

## ПРОБЛЕМЫ РАЗВИТИЯ ВНЕШНЕЭКОНОМИЧЕСКИХ СВЯЗЕЙ И ПРИВЛЕЧЕНИЯ ИНОСТРАННЫХ ИНВЕСТИЦИЙ: РЕГИОНАЛЬНЫЙ АСПЕКТ

факторами являются низкий уровень человеческого развития и невысокая развитость транспортной инфраструктуры. Кроме того, в Йоханнесбурге могут возникнуть проблемы с обеспечением физической безопасности [3].

**Выводы.** Таким образом, наибольший потенциал в дальнейшем развитии имеют совершенно различные финансовые центры, начиная от городов-государств, заканчивая площадками, обеспечивающими доступ к рынкам с сотнями миллионов жителей. Финансовые центры находятся на различных уровнях развития, охватывая как региональный и специализированный рынки, так и глобальные и многопрофильные.

Благоприятные факторы центров также разнятся. Для высокоразвитых стран это зачастую быстро функционирующая обширная финансовая инфраструктура, для развивающихся – доступ к незанятым рынкам и общая динамичность развития экономики страны-базирования центра. Аналогичная ситуация наблюдается с негативными факторами: наиболее развитые центры испытывают недостаток скорости роста и высокую конкуренцию со стороны других крупных игроков; развивающиеся – проблемы с инфраструктурой, коррупцией, обеспечением безопасности.

### СПИСОК ИСТОЧНИКОВ:

1. Bloomberg: "New York Eclipses London as Financial Center in Bloomberg Pool", - Alison Fitzgerald., Oct, 2009 [электронный ресурс] Режим доступа: <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aECO0YmvvcZM>
2. Business Insider "Why Investors Are Going Wild For Brazil", - Lawrence Delevingne., Oct, 2009 [электронный ресурс] Режим доступа: <http://www.businessinsider.com/10-reasons-investors-are-wild-about-brazil-2009-10>
3. Entrepreneur: "10 Emerging Financial Centres" [электронный ресурс] Режим доступа: <http://www.entrepreneur.com/article/204556>
4. Financial Development: World Economic Forum [электронный ресурс] Режим доступа: <http://www.weforum.org/issues/financial-development/>
5. Hong Kong Government Official Site: Tax Rates of Profit Tax [электронный ресурс] Режим доступа: <http://www.gov.hk/en/residents/taxes/taxfiling/taxrates/profitrates.htm>
6. LuxembourgforFinance: Agency for the Development of the Financial Centre [электронный ресурс] Режим доступа: <http://www.luxembourgforfinance.lu/why-luxembourg/statistics>
7. Reuters.com "As Shanghai rises Hong Kong asks" [электронный ресурс] Режим доступа: [www.reuters.com/article%2F2009%2F12%2F10%2Fhongkong-shanghai-financial-idUSTOE5B80BQ20091210](http://www.reuters.com/article%2F2009%2F12%2F10%2Fhongkong-shanghai-financial-idUSTOE5B80BQ20091210)
8. The Global Financial Centres: Index 14, Qatar Financial Centre Authority, - 54 p.
9. The Worlds Top Financial Centres. TheRichest [электронный ресурс] Режим доступа к журналу: <http://www.therichest.com/business/economy/the-worlds..>

### THE EMERGENCE OF A POST-ORANGE ECONOMIC DEVELOPMENT MODEL IN UKRAINE?

Swain A., Doctor, Associate Professor, Faculty of Social Sciences, School of Geography, University of Nottingham (United Kingdom)

#### Swain A. The emergence of a post-orange economic development model in Ukraine?

This article analyzes the peculiarities of the emergence of a post-orange economic development model in Ukraine when the global financial crisis rebalanced political forces away in Ukraine from 'orange' parties which favoured the Washington consensus and a pro-western foreign policy towards so-called 'blue and white' forces, led by PRU, which represented national capital and favoured a more constructive relationship with Russia. The paper argues that Ukraine's geopolitical location, in which the west and Russia compete with each other for influence, will ensure that the country's path of development will likely remain conflicted. The paper concludes that first, some fiscal consolidation and reallocation is required to create either an entrepreneurial or a developmental state; and second, whilst emotion and soft power pulls Ukraine westwards hard calculation should make it look to Eurasia too.

**Keywords:** development model, Washington consensus, austerity, developmental state, Ukraine, European Union, Russia.

#### Свейн А. Возникновение пост-оранжевой модели экономического развития в Украине?

В статье анализируются особенности появления пост-оранжевой модели экономического развития в Украине, после того, как мировой финансовый кризис перебалансировал политические силы в Украине. В результате «оранжевые» партии, которые являлись приверженцами прозападной политики «Вашингтонского консенсуса» сменились «бело-голубыми» силами во главе с Партией регионов, которые представляют национальный капитал и выступают за принятие более конструктивных отношений с Россией. В статье утверждается, что скорее всего путь развития Украины так и останется зависимым от противоречивого геополитического положения, где Запад и Россия конкурируют друг с другом за влияние. В статье делается вывод, что во-первых, фискальная консолидация и перераспределение требуется для создания либо предпринимательского либо развивающего государства, а во-вторых, в то время как эмоции и «мягкая сила» тянет Украину на Запад, прагматичный расчет сигнализирует о необходимости хороших отношений с Евразией так же.

**Ключевые слова:** модель развития, Вашингтонский консенсус, жесткая экономия, развивающее государство, Украина, Европейский союз, Россия.

#### Свейн А. Виникнення пост-помаранчевої моделі економічного розвитку в Україні?

У статті аналізується особливості появи пост-помаранчевої моделі економічного розвитку в Україні, після того, як світова фінансова криза перебалансувала політичні сили в Україні. У результаті чого «помаранчеві» партії, які були прихильниками прозахідної політики «Вашингтонського консенсусу» змінилися «біло-блакитними» силами на чолі з Партією регіонів, яка представляє національний капітал і виступає за прийняття більш конструктивних відносин з Росією. У статті стверджується, що швидше за все шлях розвитку України так і залишиться залежним від суперечливого геополітичного положення, де Захід і Росія конкурують одна з іншою за вплив. У статті робиться висновок, що по-перше, фискальна консолидація і перерозподіл потрібні для створення або підприємницького або розвивальної держави, а по-друге, в той час як емоції і «м'яка сила» тягне Україну на Захід, прагматичний розрахунок сигналізує про необхідність хороших відносин з Євразією так само.

**Ключові слова:** модель розвитку, Вашингтонський консенсус, жорстка економія, розвиваюча держава, Україна, Європейський союз, Росія.

### Introduction

The global financial crisis rebalanced political forces away in Ukraine from 'orange' parties which favoured the Washington consensus and a pro-western foreign policy towards so-called 'blue and white' forces, led by PRU, which represented national capital and favoured a more constructive relationship with Russia. This resulted in the election 17 months after the onset of the crisis of PRU's Viktor Yanukovich as president in February 2010, and the formation of a PRU-led coalition government entitled 'Reform and Order' a month later.

*The continuation of austerity, 2010-2011*

In the run up to the 2010 presidential election the incumbent 'orange' government combined IMF-imposed austerity with some populist

## ПРОБЛЕМЫ РАЗВИТИЯ ВНЕШНЕЭКОНОМИЧЕСКИХ СВЯЗЕЙ И ПРИВЛЕЧЕНИЯ ИНОСТРАННЫХ ИНВЕСТИЦИЙ: РЕГИОНАЛЬНЫЙ АСПЕКТ

giveaways. For example, just before the first round of the election the government increased teachers' salaries and compelled those banks which had been nationalised to release customers' deposits (Bojcum 2011b, 505). Yanukovych, the then leader of the opposition, criticized the austerity programme and the bailout of the banks and argued for a fiscal stimulus. His programme included an active industrial policy to support domestic companies, lower taxation on business and the attraction of DFI. Yanukovych also advocated closer ties with Russia and claimed he could renegotiate the punitive January 2009 gas contract with Gazprom. Yanukovych won 49% of the vote compared to Tymoshenko's 45.5% in the second round of the election. The electorate rejected Tymoshenko's IMF-led management of the crisis, believed that a more harmonious relationship with Russia would strengthen the economy, and was nostalgic for the 'stability' of the Kuchma era when incomes rose rapidly (Bojcum 2011b, 512). Moreover Bojcum (2011b, 515) argues the 'American crisis' reduced support for Euroatlantic integration and increased support for closer ties with Russia which was less badly affected by the crisis.

However, the Keynesian policies espoused by PRU when in opposition were exchanged for structural reform and austerity policies once in government. After signing the Karkhiv Accords with Russia which reduced the gas import price (see below) the government passed a new 2010 budget on 27 April 2010 in discussion with the IMF. The budget deficit was planned to be 5.3% of GDP or 6.5% including Naftohaz – the highest the IMF would sanction (IMF 2010, 9, 15). The government, which was excluded from international sovereign bond markets and yields on domestic bonds were as high as 20%, borrowed \$2 billion for budget support from Russia in June but was compelled to continue negotiating with the IMF. As part of this the authorities launched a reform programme entitled 'Prosperous society, competitive economy and effective state' in July 2010 (GOU 2010) which was broadly in-line with the World Bank's Country Economic Memorandum that was published a month later (World Bank 2010). The programme included: i) macroeconomic stabilisation involving fiscal consolidation (i.e. austerity) to reduce the budget deficit to 2% and ensure public debt was no more than 45% of GDP by 2013-4; ii) tax simplification, rebalancing and reductions (including the removal of the Simplified Taxation System (STS) i.e. tax increases); iii) building financial sector resilience including floating the exchange rate and inflation-targeting; iv) public service reform; v) social security reform including pension reform involving reducing expenditure to no more than 12% of GDP by 2014; vi) welfare reform involving greater targeting; vii) deregulation in DFI promotion; viii) privatization linked to strategic development of key economic sectors; ix) increased investment in innovation and science; x) deeper economic integration with the EU and CIS countries and in the case of Russia linked to strategic development of key sectors; xi) structural reform of the energy sector including privatization and household gas price increases; xii) upgrading (i.e. increase in tariffs) of housing and utility services; xiii) increased investment in transport infrastructure including privatisation of sea ports and airports; xiv) and the creation of an agricultural land market.

This policy programme formed the basis by which the IMF cancelled the existing stand-by arrangement and agreed a new \$15bn 29-month stand-by arrangement in August 2010. However, the conditionality attached to the new loan was far more wide-ranging than for the previous loan. Conditionality included: a reduction in the budget deficit to 3.5% in 2011 (2.5% in 2012) and a reduction of public debt to less than 35% of GDP in 2015; to target inflation, float the exchange rate (to prevent dollarization and excessive risk taking); to liberalise the gas sector including increasing household and utility tariffs; to reduce the cost of the pension system; and, to build resilience in the financial sector. The new IMF loan was to fund: the country's budget deficit in 2010; the continued recapitalisation of failed banks; and, to enhance the credibility of the country in international capital markets (IMF 2010). Following the passing of 'prior actions' the first tranche, worth \$1.89 billion, was released immediately and was to be followed by nine tranches after quarterly reviews.

As part of the IMF-imposed austerity programme the government launched six major reforms. Firstly, the government embarked on structural reform of the energy sector. As part of the pre-loan conditionality the government increased the gas price for households and the utility sector (district heating) by 50% effective from 1 August 2010 (IMF 2010, 12). The government committed itself to a further 50% increase on 1 April 2011 however this increase was never implemented which led the IMF to suspend the standby-agreement in spring 2011 after only two tranches had been disbursed (Kholod 2012, 9). Secondly, the government embarked on the introduction of a new tax code which was intended to reduce tax rates, simplify the tax system and extend the tax base (Kholod 2012). However, most controversially the government wanted to introduce a higher threshold for participation in the STS which would have entailed tax increases for individual entrepreneurs and small businesses. The tax code was passed by parliament in November 2010 but mass protests by small entrepreneurs resulted in Yanukovych vetoing the bill at the end of November. The changes to the STS were removed from the code which was passed and signed into law taking effect on 1 January 2011.

Thirdly, in December 2010 the government initiated the introduction of a new labour code that would have simplified employment law and provided employers with more power and flexibility over labour issues (pay, hours of work, dismissals etc.). The controversial nature of the legislation meant the code had not been adopted as of mid-2013. Fourthly, pension reform legislation first mooted in December 2010 was finally passed by the parliament in July 2011 and Yanukovych signed it into law in September 2011. The reform increased the minimum required insurance period, increased the retirement age for women and increased the qualification period required for a full pension. However, the reform was long delayed and resulted in the suspension of the IMF loan. Fifthly, the government embarked on a privatization programme. In March 2011 93% of Ukrtelecom, the country's fixed-line telecommunication company, was sold to a private Austrian investment company for \$1.3bn (Kholod 2012, 11). In addition, shares in state owned companies in the chemical and energy industry were sold at relatively low prices to domestic industrial groups which supported the ruling party. Privatization was once again being used to create national champions in key export sectors as part of a broader strategy of maintaining the country's national capitalism as had been the case prior to the orange revolution (Mykhnenko and Swain 2010). Finally, in mid-2011 the government launched welfare reform (Kholod 2012). The parliament passed a law amending the budget allowing the government summary power to reduce social benefits for certain social categories: Chernobyl veterans, children of war and military veterans. The opposition claimed this was unconstitutional as it overrode existing legislation but the Constitutional Court decided in favour of the government. Despite this, individuals whose benefits had been cut launched legal claims in local courts.

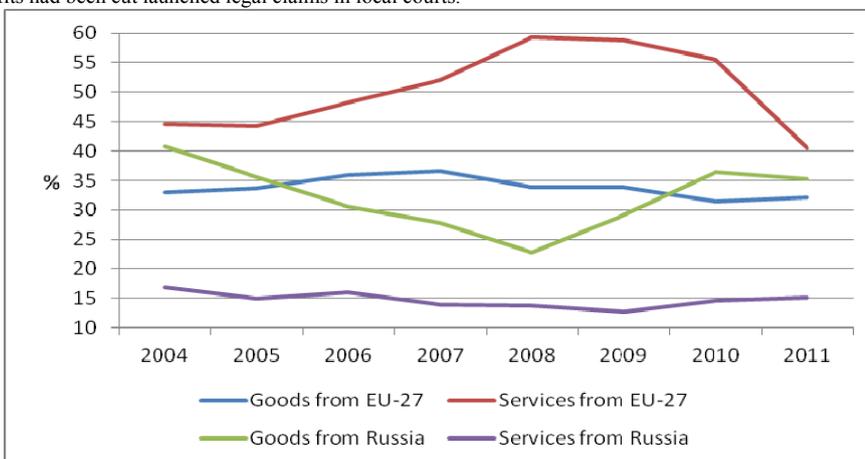
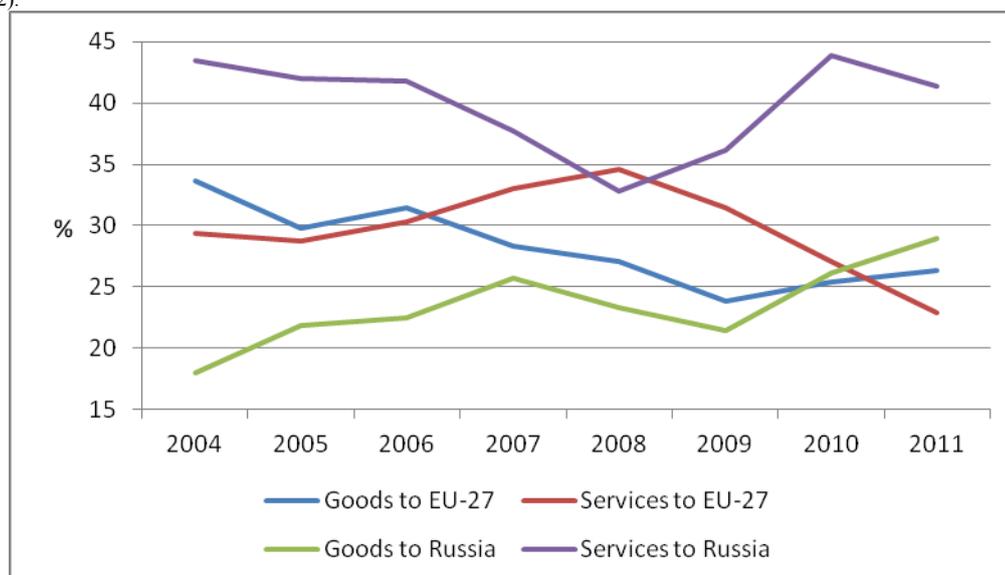


Figure 1. Ukraine's imports of goods and services from EU-27 and Russia, 2004-2011 (% share of total)  
Source: Razumkov Centre, 2012, 23

## ПРОБЛЕМЫ РАЗВИТИЯ ВНЕШНЕЭКОНОМИЧЕСКИХ СВЯЗЕЙ И ПРИВЛЕЧЕНИЯ ИНОСТРАННЫХ ИНВЕСТИЦИЙ: РЕГИОНАЛЬНЫЙ АСПЕКТ

In addition negotiations with the EU over the establishment of a Deep and Comprehensive Free Trade Agreement (DCFTA) as part of a broader Association Agreement (AA), which had commenced in March 2007, were completed in October 2011. Whilst the lure of access to the single market was reduced by the prospect of years of low growth in the EU owing to the Eurozone crisis (World Bank 2010, 4), in March 2012 the government passed a parliamentary resolution calling for the rapid implementation of the DCFTA/AA (Sadowski 2012). However the EU, which along with Russia is a major trading partner (Figure 5 and 6), only initialled the agreement on 19 July 2012 and stalled the signing and ratification of the agreement in response to the jailing of Tymoshenko in August 2011 (Sadowski 2012). The DCFTA comprises two elements. Firstly, if signed and ratified the treaty would liberalise trade involving the lifting of customs tariffs, import quotas and other technical, legal and procedural barriers. For some goods tariffs would be phased out gradually over up to 10 years and Ukraine has reserved the right to use protectionist measures for up to 15 years (Sadowski 2012). Ukraine would also liberalise regulation of investment and services. Secondly, Ukraine would harmonize economic regulation (competition law, state aid rules, and public procurement law) with that of the EU. For the EU the DCFTA is intended to provide an external anchor for western-orientated political and economic reform that would open-up Ukraine for EU exports and capital. In sum the agreement offers progressive opening of the EU's internal market to Ukraine as it adopts elements of the EU's *acquis communautaire*. This would provide the EU with more leverage over Ukraine over Ukraine and Ukraine with economic incentives to implement the DCFTA but with no influence over the future development of the EU (Sadowski 2012).



**Figure 2 Ukraine's exports of goods and services to EU-27 and Russia, 2004-2011 (% share of total)**

Source: Razumkov Centre, 2012, 23

If the EU's AAs with CEE countries in the early 1990s are any indication it is likely that the DCFTA/AA would be asymmetrical. The imbalance in economic and political power between the EU and Ukraine meant the EU was able to effectively dictate the terms of the treaty (Sadowski 2012). Ukraine would have to open its domestic market to EU imports and investment which is likely to give EU companies a competitive advantage and trigger a new round of industrial restructuring which is likely to increase unemployment. However, whilst trade in the vast majority of sectors would be liberalised, the EU would retain import quotas to protect certain 'sensitive' sectors such as agriculture, steel and chemicals, industries on which Ukraine depends for over 50% of its exports. The agreement's rules of origin (in which products which originate in one party to the agreement but which are then further processed in another party to the agreement count as having originated in the latter party (see Connolly and Copesey 2011, 546)) are likely to extend EU commodity chains to include existing or de novo producers in Ukraine. Equally, Ukrainian producers are likely to source more of their inputs from EU suppliers. In this way Ukraine could gradually be integrated into pan-European production systems. Moreover as exports to the CIS are of a higher sophistication (e.g. machine building) than non-CIS exports (World Bank 2010, 53-4), it is possible that EU integration would lock Ukraine into lower value-added elements of lower value-added commodity chains. Equally, meeting EU standards would require significant expenditure by both the state and companies and with the Eurozone crisis and the EU under pressure to moderate its budget no significant EU funds are likely to appear in the foreseeable future. Therefore in the short term the DCFTA/AA would reduce the competitiveness of small and medium sized Ukrainian producers which have not yet adopted EU standards (Sadowski 2012).

The IMF-imposed austerity programme generated widespread opposition amongst not only workers but also self-employed entrepreneurs and small business owners and their employees. In particular the intention to introduce a new tax and labour code resulted in widespread mobilisation in November-December 2010 (Varga 2012, 7-11). The protests, which included a 'tent city' in central Kyiv, were loosely organised by the Assembly of Citizens' Organizations of Small and Medium Business which accused the government of attacking the middle class and demanded the dissolution of the parliament and new elections. The Assembly claimed that:

'The passing of the Tax and Labor Codes – ill-conceived, hastily prepared documents drafted in the exclusive interest of big business – is unacceptable, because it prevents millions of citizens from making their earnings honestly and legally, and because it endangers the freedom of entrepreneurship, leading to the destruction of the middle class, the basis of an independent, democratic and powerful state, and because it destroys the constitutional right to work' (quoted in Varga 2012, 9).

Whilst the Assembly protested against an increase in the tax burden on entrepreneurs and small business, trade unions protested against the proposed labour code. The labour code was shelved but an amended tax code was introduced at the beginning of 2011 and anti-tax protestors continued demonstrating across the country throughout 2011. Also the government's introduction of welfare reform in mid-2011 triggered anti-cuts protestors across the country. Varga (2012) argues that the worker militancy and wider social unrest, associated with a growth of communist and neo-fascist nationalist politics, reflected a deep antipathy among ordinary people towards what were regarded as illegitimate political and commercial elites.

### *A nascent developmental state?*

As a result of the popular opposition to continued austerity (which translated into a fall in PRU's opinion poll rating in the run up to October 2012 parliamentary elections) and a slow-down of economic growth, in 2012 the government radically altered its economic policy away from a market-fundamentalist austerity model towards a nascent developmental state model. There were five major developments in economic policy.

Firstly, in March 2012 the authorities launched a de facto fiscal stimulus. The 2012 budget was amended in April to permit substantial increases in pensions, increased benefits to low-income families, reimbursements of lost Soviet-era deposits to 6 million people, and state subsidised mortgages. It was estimated this expenditure amounted to 1.5% of GDP (Kholod 2012, 7). Secondly, the government fundamentally re-orientated its

## ПРОБЛЕМЫ РАЗВИТИЯ ВНЕШНЕЭКОНОМИЧЕСКИХ СВЯЗЕЙ И ПРИВЛЕЧЕНИЯ ИНОСТРАННЫХ ИНВЕСТИЦИЙ: РЕГИОНАЛЬНЫЙ АСПЕКТ

trade policy in order to reduce its trade deficit and protect domestic producers. In September 2012 the government invoked article 28 of GATT to initiate a process of negotiating increased maximum custom tariffs on 371 product categories which had been fixed when Ukraine joined the WTO in 2008. This provoked a strong negative reaction from the US, EU and in total around 50 other WTO members in November 2012 who argued that Ukraine was abusing article 28 to effectively renegotiate its terms of entry to the WTO and thereby threaten the principles of the trade body. In response the government pointed to the USA's long-standing anti-dumping duties on Ukrainian goods and questioned why it should not introduce analogous measures. Subsequently in early 2013 the government also temporarily raised duties on vehicles imports, which was also questioned in the WTO, and coke (coal).

Thirdly, in late February 2013 the government launched the State Programme to Revitalize Economic Development in 2013-14. This programme involved the expenditure of UAH377.7bn (approx. \$42bn) on five objectives: improving the competitiveness and investment climate of the economy by maintaining macroeconomic stability and deregulation; supporting domestic producers and promoting import substitution through state guarantees and the removal of custom tariffs for capital investment for industrial modernisation and upgrading, as well as agriculture; development of high-technology sectors (aerospace, automotive, defence, shipbuilding and pharmaceuticals); structural reform of strategic sectors such as the public sector, infrastructure and communications, energy sector and housing and construction with a preference for domestic contractors; and, the promotion of exports through economic integration with the EU and the CIS (see Table 1). A key feature of the programme was the establishment of a State Development Bank planned for 2014 to lend capital to private banks for on-lending to strategic investment projects including infrastructure. The programme was to be funded by private sector contributions, increased borrowing (state guarantees), privatisation revenues, improving tax collection by combating tax avoidance by large companies using offshore financial centres to engage in transfer pricing, increased import tariffs and increases in some taxes and utility tariffs.

**Table 1 State Programme to Enhance Economic Development in 2013-14 (UAH bn).**

Priority	2013	2014	Total
Improving the competitiveness and investment climate of the economy	0.2	10.2	10.4
Supporting domestic producers and promoting import substitution	20.6	18.9	39.5
Development of high-technology sectors	24.9	19.2	44.1
Structural reform of strategic sectors	162.8	120.8	283.6
Promotion of exports	0.2	0.3	0.5
Total	208.6	169.1	377.7

Source: Economic Pravda (<http://www.epravda.com.ua/rus/publications/2013/02/27/363229/9/5/2013>)

Fourthly, the government sought to wean itself off IMF financial support and associated austerity policies. The president stated that he would not agree to the IMF's continuing demand that household gas tariffs be increased by 50% with the result that the IMF loan was formally closed in December 2012. Whilst negotiations with the IMF continued over a new loan, no agreement had been reached by May 2013. To finance the budget deficit and to refinance existing debt the government tapped into the liquid Eurobond market, where low interest rates encouraged fixed-income investors seeking higher yields to purchase emerging market government paper, for example raising \$1.25bn in November 2012 in 10-year bonds at an interest rate of 7.8%, \$1bn in February 2013 at 7.625% and \$1.25bn in April 2013 at a yield of 7.5%. The government also issued domestic bonds. Fifthly, the government sought to reduce energy imports particularly gas imports from Russia by encouraging domestic production (including exploration for unconventional gas deposits and new renewable energy sectors), diversifying supply sources (switching from gas to coal) and promoting energy efficiency and conservation. As a result Russian gas imports fell 25% in 2012 compared to the previous year significantly reducing the country's trade deficit, public sector deficit and foreign currency requirements.

In addition in May 2013 the government sought official 'observer' status at the ECU. The 'American crisis' followed by Yanukovich's election and the formation of the PRU-led coalition government resulted in a shift in Ukraine's geopolitical/geoeconomic orientation away from the west towards Russia and Eurasia. Connolly and Copesey (2011, 558) commented that 'Ukraine ... emerged battered from the global economic crisis, and thus its position *vis-à-vis* a weakened but still powerful (and solvent) Russia has worsened'. Facing the large fiscal deficit and the need for an unpopular increase in the price of gas to households and utilities, the PRU-led government sought to renegotiate the gas contract with Russia. Yanukovich signed the Kharkiv Accords in April 2010 which reduced the import price for Russian gas by 30% (up to a maximum of \$100 per tcm (IMF 2010, 11) (worth \$4 billion per annum) between 2010 and 2019 in return for extending the Russian Black Sea Fleet's lease of a naval base at Sevastopol until 2042 (Connolly and Copesey 2011, 554). However the rising price of oil meant that the price of gas increased even taking the discount into account – at the beginning of 2012 the gas price was \$416 tcm (Kholod 2012, 8). At this time Russia and Ukraine also agreed to: encourage joint industrial development in the fields of aerospace and nuclear energy; develop cultural cooperation, and, align their positions on regional security issues such as Trans-Dniester Republic. Simultaneously Yanukovich renounced the intention to join NATO and proclaimed in law that Ukraine would remain a non-aligned state. Ukraine also joined the WTO-compliant CIS Free Trade Zone which was scheduled to commence in 2013 but as many products were exempt the economic stimulus was expected to be limited.

The ECU was founded by Russia, Belarus and Kazakhstan in October 2007 and a common custom tariff was introduced in 2010 when a permanent regulatory body was also established (Dragneva and Wolczuk 2012). Subsequently ECU established a Common Economic Space in 2012 and announced its intention to create an internal market, entitled the Eurasian Economic Union (EEU), as of 1 January 2015 with the potential for a single currency. Unlike previous post-Soviet integration projects, Dragneva and Wolczuk (2012, 5) argued the ECU was a rules-based future orientated body with a robust institutional and legal basis (WTO and ECU rules have been harmonized) capable of influencing its member states and the development of their economies. They also maintain that the structure of the new EEU Commission in which each country will have one vote is an indication that Russia is willing to adopt multilateralism to achieve its strategic goals in the 'near abroad' (2012, 7). Russia maintains that Ukraine's full accession to the ECU would: boost Ukraine's future economic performance including increasing GDP by between 6 and 7% by 2030; provide access to ECU markets including for agricultural products; modernise and develop Ukraine's high-technology sectors (such as aircraft manufacturing, shipbuilding, and defence industries) boosting machine building to 9% of GDP and the share of machinery and equipment to 20% of exports to the ECU including 7% in aviation equipment by 2030; would diversify the economy; and, enable more equal economic integration with the EU as a trade bloc at a later date (EDB 2012, 29-30; Dragneva and Wolczuk 2012).

According to the Eurasian Development Bank (EDB), which was established in 2006 by Russia and Kazakhstan as an official regional development bank to rival the EBRD, Ukraine would be more competitive in the ECU than in the EU internal market and would thus attract more capital for investment in modernisation which would encourage further exports (EDB 2012, 24). It forecasts that the maximum positive cumulative effect of Ukraine's integration with the ECU would be \$219 billion between 2012 and 2030 (in 2010 prices) equalling \$12.2bn per year (EDB 2012, 24, 30). In addition, Russia has indicated that it would significantly reduce the cost of gas and has threatened retaliatory trade measures if Ukraine does sign the DCFTA/AA. The EDB calculates that a reduction in the gas price to \$180 tcm would reduce Ukraine trade deficit by \$7.7bn worth 2.5% of GDP (EDB 2012, 37). The cut would also boost the competitiveness of Ukraine's key exporting sectors and would enable the state to reallocate public expenditure from subsidising gas prices to infrastructural investment. However, if Ukraine joined the ECU it would have to raise WTO agreed tariffs and pay compensation to trade partners (Dragneva and Wolczuk 2012). In contrast Russia argues that the DCFTA/AA would entail power asymmetry with the EU, significant costs, and a loss of sovereignty. According to the EDB (2012, 17) if Ukraine signed a FTA with the EU (and the ECU treated Ukraine as if a European country) exports to the EU would increase 10% whilst imports would increase 15% and total trade with the

## ПРОБЛЕМЫ РАЗВИТИЯ ВНЕШНЕЭКОНОМИЧЕСКИХ СВЯЗЕЙ И ПРИВЛЕЧЕНИЯ ИНОСТРАННЫХ ИНВЕСТИЦИЙ: РЕГИОНАЛЬНЫЙ АСПЕКТ

ECU would decline lowering GDP growth by 2.5%. In particular net exports of machine-building products would fall, growth in the production and exports of metallurgical, chemical and agricultural products would be restricted, and dependence on increasingly expensive energy imports from the ECU would continue.

### Conclusion

Ukraine's geopolitical location, in which the west and Russia compete with each other for influence, will ensure that the country's path of development will likely remain conflicted. It is Ukraine's tragedy that it finds itself located where two rival centres of power and authority collide and prevent the emergence of a strong democratic state. It seems unlikely that Ukraine can implement the structural reform needed to emerge either as a western-looking entrepreneurial state or an eastern-leaning developmental state any time soon. The politics is simply too divisive. For example in April 2012 a poll found that 38.3% favoured accession to the EU (which is not even an option at the present time) whilst 36% favoured accession to the ECU with the remainder either antithetical to both economic blocs or could not say (Razumkov Centre 2012, 127). Domestic party politics is equally conflicted in which the obstructionist populist anti-establishment 'left' is essentially market fundamentalist and has been co-opted by western interests, whilst the party-of-power establishment 'right' is more economically interventionist and developmental. However two issues are clear: first, some fiscal consolidation and reallocation is required to create either an entrepreneurial or a developmental state; and second, whilst emotion and soft power pulls Ukraine westwards hard calculation should make it look to Eurasia too.

### REFERENCES:

- Bojczun, M. (2011b). "The international economic crisis and the 2010 presidential elections in Ukraine." *Journal of Communist and Transition Politics* 27(3-4): 496-519
- Connolly, R. and N. Copsey (2011). "The great slump of 2008-9 and Ukraine's integration with the European Union." *Journal of Communist and Transition Politics* 27(3-4): 541-565.
- Dragneva, R. and K. Wolczuk (2012). Russia, the Eurasian Customs Union and the EU: Cooperation, stagnation or rivalry? *Briefing Paper*. London, Chatham House. [http://www.chathamhouse.org/sites/default/files/public/Research/Russia%20and%20Eurasia/0812bp\\_dragnevawolczuk.pdf](http://www.chathamhouse.org/sites/default/files/public/Research/Russia%20and%20Eurasia/0812bp_dragnevawolczuk.pdf) 30/10/12
- Eurasian Development Bank (2012). *Ukraine and the Customs Union: Comprehensive assessment of the macroeconomic effects of various forms of deep economic integration of Ukraine and the member states of the Customs Union and Common Economic Space*. St Petersburg, Eurasian Development Bank. [http://www.eabr.org/general/upload/reports/Ukraina\\_doklad\\_eng.pdf](http://www.eabr.org/general/upload/reports/Ukraina_doklad_eng.pdf) 30/10/12
- Government of Ukraine (2010). *Prosperous society, competitive economy, effective state*. Kyiv, Government of Ukraine. [http://www.usubc.org/site/files/Ukraine\\_Program\\_of\\_Economic\\_Reforms\\_2010-2014.pdf](http://www.usubc.org/site/files/Ukraine_Program_of_Economic_Reforms_2010-2014.pdf) [unofficial translation] 26/10/12
- IMF (2010). *Request for Stand-By Arrangement and Cancellation of Current Arrangement*. Washington DC, IMF. <http://www.imf.org/external/pubs/ft/scr/2010/cr10262.pdf> 29/10/12
- Kholod, N. (2012). *Reforming the Ukrainian economy under Yanukovich: The first two years*. Washington DC, Carnegie Endowment for International Peace. <http://carnegieendowment.org/2012/04/02/reforming-ukrainian-economy-under-yanukovich-first-two-years/a63h#> 24/10/12
- Mykhnenko, V. and A. Swain (2010). "Ukraine's diverging space-economy: The Orange Revolution, Post-Soviet development models and regional trajectories." *European Urban and Regional Studies* 17(2): 141-165.
- Sadowski, R. (2012). *The prospects for the EU-Ukraine free trade agreement*. Warsaw, Centre for Eastern Studies. <http://www.osw.waw.pl/en/publikacje/osw-commentary/2012-10-18/prospects-euukraine-free-trade-agreement> 24/10/12
- Varga, M. (2012). "Working class heresies": *Ideology in protests of Ukrainian workers during the world economic crisis*. Mimeo.
- World Bank (2010). *Ukraine country economic memorandum: Strategic choices to accelerate and sustain growth*. Washington DC, World Bank.

## ПРЯМІ ІНОЗЕМНІ ІНВЕСТИЦІЇ ЯК ФАКТОР ЗРОСТАННЯ ВАЛОВОГО ВНУТРІШНЬОГО ПРОДУКТУ КРАЇНИ ТА АКТИВІЗАЦІЇ ЕКОНОМІЧНОГО РОЗВИТКУ

Свідрак О.В. асистент кафедри "Фінанси" Донбаської державної машинобудівної академії (Україна)

**Свідрак О.В. Прямі іноземні інвестиції як фактор зростання валового внутрішнього продукту країни та активізації економічного розвитку.**

В статті проаналізовано динаміку залучення прямих іноземних інвестицій та валового внутрішнього продукту країни на протязі останніх 11 років. Доведено, що у більшості проаналізованих періодів зростання прямих іноземних інвестицій в Україну призвело до зростання ВВП за винятком лише 2009 року, коли прямі іноземні інвестиції у порівнянні з попереднім роком зросли на 4,54%, а ВВП України зменшилося на 3,66%. Визначено форму та характеристику зв'язку між прямими іноземними інвестиціями та валовим внутрішнім продуктом України та зроблено висновок про те що зв'язок між дослідженими показниками існує – він прямий та високий, однак розраховане рівняння регресії потребує уточнення та проведення додаткових розрахунків з виявлення інших показників впливу на результативний показник.

**Ключові слова:** Прямі іноземні інвестиції, валовий внутрішній продукт, коефіцієнт кореляції, регресійний аналіз, динаміка, економічний ріст, наявність зв'язків, макроекономічні показники.

**Свідрак Е.В. Прямые иностранные инвестиции как фактор роста валового внутреннего продукта страны и активизации экономического развития.**

В статье проанализирована динамика привлечения прямых иностранных инвестиций и валового внутреннего продукта страны на протяжении последних 11 лет. Доказано, что в большинстве проанализированных периодов рост прямых иностранных инвестиций в Украину привел к росту ВВП за исключением только в 2009 года, когда прямые иностранные инвестиции по сравнению с предыдущим годом выросли на 4,54 %, а ВВП Украины снизился на 3,66 %. Определены форма и характеристика связи между прямыми иностранными инвестициями и валовым внутренним продуктом Украины и сделан вывод о том, что связь между исследованными показателями существует - она прямая и высокая, однако рассчитанное уравнение регрессии требует уточнения и проведения дополнительных расчетов по выявлению других показателей воздействия на результативный показатель.

**Ключевые слова:** прямые иностранные инвестиции, валовый внутренний продукт, коэффициент корреляции, регрессионный анализ, динамика, экономический рост, наличие связей, макроекономические показатели.

**Svidrak O. Foreign direct investment as a factor of growth of gross domestic product and enhancing economic development.**

The article analyzes the dynamics of attracting foreign direct investment and gross domestic product over the past 11 years. Proved that in the majority of the analyzed periods increase in foreign direct investment in Ukraine has led to the growth of GDP except only in 2009, when foreign direct investment compared with the previous year increased by 4.54 %, and Ukraine's GDP fell by 3.66 %. Determine the form and characteristics of the link between foreign direct investment and gross domestic product of Ukraine and concluded that the relationship between the indices studied there - it is straight and tall, but the calculated regression equation requires clarification and additional calculations to identify other indicators of impact on productive indicator.

**Keywords:** foreign direct investment, gross domestic product, the correlation coefficient, regression analysis, the dynamics of economic