-391	177	69	110	-9	62
<i>2.2. Debt securities</i>	33 725	-2 310	193	147	1 693	2 103	4 170
<i>Public administration sector</i>	24 119	19	949	256	1 496	1 998	3 491
<i>Banks</i>	2 759	-717	-613	-88	-100	92	-900

62% of total long-term loans received; the banking sector received \$ 40.3 billion USD, or 21.4%. Significant amounts were received by the public administration sector - 21.9 billion USD or 11.6% of total long-term loans.

Table 1 (end)

<i>Other sectors</i>	6 864	-1 612	-143	-21	297	13	1 579
3. Total credits and loans	61 598	4 330	6 948	-1 083	687	1 776	-310
<i>NBU</i>	4 227	551	4 666	-301	778	658	-590
<i>Public administration sector</i>	10 226	3 626	4 116	252	-41	-452	-285
<i>Banks</i>	-606	407	-552	-959	-109	85	54
<i>Other sectors</i>	47 751	-254	-1 282	-75	59	1 485	511
4. Total (1+2+3)	185 290	2 476	10 368	2 574	5 317	6 346	6 127
5. Total income payments to non-residents from investments in Ukraine	104 518	7 006	5 375	5 375	6 723	8 496	7 154
<i>including:</i>							
<i>a) from direct investments</i>	36 727	1742	471	1128	2 443	3 651	3 223
<i>out of them: interest payments</i>	4 892	379	425	439	409	458	337
<i>б) from portfolio investments</i>	23 937	2 274	1 824	1 554	1 686	2 338	2 085
<i>out of them: interest payments from debt securities</i>	22 264	2 253	1 824	1 553	1 504	1 645	1 823
<i>в) from loans</i>	43 854	2 990	3 080	2 693	2 594	2 507	1 846
6. Current account balance	-61 993	-4 596	1 616	-1 340	-2 442	-4 510	-3 424

Source: Balance of payments of Ukraine for respective years. URL: [http://www.bank.gov.ua / Statistics / Statistics of the foreign sector](http://www.bank.gov.ua/Statistics/Statistics%20of%20the%20foreign%20sector)

- During 2000 - 10 months of 2019, net inflows in the form of foreign direct investment (FDI) amounted to 85.5 billion USD. At the same time, 36.7 billion USD worth of incomes were paid to foreign investors during this period, which constitutes 43% of net inflow;

- In the dynamics of portfolio investments in Ukraine, there is a clear foreign investors' interest in investing in government debt. The share of such investments in total net portfolio investments during 2000–2019 was 63%. The interest of foreign investors in investing in government securities is related to their extremely high yield with a relatively low risk. During 2000–2019, net portfolio investments in Ukraine amounted to 38.2 billion USD. At the same time, non-residents' incomes from these investments in 2000 -10 months of 2019 amounted to 23.9 billion USD, which is equivalent to 62% of the net investments. During 2018–2019, non-residents' investments in government securities considerably exceeded FDI inflows into the real sector (in particular, in January – October 2019 - 2.3 times), which indicates purely speculative incentives of foreign investors when investing in Ukrainian economy.

At the same time, for Ukraine's economy, the uncontrolled inflow of significant amounts of foreign capital into the government securities market raises the risks of complications on the foreign exchange market and may provoke uncontrolled devaluation of the national currency. Ukraine has already experienced similar negative consequences during previous economic crises. In particular:

- in the II-III quarters of 1998, there was a sharp outflow of non-residents' funds invested in government securities. Then more than 700 million USD was withdrawn from Ukrainian market, which sharply affected this country's macroeconomic stability;



Impact of foreign capital ...

– in the II-III quarters of 2008, the net outflow of non-residents' government debt related funds from Ukraine exceeded 500 million USD, while similar outflow of non-residents' incomes on the banking sector's liabilities in III-IV quarters of 2008 amounted to almost 1 billion USD. Only the moratorium on early withdrawal of funds from deposit accounts introduced by the National Bank in October 2008 [7] prevented further outflow of non-residents' funds (was expected at approximately 6 billion USD).

Table 2

Structure of foreign direct investment (share capital) to Ukraine by economic activity, %

Economic activity	%				
	2000	2004	2008	2016	01.07.2019
Total share capital	100,0	100,0	100,0	100,0	100,0
By activity:					
Agriculture, forestry and fishery	2,0	2,5	2,3	1,6	1,6
Industry	52,6	45,3	35,0	25,7	33,3
Construction	3,7	3,0	5,4	2,9	2,8
Wholesale and retail trade; repair of motor vehicles and motorcycles *	18,3	18,3	10,4	14,6	16,6
Transport, warehousing, postal and courier activities		9,0	4,4	2,8	3,1
Information and telecommunications		0,0	0,0	5,5	6,5
Finances and insurance *	6,6	7,7	29,5	27,4	11,7
including banks		0,0	0,0	9,6	11,7
Real estate transactions *	0,3	7,5	10,1	9,7	13,0
Professional, scientific and technological activities		0,0	0,0	6,0	6,6
Other economic activities	16,6	6,7	2,8	3,9	4,8
*Total in the three activities	25,2	33,4	50,0	51,7	41,3

Note: * – total amount of foreign direct investment in three economic activities (wholesale and retail trade; repair of motor vehicles and motorcycles, financial and insurance activities, real estate transactions) constitutes the lion's share of FDI attracted to Ukrainian economy.

Source: Direct investment (equity and debt instruments) in the economy of Ukraine / State Statistics Service of Ukraine. URL: <http://www.ukrstat.gov.ua>

When analyzing the FDI dynamics in terms of economic activity (Table 2), an essential reorientation of flows attracts attention: during 2000–2016, against the background of a decrease in FDI invested in industry, there was a trend of FDI concentration in the financial sector and circulation. As a result, the share of foreign investment in three activities ("Financial and insurance activities", "Wholesale and retail trade; repair of motor vehicles and motorcycles", and "Real estate activities"), in total FDI in the form of share capital increased

from 2000 to 2016 from 25 to 52% (from 0.8 to 19.5 billion USD²). For comparison, the share of investments in industry decreased from 52 to 25.7%.

During 2016–2019, with a decrease in the investment in financial activities³ due to the “cleansing” of the banking system, the share of investment in industry increased. The share of investments into industry, as of July 1, 2019, increased to 33%. It is noteworthy that 2.1 billion USD was invested in industry from the G7 countries (18.8%), while from the offshore countries - 3.4 billion USD (30.3%).

Analysis of the structure of FDI invested in Ukraine, in comparison with other general economic trends inherent in the economy and its individual segments, gives grounds for a few conclusions:

first, since 2009 there has been a steady downward trend in FDI in Ukraine. Thus, the FDI amount in 2018 was only 21.6% to 2008. This decrease took place against the backdrop of a significant improvement in Ukraine's rating in Index Doing Business (during 2006–2019, Ukraine moved 53 steps up to occupy the 71st position among 190 countries in 2019) [8], which indicates the deeper roots of the problem of attracting FDI than just the conditions of doing business;

second, for the vast majority of investors when choosing investment target, Ukraine's real sector is not a priority, since *the main incentive of foreign investors in Ukraine is access to the most profitable market segments* and quick investment return;

third, foreign investors are not interested in the innovative development of Ukrainian economy, as evidenced by the extremely low amounts of FDI invested in innovation. In particular, during 2000–2018, non-residents' investments in financing innovative activities of industrial companies reduced 8.6 times. At the end of 2018, the share of non-residents' investments in financing innovations was a mere 0.9% of total investments in this area [9].

The FDI invested in industry have not played any significant role in Ukraine's innovative development nor had a significant impact on the modernization of Ukraine's production⁴. This can be explained by the fact that foreign parent companies are not interested in the emergence of competitive Ukrainian high-tech goods, but are ready to invest in a production that would provide them a stable income and long-term demand for its goods in Ukraine's domestic market. At the same time, the funds of Ukrainian businesses, which are reinvested from offshore and low-tax jurisdictions, are mainly directed to low-tech activities that provide constant demand for corresponding products in foreign and / or domestic market and make it possible for them to gain constant profits, in particular, due to their monopolistic position. Thus, the extractive industry concentrates about 17% of total FDI invested in industry, of which over 93% is attracted from Cyprus, the Netherlands and Switzerland. In metallurgical production, the respective figure exceeds 5%, of which about 32% came from Cyprus.

No less important issue for Ukraine is quality of the attracted foreign capital. It is well known that one of the positive effects of the inflow of foreign capital from developed countries into the production is the transfer of technology and improved management [10, 11]. At the same time, the lion's share of FDI attracted to Ukraine's economy is nothing but first withdrawn and later returned domestic capital (under the guise of foreign investment). In

² "Wholesale and retail trade; repair of motor vehicles and motorcycles" - from 602 million to 5.5 billion USD; "Financial and insurance activities" - from 215 million to 10.3 billion USD; and "Real estate transactions" - from 11 million to 3.7 billion USD.

³ Due to the exchange rate difference, revaluation of banks' capital, termination of activities by individual banks, transfer of ownership, etc.

⁴ The share of foreign investors in the structure of capital investments of domestic companies during 2010–2017 varied within 1.4–3%, and in 2018 decreased to 0.4%.



particular, as of July 1, 2019, *almost 40% of total FDI* invested in Ukraine as share capital (13 billion USD) represent investments from countries that are considered by Ukraine's current legislation as offshore zones. Taking into account the countries with preferential tax treatment, where Ukrainian businesspersons often set up companies in order to carry out their activities in Ukraine as a foreign company, the share of "offshore FDI" exceeds 70%, or almost 24 billion USD. The largest amounts of investments came from Cyprus and the Netherlands, respectively 29.4 and 22% of total FDI in Ukraine. That is, more than 50% of total foreign investments came from two countries with classic offshore and low-tax jurisdictions, while from the G7 countries – only 16.4%, or 5.5 billion USD.

To support the statement of the Ukrainian origin of foreign capital, we can make quote a few arguments:

1. Analysis of goods exports and imports by country, which indicates a shadow outflow of capital. Thus, exports of goods from Ukraine in 2016 [12] to three countries, such as Cyprus, the Virgin Islands (British), and the United Arab Emirates, "per trading country" amounted to 4,428 million USD, and "by destination" - only 340 million USD. The difference of 4.1 billion USD testifies that the Ukrainian producers exported goods to other countries via the above-mentioned offshore (usually for a reduced price).

Ukrainian exporters also use similar schemes involving registration of companies abroad. That is why it is quite probable that part of investments from such countries (which are leaders in investments in Ukrainian share capital and include Switzerland, Great Britain, and Austria), belongs to domestic business, because, in 2016, the difference between the exports of Ukrainian goods sold to these countries' companies and those delivered directly to these countries amounted: for Switzerland – to 10.4 billion USD, for Great Britain - 3.1 billion USD, and for Austria - 0.2 billion USD.

The import based scheme is the opposite to the export based one: Ukrainian importers buy foreign goods via a related offshore company, usually at an overstated price. Thus, in 2016, in the above three countries, Ukrainian importers purchased 1,513.5 million USD worth of goods, of which goods "originating from these countries" only account for 85.4 million USD. That is, a difference in the amount of 1,428.1 million USD testifies that Ukrainian importers bought goods from other countries for this amount through the above mentioned offshore zones⁵.

2. The ratio of FDI attracted to Ukraine to the GDP of the investor country (Table 3).

Table 3

Foreign direct investment (equity capital) to Ukraine from "offshore zones"*, million USD

Country	As of 01.07.2019	Country's GDP in 2018, mln USD	Ratio of country's FDI to Ukraine to country's GDP, %
FDI to Ukraine, total	33 724,4		
including:			
From offshore zones	13 020		
Cyprus	9 922	24 470	40,5

⁵ The use of an offshore company in import makes it possible to manipulate the contract prices of goods: for example, to increase the price of goods imported into Ukraine, minimizing the profits of the Ukrainian firm. And for goods with high customs duties, the price can, conversely, be reduced. There are risks in this scheme: if the price of the goods is understated, you will have to pay income tax in Ukraine. If the price is too high, then there will be a need to pay import duty. Thus, it is necessary to choose the right optimal price.



Table 3 (End)

Virgin Islands (UK)	1 046	313	334,1
Belize	439,7	1 925	22,8
Aruba	375,0	2 701	13,9
Republic of Panama	322,6	65 055	0,5
Republic of Singapore	309,8	364 157	0,1
Republic of Seychelles	116,2	1 590	7,3
Hong Kong	56,2	362 993	0,0
Principality of Liechtenstein	50,6	6 215	0,8
United Arab Emirates	47,7	414 179	0,0
Republic of Marshall	47,3	212	22,4
Ireland	43,5		
Principality of Monaco	39,5	382 487	0,01
Autonomous Province of Kosovo and Metohija, Republic of Serbia	34,0	7 900	0,4
Saint Kitts and Nevis	33,7	1 040	3,2
Bahamas	24,5	12 162	0,2
Commonwealth of Dominica	23,4	504	4,6
Lebanese Republic	22,7		
Curacao	13,4	3 117	0,4
Saint Vincent and the Grenadines	11,3	813	1,4
Moldova	11,1	11 309	0,1
Isle of Man	9,6		
Cayman Islands	4,5	3 571	0,1
Gibraltar	3,3		
Turks and Caicos Islands	3,2	1 022	0,3
Islamic Republic of Iran	2,8	454 013	0,0
Republic of Liberia	2,6	3 249	0,1
Guernsey	1,5		
Dominican Republic	1,0	81 299	0,001
Uzbekistan	0,8	50 500	0,002
Antilles	0,7		
Share of investment from offshore zones to total foreign investment, %	38,6		

* The list corresponds to the Cabinet of Ministers of Ukraine's Regulation of 27 December 2017 No 1045 with further amendments.

Source: compiled according to the reporting of the State Statistics Service of Ukraine: Investments in foreign economic activity of Ukraine. URL: <http://www.ukrstat.gov.ua>

A striking example is the Virgin Islands (UK). With a GDP of 313 million USD [13], this country as of the end of 2018 invested 1037 million USD worth of FDI to Ukraine's economy. At the end of 2018, total amount of FDI from Cyprus to Ukraine reached about 10 billion USD, making almost 40% of the former's GDP in 2018 (24.4 billion USD [14]). The situation is similar with Belize and the Marshall Islands, where the ratio is 23 and 22% of GDP, respectively.

Undoubtedly, such amounts of foreign investments originating from these countries, especially directed to one country - Ukraine, are nonsense. By the way, more than 90% of investments from Ukraine (almost 6 billion USD) are directed to Cyprus, which is another evidence that investments destined to Ukraine from offshore zones mostly belong to Ukrainian businesses.

3. The opening of final beneficiaries by the banks, due to the adoption of the correspond-

ding amendments to legislation in 2015, made it possible to make sure that foreign investments from offshore zones mainly represent capital of Ukrainian origin.

Summarizing the analysis of the structure of foreign investment, we find it logical that *considerable amounts of FDI invested in Ukraine failed to provide economic growth*. Moreover, since such foreign capital mainly fails to generate foreign exchange earnings, its withdrawal from the Ukrainian market together with the need to repatriate the income earned on it in the most difficult moments of the past currency crises and financial recession (2008-2009, 2014-2016) only deepened the crisis phenomena, slowing down Ukraine's economic recovery. In addition, a significant share of offshore capital in this country's banking sector led to the emergence of a large number of troubled banks in 2014-2016, because such banks were most often involved in shady and illegal financing schemes. The main motives of the ultimate owners' interest in owning Ukrainian banks via offshore zones were lending to affiliated persons and withdrawal of funds abroad [15, 16].

A striking example of money outflow from Ukraine is the situation with foreign credits and loans. Thus, via debt instruments during 2004-2019, from 4% (2005) to 32% (2017) of total FDI were invested. Despite the fact that foreign credits and loans raised from non-residents failed to provide any innovative and investment based development in Ukraine, during 2000 - 10 months of 2019 non-residents received from them a *43.8 billion USD worth of income*.

Unproductive use of foreign loans is caused by a number of factors:

1) directing a significant part of them to the banking sector and to the sphere of circulation (especially in 2003-2008); 2) directing them to finance the needs of the state budget instead of financing the development of domestic production; and 3) "offshorization" of foreign loans to Ukraine.

As a result of attracting foreign loans to Ukraine, *the only people and entities who became beneficiaries are residents of other countries and representatives of Ukrainian businesses operating via offshore zones* - at the expense of incomes received from such loans. Thus, in the first half of 2019, more than 60% of the total debt of non-financial corporations on foreign loans⁶ are loans from countries that, according to Ukraine's current legislation, are offshore zones. Together with countries with preferential tax treatment, the share exceeds 70% (almost 24 billion USD).

The largest foreign creditor of Ukraine's non-financial corporations is Cyprus. The debt on loans from this country is almost 22 billion USD, or 53% of total foreign debt of non-financial corporations. At the same time, the share of the G7 countries only constitutes 20%, or 8.6 billion USD. It is noteworthy that loans from Cyprus to Ukrainian non-financial corporations reach 90% of the former's GDP, and those from the Virgin Islands (UK) exceed 500% of GDP of the country of loan origin (Table 4).

The amount of overdue debt (\$ 21.3 billion, of which \$ 5.5 billion is accounted for by interest payments) is about half of the total debt of Ukraine's corporate sector companies on loans provided by creditors from selected offshore zones⁷. *The presence of significant overdue debt to foreign creditors in case of demand of its immediate repayment can provoke not only a significant imbalance in the financial condition of individual borrowers, but also a crisis in this country's exchange market.*

⁶ Excluding Eurobonds and government-guaranteed loans.

⁷ In particular: Cyprus - 12.8 billion USD, which is equivalent to 60% of the debt of Ukrainian residents on loans from Cyprus; Cayman Islands - \$ 274 million USD, respectively 94%; Panama - 334 million USD (71%).

Table 4

Geographical structure of external debt on the loans of non-financial corporations * as of June 30, 2019

Country	GDP in 2018, <i>mln USD</i>	External debt on loans of non-financial corporations				The share of countries in the debt of NFC	Ratio of NFC debt on loans to non-residents to GDP of the non-residents country, %
		Total debt	including overdue debt*	principal amount of debt	interest payments		
Total		41 469	21 320	15 616	5 704	100,0	
<i>of which offshore countries (those included in the corresponding list approved by the Cabinet of Ministers on December 27, 2017 N 1045)</i>							
Cyprus	24 470	21 986	12 779	9 148	3 631	53,0	89,8
Virgin Islands (British)	313	1 572	753	574	179	3,8	502,2
Republic of Panama	65 055	470	334	227	107	1,1	0,7
Cayman Islands	3 571	291	274	265	9	0,7	8,2
United Arab Emirates	414 179	257	0	0	0	0,6	0,1
Belize	1 925	239	96	58	38	0,6	12,4
Republic of Seychelles	1 590	148	92	51	42	0,4	9,3
Hong Kong	362 993	84	0	0	0	0,2	0,023
Republic of the Marshall Islands	212	27	0	0	0	0,1	12,8
Montenegro	5 452	0,1	0,0	0,0	0,0	0,0	0,003
Total		25 074	14 329	10 323	4 006	60,5	
Share of "offshore countries" in total foreign investments, %		60,5	67,2	66,1	70,2		
Countries with preferential tax treatment, which are not included in the list approved by the Cabinet of Ministers of December 27, 2017 N 1045							
Netherlands	913 658	2 043	1 382	1 114	269	4,9	0,2
Switzerland	705 301	892	269	222	47	2,2	0,1
Luxembourg	69 488	564	24	13	11	1,4	0,8
Austria	455 737	572,9	185,4	143,0	42,4	1,4	0,1
Republic of Estonia	30 285	231,6	125,8	85,9	39,8	0,6	0,8
Latvia	34 849	146,7	45,9	30,9	15,1	0,4	0,4
Total		4 451	2 033	1 608	425	10,7	
Offshore countries and countries with preferential tax treatment, total		29 525	16 362	11 931	4 431	71,2	
Share in total foreign loans, %		71,2	76,7	76,4	77,7	71,2	

Note: * Less Eurobonds and government-guaranteed loans;

 Source: compiled according to the reporting of the State Statistics Service of Ukraine on "Investments in foreign economic activity of Ukraine". URL: <http://www.ukr-stat.gov.ua/>; GDP All Countries and Economies / The World Bank. URL: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>

It is characteristic that in Ukraine there are no restrictions for foreign investors, while developed countries even today apply and significantly tighten restrictions on the activities of foreign investors in their domestic markets. In particular, the experience of the United States, the country considered as a benchmark for market relations, shows that the government effectively monitors risks and threats to national security that may be provoked by foreign investors, and restricts participation of foreign capital to prevent foreign control over domestic strategic facilities and protect its domestic market.

The United States has the Committee on Foreign Investment (CII), which evaluates foreign investment for compliance with US national security. There is also the Bureau of Economic Analysis of the Department of Commerce, which analyzes information on the purchase of property in the United States by nonresidents. Since 2007, the Act on Foreign Investment and National Security [17] has been in force, which was adopted in order to prevent foreign control over national strategic facilities. In addition, according to the International Banking Act, foreign banks in the United States are severely restricted in opening new branches. A foreign bank must choose one state for its activities - the "state of the main office", and activities outside this state are only possible with a separate permit from the Fed, in accordance with the state-specific legislation and with severe restrictions on attracting deposits from individuals. In other words, the United States is open to foreign banks in its territory, but only providing they do not "squeeze" the resource base of local banks and agree to invest their funds only in those areas that will be useful to America, but without expanding into strategic sectors of the US economy [18].

In Ukraine, the possibility and expediency of controlling the influence of foreign capital on this country's economy only became a topic of national level discussion in early winter 2019. The Ministry of the Development of Economy, Trade and Agriculture of Ukraine prepared a draft law "On assessing the impact of foreign investment on national security of Ukraine" [19], which, among other things, proposed creation of a special interdepartmental Commission for the Assessment of the Impact of Foreign Investment.

Among the positive developments in the state policy on foreign capital should also be noted this country's participation from January 1, 2017, in the BEPS (Base Erosion and Profit Shifting) plan [20], which is the global plan to combat offshore. Within this plan, Ukraine committed to implement four of the fifteen provisions set out in the act to combat offshoring, including: implementation of the measures to combat tax abuse related to the use of special "harmful tax regimes" (countering harmful tax practices); and measures to prevent abuse in the application of conventions on the avoidance of double taxation (preventing tax treaty abuse) [21].

However, work on the implementation of these norms in domestic legislation has only just begun, so its results, especially in terms of the efficiency of economic policy of both the state and its economic entities, cannot be presently analyzed.

Summarizing the analysis in the article, we can draw a few **general conclusions**.

In Ukraine, the absence of restrictions on the participation of non-residents in privatization, their purchase of property, appointment of foreigners to the management of state-owned companies or those set up with the participation of the state, combined with liberalization of foreign economic relations and removal of restrictions on imports, actually was only beneficial for foreign countries. The reason is that it not only allowed non-residents of these countries to receive huge profits, but also contributed to the withdrawal of national capital abroad, and transition of some strategic enterprises to the control of foreign investors, which led to bankruptcy of companies and degradation of whole industries, and contributed to the formation of a colonial type economy in Ukraine.

It is safe to say that the admission of foreign capital into the banking system and the domestic market of Ukraine, without defining a strategy for the protection of national interests, led to a situation when Ukrainian banking system became vulnerable to external crises, the national currency was in a long devaluation, and the economy as a whole received illusory impulses of development, while the strategic guidelines of economic development were abandoned without necessary support.

At present, Ukraine needs to improve its state policy of attraction of foreign capital with due regard to the principles of economic security, priority of protection and support of domestic producers and orientation only to high quality foreign capital able to produce a positive impulse for innovation based development of this country's economy.

References

1. Resolution of the Cabinet of Ministers of Ukraine "On Approval of the Program of Activity of the Cabinet of Ministers of Ukraine" No. 849 of September 29, 2019. Retrieved from <https://www.kmu.gov.ua/npas/pro-zatverdzhennya-programi-diyalnosti-kabinetu-ministriv-ukrayini-849290919> [in Ukrainian].
2. Svyetlov, B., Obushna, N. (2012). The mechanism of stimulation of foreign direct investment in the conditions of modernization of the Ukrainian economy. *Aktualni problemy mizhnarodnykh vidnosyn – Topical problems of international relations*, 105, part II, 122-128 [in Ukrainian].
3. Lutsenko, I.S. (2013). Tax incentives for attracting foreign direct investment in Ukraine. *Investytsiyi: praktyka ta informatsiya – Investment: practice and experience*, 18, 9-13 [in Ukrainian].
4. Harkavenko, V.I. (2018). Monetary liberalization: expediency and timeliness. *Naukovi pratsi NDFI – Scientific works of the Research Financial Institute*, 2, 41-44 [in Ukrainian].
5. High-technology exports (% of manufactured exports). The World Bank. Retrieved from https://data.worldbank.org/indicator/TX.VAL.TECH.MF.ZS?end=2017&locations=UA-CN-US-OE&name_desc=true&start=1960&view=chart
6. Germany Breaks Korea's Six-Year Streak as Most Innovative Nation (2020, January 18). Bloomberg Innovation Index. Retrieved from https://www.bloomberg.com/news/articles/2020-01-18/germany-breaks-korea-s-six-year-streak-as-most-innovative-nation?utm_source=telegram&utm_medium=msg&utm_campaign=telegram
7. Resolution of the Board of the National Bank of Ukraine No. 319 of October 11, 2008 "On additional measures for the activity of banks". Retrieved from <https://zakon.rada.gov.ua/laws/show/v0319500-08> [in Ukrainian].
8. Doing Business 2019. Training for Reform. International Bank for Reconstruction and Development. The World Bank. Retrieved from https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf
9. Sources of financing of innovative activity of industrial enterprises. State Statistics Service of Ukraine. Retrieved from <http://www.ukrstat.gov.ua> [in Ukrainian].
10. Kozak, Yu.H. Kozak, Yu.G. (2017). International Economy: in nutrition and in economy. Kyiv: Center for Educational Literature. Retrieved from <https://westudents.com.ua/knigi/141-mjnarodna-ekonomka-kozak-yug.html> [in Ukrainian].
11. Yershova, G.V. (2012). Ukraine's competitive position among CIS countries in attracting foreign direct investment. *Ekonomika i prognozuvannâ – Economy and forecasting*, 4, 102-109. Retrieved from http://www.irbis-nbu.gov.ua/cgi-bin/irbis_nbu/cgiiirbis_64.exe?I21DBN=LINK&P21DBN=UJRN&Z21ID=&S21REF=10&S21CNR=20&S21STN=1&S2



- 1FMT=ASP_meta&C21COM=S&2_S21P03=FILA=&2_S21STR=econprog_2012_4_12 [in Ukrainian].
12. Exports-imports of goods by countries in 2016. State Statistics Service of Ukraine. Retrieved from <http://www.ukrstat.gov.ua> [in Ukrainian].
13. Virgin Islands Economy - Leading industries, GDP and wealth. Retrieved from <http://www.orangesmile.com/destinations/virginislands-british/economics.htm> [in Ukrainian].
14. GDP (current US\$). All Countries and Economies. The World Bank. Retrieved from <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>
15. Harkavenko, V.I., Shapoval, Yu.I. (2017). "Cleaning" the banking sector in Ukraine: the price for society and the state. *Ukr. socium – Ukrainian society*, 1, 60. <https://doi.org/10.15407/socium2017.01.108> [in Ukrainian].
16. Harkavenko, V. (2011). Foreign capital in the banking sector of Ukraine: lessons learned from the past, lessons for the future. Institute for economics and forecasting, NAS of Ukraine. Kyiv [in Ukrainian].
17. US tightens control over foreign investment. TSN. Retrieved from <https://tsn.ua/groshi/ssha-posilyuyut-kontrol-za-inozemnimi-investitsiyami.html> [in Ukrainian].
18. Kushch, O. (2020, January 20). We love foreigners. Why Ukraine went through its banking golden era under Kuchma. Retrieved from <http://minprom.ua/news/223776.html> [in Ukrainian].
19. Draft Law of Ukraine "On Assessing the Impact of Foreign Investment on National Security of Ukraine". Ministry of Economic Development, Trade and Agriculture of Ukraine. Retrieved from <http://www.me.gov.ua/Documents/Detail?title=ProektuZakonuUkrainiproOtsinkuVplivuInozemnikhInvestitsiiNaNatsionalniInteresiTaBezpeku> [in Ukrainian].
20. International collaboration to end tax avoidance. OECD/G20. Retrieved from <https://www.oecd.org/tax/beps>
21. Ukraine and the BEPS plan: why offshore is a thing of the past (2020, October 29). *Ekonomichna pravda – Economic truth*. Retrieved from <https://www.epravda.com.ua/projects/offshore/2019/10/29/652879> [in Ukrainian].

Received 27.01.20.

Reviewed 10.03.20.

Signed for print 15.06.20.

Гаркавенко В.І., науковий співробітник

ДУ "Інститут економіки та прогнозування НАН України"

e-mail: gvi1953@ukr.net

Єршова Г.В., канд. екон. наук

старший науковий співробітник

ДУ "Інститут економіки та прогнозування НАН України"

ORCID 0000-0002-8807-130X

e-mail: galina_yershova@ukr.net

ВПЛИВ ІНОЗЕМНОГО КАПІТАЛУ НА ЕКОНОМІЧНИЙ РОЗВИТОК УКРАЇНИ

Досліджується вплив іноземного капіталу на економічні процеси, що відбувалися в Україні упродовж 2000–2019 рр. Серед іноземних інвесторів Україна прагне позиціонувати себе як інвестиційний хаб, в який

вигідно вкладати кошти та розвивати на його території бізнес. Подекуди складається враження, що іноземні інвестиції ототожнюються із панацеєю, яка дасть Україні можливість досягти рівня розвитку світових лідерів. Водночас проведене дослідження дало змогу зробити висновки, що ефективність та якість прямих та портфельних іноземних інвестицій та боргового капіталу викликають значні сумніви. Упродовж 2000 р. – 10 місяців 2019 р. сукупний обсяг чистих надходжень прямих та портфельних іноземних інвестицій та іноземних позик в Україну становив 185,3 млрд дол. США. Водночас такий значний за обсягами фінансовий ресурс не став каталізатором структурних перетворень в економіці та розвитку високотехнологічного виробництва. Натомість концентрація іноземного капіталу в окремих видах економічної діяльності призвела до закріплення сировинної спрямованості вітчизняної економіки та загострення внутрішньоекономічних проблем на тлі значного припливу спекулятивного капіталу.

Значна увага в дослідженні приділена географічній структурі іноземних інвестицій та боргового капіталу, що засвідчує істотний вплив офшорних юрисдикцій на діяльність вітчизняного бізнесу та формування моделі його поведінки. Офшоризація капіталу є визначальною рисою національного бізнесу, що стала однією з основних причин деформації економічної моделі розвитку економіки України.

Зроблено акцент на необхідності удосконалення державної політики щодо залучення іноземного капіталу в Україні. Зокрема доведено, що відсутність належного контролю за концентрацією іноземного капіталу в окремих сферах економіки призводить до значних дисбалансів, які при дії інших факторів посилюють кризові явища в економіці. Через це на державному рівні доцільно аналізувати "токсичний вплив" іноземного капіталу на структурні зміни в економіці та його вплив на економічну безпеку України.

Публікацію підготовано рамках за виконання НДР "Фінансові ризики ведення бізнесу в Україні: сектор нефінансових корпорацій" (№ держреєстрації 0118U006088).

Ключові слова: іноземний капітал, прямі іноземні інвестиції, економічний розвиток, іноземні кредити, офшорний капітал