

THE INTERNATIONAL CAPITAL MOVEMENT AS A FACTOR OF INFLUENCE ON INNOVATIVE DEVELOPMENT TENDENCY OF UKRAINE'S ECONOMY AND ITS INTEGRATION INTO THE WORLD ECONOMY

Liudmyla Solianyuk

The research results regarding Ukraine's solving the strategic task of financial mechanisms of regulating the international capital movement and strengthening its positive effect on Ukraine's economic development and innovative renewal of its economy are considered.

INTRODUCTION

The international capital movement in the world economy space is the most dynamic form of the economic globalization, its essential motive power which promotes the development of international political alliances, social, demographic and economic improvement in the economy of particular countries and their groups. The analysis of the world capital movement condition and investment processes gives evidence of the interrelation between the international investment development and economy globalization. The international capital movement acceleration, first of all in the form of the international investment, influences the scale and tendency of structural breaks within particular countries and regions, promotes considerable increase in economic development efficiency of most countries of the world, facilitating the countries' access to markets and financial resources, effective corporate management experience. This is testified by increase in the world trading volume during the past 50 years by 17 times (and the world GDP by 6 times). The capital worth about 20 trillion USA dollars functions within the present-day international securities market. The annual volume of international credits makes up to 15 trillion of the USA dollars and that of direct international investments makes up to 500 billion of the USA dollars [5] which testifies the actual scale of the international capital movement (regardless the present financial economic crisis).

Ukraine takes a minor place among the main European countries importing the international capital. This situation is conditioned by the fact that developed countries more rapidly create surplus capital which can be further invested more successfully beyond the national boundaries providing more profits. Having the national economy which is more resistant to economic crises, the developed countries bear negative effects of the world financial crisis more easily. Thus, the theme of the research can be considered topical for the present day Ukrainian economy.

The article represents the research results concerning Ukraine's solving strategic tasks to develop the financial mechanism of regulating the international capital movement and strengthening its positive effect on Ukraine's economy development tendencies and innovative renewal of its domestic enterprises.

1. ANALYSIS OF TENDENCIES OF UKRAINE'S INNOVATIVE DEVELOPMENT

The importance of strengthening the influence of the international capital movement on the economic development of the world countries is connected with the further development and activation of the mentioned processes in the world economy. All these require their further research.

The phenomenon of the international capital movement, actual international capital flows and their influence on developing the international communication and organizing economic relations in the countries of the world was studied and described in theoretical and practical works by the following scientists: U. Balagurak, P. Buriak, Yu. Gnatenko, O.Gupalo, M. Dovbenko, S. Mocherny, O. O. Peredriy, A.Slyvotsky, A. Filipenko and others. The topicality of the issue concerning Ukraine within the international investment space at the present stage of its economic development has drawn attention of the following domestic scientists: A. Ignatenko, L. Ryneiska, P.Sabluk, G. Kharlamov. Further research of the influence of the determiners of the international capital movement process on the tendencies of Ukraine's economic development is the part of the

general problem to be solved. The outlined issues make up only a small part of the urgent problems as to identifying the tendencies of Ukraine's development in the context of the international capital movement intensification; these problems require a detailed analysis and research within particular scientific works.

Due to the current technology level of its economy, Ukraine cannot expect large-scale entering the world market since it is completely divided among the economically developed countries; the latter stand out against new competitors, and, because of the low level of the domestic enterprises' innovative development, Ukraine cannot provide the world market with competitive production in sufficient amount yet. So far Ukraine has lacked the effective mechanism of implementing completed scientific and technical works and technologies made on the basis of budgetary financing into industries. On the whole, the scientific and technological development is still uneven in different spheres of the country's economic complex which enhances the process of its destructive changes. It is well known that the prime tool for the generalized mark for countries' competitiveness is the Global Competitiveness Index (GCI). According to the rating of 2010-2011, Ukraine went 7 points down from the 82nd to 89th place. The drop in the rating can be explained by the low quality of the institutes (134) as well as the high level of inefficiency of the market of goods and services (129) which suppresses the competition. The time history of the subindex group "innovations and risk factors" for Ukraine (fig. 1) for five years shows the stability according to the significance and the lowering according to the rating (apart from 2008).

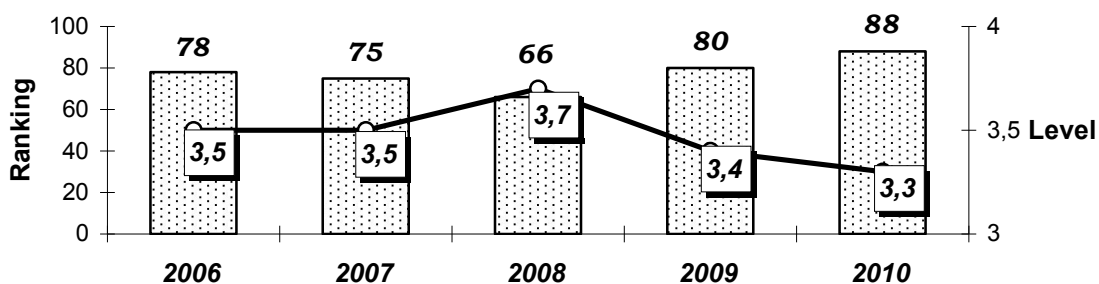


Figure 1. The time history of the subindex group "innovations and risk factors" for Ukraine
Source: compounded by [3]

Within the specified subindex in Ukraine in 2010-2011, the rating of right line indicators of the foreign investment and technology transfer is low (position 124), as well as that of firms' absorbing technologies – position 96 and implementing new technologies – position 92 which proves the existence of all the signs of the technological crisis in Ukraine.

Studying innovation activity of economic subjects in Ukraine has shown that the current economic process is going on against the general negative background when manufacturing the majority of the most important kinds of progressive efficient industrial products is decreasing radically. Lack of economic motivation, unstable financial provision whose deterioration is particularly tangible under conditions of intensification of the world financial crisis influence the innovation activity negatively. One can observe a clear tendency towards the decrease of the number of enterprises which are engaged in innovative activity and realize innovation projects (fig. 2). Compared to the year 2000 when the specific weight of industrial enterprises involved in innovation activity made up 18%, the year 2009 witnessed the decrease of such enterprises down to 12.8%. Regarding the specific weight of industrial enterprises involved in implementing innovations, it decreased in 2009 compared to 2000 by 4.1 percentage point and made 10.7%.

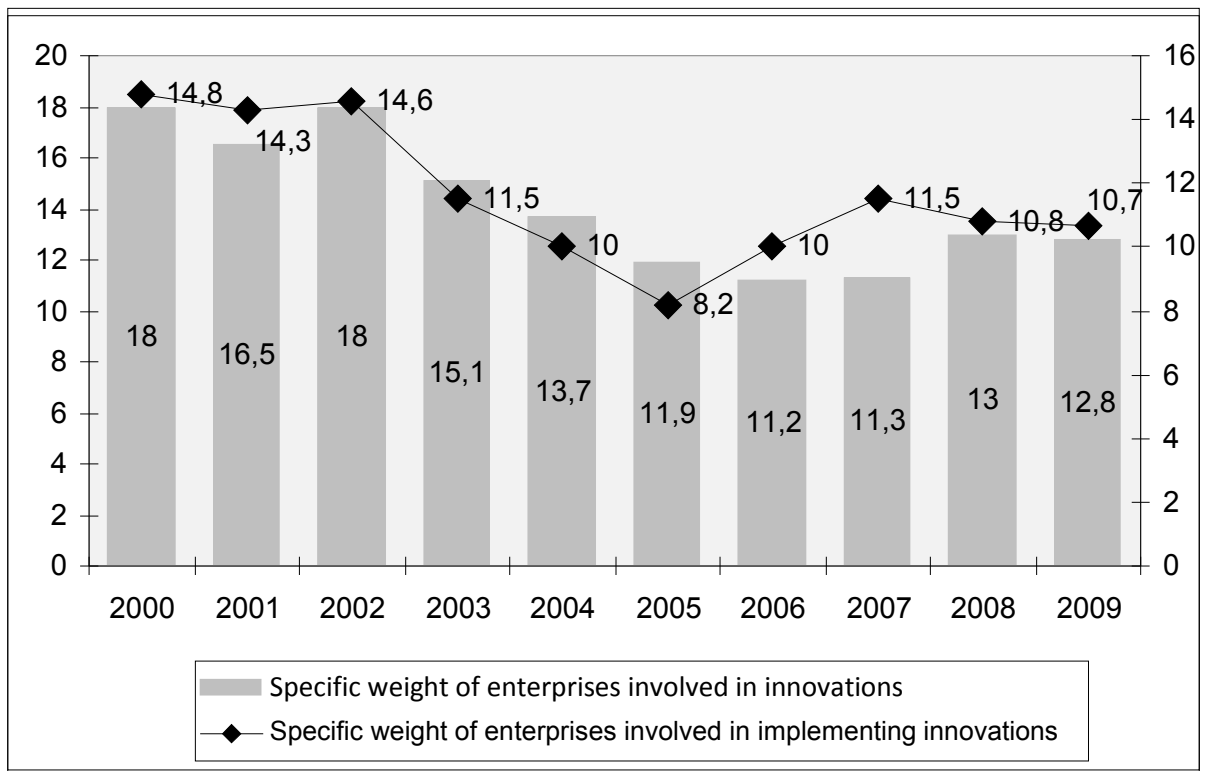


Figure. 2. Part of industrial enterprises involved in innovation activity

Source: compounded by [1]

The industrial enterprises' low innovation activity causes a minor percentage of innovation production in the total volume of the industrial products sold. (fig.3).

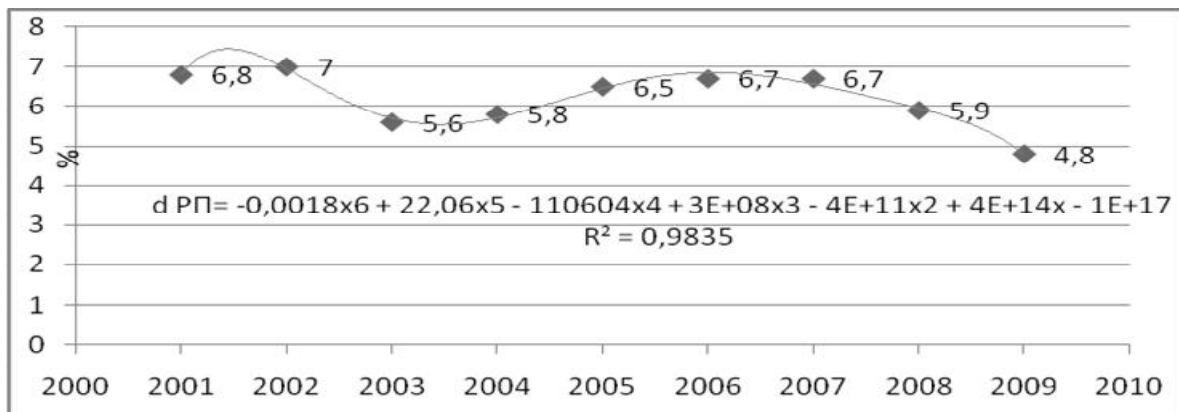


Рис. 3. Dynamics of the specific weight of innovation production in the total volume of Ukraine's industrial production

Source: compounded by [1]

As we can see from the data in Figure 2, the percentage of innovation production in the total volume of the industrial products during the period from 2001 to 2009 had unstable dynamics: 2003-2007 were characterized by positive dynamics towards growth, meanwhile beginning with 2008 the specific weight of innovation production in the total volume of the industrial products had a negative tendency towards decreasing by 0,8 percentage points in 2008 compared to 2007 and by 1.1% in 2009 compared to 2008. The highest rating of the specific weight was observed in 2001 and made up 6.8 percentage points, the smallest part of the innovation production in the total volume of the industrial products during the period studied recorded in 2009 and made 4.8 percentage points.

The period from 2002 to 2008 observed the investment volume increase both regarding all types of economic activity by 200508 thousand hrivnas and in industry by 2009 (fig. 4). During 2008-2009 there was a slump of investment into the capital assets, but at the beginning of 2010 the situation improved. Compared to 2009 the volume of investment regarding all types of economic activity increased by 19315 thousand hrivnas, and that of the industry grew by 900 thousand hrivnas.

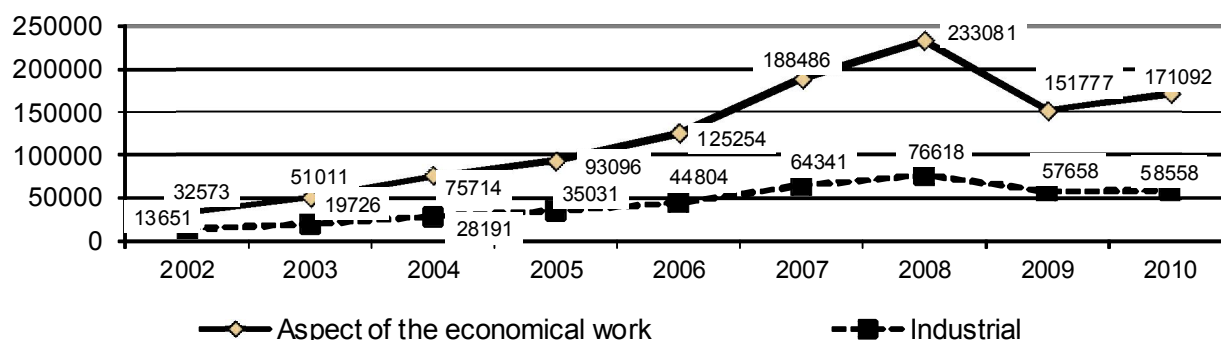


Figure. 4. Dynamics of investment into the capital asset regarding all types of economic activity and industry (in real prices; million hrivnas.)

Source: compounded by [1]

Nowadays Ukraine occupies a leading place in the world in such spheres of basic sciences as physics, mathematics, chemistry, physiology, medicine; it has significant works in the field of laser, cryogenic, and aerospace engineering, communication and telecommunication facilities, programme production. However, owning considerable intellectual and scientific and technical potential, Ukraine has low rating of the innovation development. The statistics given testifies, on the one hand, the existence of significant potential of the innovation development (considerable opportunities for research and design works concerning factors of higher education development, of the level of research and development institutions, of number and qualification of scientists and engineers etc.), but on the other hand, low efficiency of its application which, in turn, causes the necessity to search for effective mechanisms promoting the national innovation system development. The national innovation system should become an environment where innovation programmes encouraging foreign capital are developed and realized, efficient solutions of particular innovation tasks in different spheres of the country's economic and social life are provided, priority innovation development is defined.

2. THE INFLUENCE OF THE INTERNATIONAL CAPITAL MOVEMENT ON OPPORTUNITIES OF UKRAINE'S INNOVATION DEVELOPMENT

The research has defined that the principal source of financing industrial enterprises' expenses for innovation activity is still made up by their own (reinvestment) means. The overwhelming majority of economy subjects in the industry, in mechanical engineering in particular, develop innovation production, services, provide financing of innovation processes at the expense of their own capital (chart 1). The analysis of statistics indicates that during the period of 2004-2010 their part in the total volume of expenses for financing innovation activity in 2004 made up 77.3% and in 2010 it was 59.4% which testifies the tendency towards decreasing opportunities to finance enterprises from this source.

The data of Chart 1 show an increasing role of foreign investors in financing the innovation activity of Ukraine's industrial enterprises in recent years. Limitation of their own financial resources causes a necessity to involve the foreign capital (mainly in the form of direct foreign investment) in the industrial sector. Naturally, this is the direct foreign investment which is one of the most important aspects of the foreign capital movement and its major goal is to provide realization of an investor's long-term interest in any enterprise located in our country. The direct investment serves as an indirect indicator of its efficiency, guarantee the stable market (or develop

the foundation for entering other countries' markets); give the right of direct control or an active part in managing the enterprise by making use of profit reinvestment mechanism, acquiring some shares and intracompany loans abroad as well as applying nonstick forms (making subcontract and license agreements, franchise etc.).

Chart 1

Dynamics of the source structure of financing the innovation activity of Ukraine's industrial enterprises

Financing sources	2004	2005	2006	2007	2008	2009	2010
State budget funds, %	1.4	0.5	1.9	1.3	2.8	1.6	1.1
Enterprise's own funds, %	77.3	87.7	84.6	73.3	60.6	65	59.4
Foreign investors' funds, %	2.5	2.7	2.9	3	1	19	30
Domestic investors' funds, %	0.2	1.4	0.4	0.2	1.4	0.4	0.4
Local budget funds, %	0	0.3	0.2	0.1	0.1	0.1	0.1
Other sources, %	18.6	7.4	10	21.7	34.1	13.9	9

Source: compounded by [1]

Let us consider the current tendencies of capital export and import in Ukraine. In 2009 the capital outflow according to the balance of payments made \$12 billion, but 2010 registered a positive balance of \$7.7 billion. At the same time inpayments of the direct foreign investment in 2009 made up \$4.6 billion and direct investment grew up to \$5.7 billion which allowed balancing the negative influence of the capital outflow from the country. In 2011 foreign investors invested \$6473.1 billion of direct investment (stock capital) into Ukraine's economy. In January 2012 the volume of direct foreign investment (stock capital) into Ukraine's economy made up \$49362.3 billion which is 10.2% more than the investment volume in 2010 and calculated per capita made \$1084.3. The investments came from 128 countries of the world. From the European Union countries there came \$39411.2 million of investment (79.9% of the total share capital volume), from the CIS countries – \$4011.3 million (8.1%), from other countries of the world – \$5939.8 million (12.0%) [2]. The top ten of the major investing countries, whose total direct investment volume is over 83%, include: Cyprus – \$12645.5 million, Germany – \$7386.4 million, the Netherlands – \$4822.8 million, the Russian Federation – \$3594.5 million, Austria – \$3423.1 million, Great Britain – \$2508.2 million, France – \$2230.7 million, Sweden – \$1744.0 million, the British Virgin Islands – \$1607.0 million and the USA – \$1043.1 million (fig. 5).

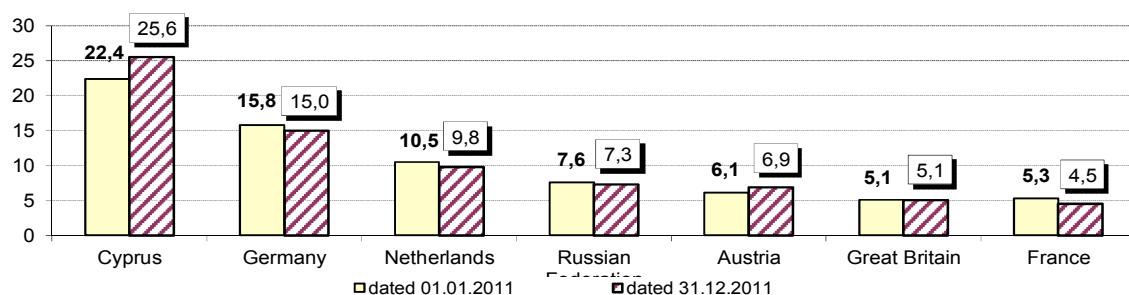


Рис.5. Distribution of direct investment (share capital) into Ukraine concerning the major investing countries (in % to the total volume)

Source: compounded by [2]

\$16318.5 million (33.1% of the total volume) of the direct investments is accumulated in financial establishments. Industrial enterprises accumulate \$15238.6 million (30.9%), including processing industry – \$13056.8 million and mining – \$1492.4 million. Regarding the branches of processing industry \$6084.2 million of direct investments was invested into metallurgical manufacturing and production of finished metal products, \$2065.7 million was invested into production of food, drinks and tobacco goods – \$2065.7 million, chemical and petroleum chemical

industries got \$1375.8 million, mechanical engineering – \$1226.0 million, manufacturing other nonmetal mineral production – \$893.0 million. \$5721.5 million (11.6%) was invested into organizations dealing with real estate, leasing, engineering and providing services for entrepreneurs, \$5193.5 million (10.5%) was invested into enterprises of trade, car servicing, household appliances and articles of personal consumption.

Among the regions leading in the volume of obtained investments are the city of Kyiv – \$24459.1 million (49.6% of the total volume of direct foreign investment), Dnipropetrovsk region – \$8006.2 million (16.2%), Kharkivskiy – \$2745.7 million (5.6%), Donetskiiy – \$2513.6 million (5.1%), Kyivskiy – \$1718.9 million (3.5%), Lvivskiy – \$1358.2 million (2.8%) and Odesskiy – \$1221.7 million (2.5%).

The indebtedness of Ukrainian enterprises on credits and loans, trade credits and other liabilities (debt Instruments) to direct foreign investors made \$7960.0 million in January 2012. The total volume of direct foreign investments made up \$57322.3 million.

Direct investments from Ukraine were made into 47 countries of the world, most of them were directed to Cyprus (91.9%). In January 2012 the direct investment volume (stock capital) made \$6898.0 million, including the EU countries – \$6517.5 million (94.5% of the total volume), the CIS countries – \$282.0 million (4.1%), to other countries of the world – \$98.5 million (1.4%) (fig.6).

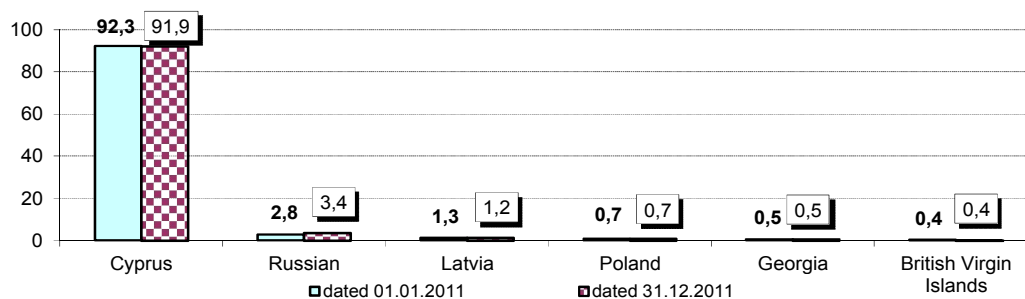


Figure 6. Distribution of direct investments (stock capital) from Ukraine based on the major invested countries (in % to the total volume)

Source: compounded by [2]

Regarding the regional distribution, most of the investments were made by enterprises of Donetsk region – \$5939.8 million (86.1%), of Kyiv – \$655.6 million (9.5%) and Dnipropetrovsk region – \$144.5 million (2.1%). Ukrainian direct investors' by debt instruments demands to foreign enterprises of direct investment made up \$167.1 million in January, 2012. The total volume of direct investment (stock capital and debt instruments) into the economy of the world countries made \$7065.1 million.

According to a great number of researchers, in the sphere of interstate capital movement to the countries with average and low income (to which Ukraine belongs) the following tendencies are dominating: changing foreign financing structure of the countries towards increasing the share of direct and portfolio investments and decreasing the share of bank loans; increasing the share of direct investments compared to portfolio ones; uneven regional distribution of foreign financing; transformation of developing countries and countries with transition economies into the world capital exporters.

The data presented testify that for the recent 10 years (against the background of considerable fluctuation of the international capital flow into Ukraine) the direct foreign investments have been the most stable factor supporting Ukraine's payment balance, providing efficient integration of the national economy into the world one and drawing domestic entrepreneurs to the leading economic experience. Today we can state that European integration and the international capital movement from developed countries, European ones in particular, have a positive effect on Ukrainian industry growth. There are numerous examples of successful cooperation between Ukrainian and European companies which encouraged Ukraine to master

innovative technologies and productions, to implement international standards of cooperative management at enterprises, doing finances both on account of their own capital and foreign investments. These examples include cooperation between Ukrainian company “Techprom” and Austrian Techso GmbH, between Wirth GmbH and ra “Kyivmetrobud”, JSC, TH“Zvariuvannia” and German Olmaier GmbH. However, along with the positive influence on Ukraine’s economic development, it is also necessary to focus attention on a number of negative consequences of the international capital movement which first appear as a temporary phenomenon, but eventually become stable. A failure to consider negative factors of the international capital movement while developing the investment strategy of Ukraine can bear certain threats to the national economy (particularly for the processing industry) and the state sovereignty, namely to impair its food security and qualitative industrial structure, have a negative effect on the nation’s life quality and health. Thus, there is a certain risk concerning the integration of Ukraine’s industry in not very profitable spheres, namely metallurgy and chemical industry; this can result in developing dependence on external factors and unstable development of the main trading partners. With regard to a long-term prospect, there can be considerable capital outflow (repatriation of profits to the investing countries, paying off debts) which exceeds the primary investments. Only the industrial enterprises which work in the international market and whose production corresponds to the world level will be able to adapt to the new conditions.

Studying opportunities of Ukraine’s innovative development, it is necessary to note that a considerable part of the total volume of innovation expenses in the industry is made of capital costs – 62.8% (Chart 2) meanwhile specific weight of expenses for purchasing new technologies constantly decreases: from 3.16% in 2004 to 1.8% in 2010.

Chart 2

The total volume of innovation expenses in the industry

Years	2004	2005	2006	2007	2008	2009	2010
Area of innovation expenses	million hryvnas	million hryvnas	million hryvnas	million hryvnas	million hryvnas	million hryvnas	million hryvnas
A total of, including	4534.6	5751.6	6160	10821	11994.2	7949.9	8045.5
Research and development	445.3	621.3	992.9	986.5	1243.6	846.7	996.4
Purchasing new technologies	143.5	243,4	159,5	328,4	421,8	115,9	141,6
Capital costs	2717.5	3149.6	3489.2	7441.2	7664.8	4974.7	5051.7
Others	1228.3	1746.3	1518.4	2064.9	2664	2012.6	1855.8

Thus, we can make a conclusion that Ukraine belongs to the countries with a low investment activity whereas incoming foreign investments are not always accompanied by implementing modern high technologies and increasing competitiveness of domestic enterprises; in fact, they mostly pursue other objectives, namely property redistribution. This does not promote domestic enterprises’ innovation development and is certain evidence of imperfect corporate management of enterprises, of the undeveloped financial market and Ukraine’s weak integration into the world economy caused by the international capital movement. The current structure of Ukrainian industry is characterized by high specific weight of industries with low added value. Ukraine’s investment strategy and mechanisms of its implementation have not provided investors’ economic motivation yet to direct investment process towards innovative renewal of Ukraine’s economy and domestic enterprises. The country’s political instability and the legislation in force concerning enterprise development and investors’ rights do not contribute to foreign capital flow into Ukraine either. Without developing a coordinated system of managing innovative processes at the state level it is impossible to distribute financial flows (both Ukrainian and foreign ones) efficiently directing them

to innovative technologies and modernization of production facilities of domestic enterprises enhancing the positions of Ukraine's industrial production in the world market.

An increase in the competitiveness of Ukrainian enterprises based on their innovation development is possible under conditions of developing domestic transnational corporations or partial participation in foreign transnational corporations. This will provide necessary structural changes in the industry, technical reconstruction of enterprises, implementation of new economic high-quality technologies and forms of manufacturing. First of all, it is necessary to stimulate incomings of middle-term and long-term intellectual investments to the regions and to integrate the scientific sector and corresponding enterprise structures into the state innovation system. Applying to the information base Ukraine's scientific potential and market, information and marketing research, scientists will form a portfolio of orders and technical tasks to work out innovative production, such scientific work should result in innovative production ready for use.

The process of the international capital movement is increasing and becoming more organized defining the structure of the current world economy and turning financial markets into the most important factor of the world economy development. Thus, in 2010 the total volume of the world capital market almost achieved the volume of the world GDP [5]. Taking into consideration tendencies of the international capital movement and the world financial market development, it is necessary to point out such an efficient financial tool as IPO (Initial Public Offering), the usage of it will allow domestic enterprises to attract foreign capital to finance implementation of business models, entering foreign markets taking into account competition strategy at the time of globalization. Thus, about 15% of all the investments into the capital asset in the developed markets are financed by means of the IPO; European rating reaches 10% [5]. Among Ukraine's enterprises which were the first to make the IPO are the following: Ukrproduct Group (food industry), Cardinal Resources (oil and gas), XXI Century (estate property), TMM (estate property), Dragon-Ukrainian Properties and Development (estate property), Ferrexpo (mining). At the beginning of 2011, 21 Ukrainian enterprises brought their shares into the world financial market. However, these are rather poor results compared to the European Union countries. Ukraine needs liquid, reliable and efficient stock market as well as active entering into international stock markets through the IPO which will promote its national interests and efficient integration into the world economy. This requires encouraging investments into the real sector of the economy; working out an effective system of protecting investors' rights and legitimate interests. It is necessary to develop a system of financial institutes and financial tools to attract domestic and foreign investment resources; a reliable modern system of implementation of agreements with securities and accounting of property rights for securities. Moreover, it is essential to introduce an efficient system of organized trade which should define the market value of securities issuers. Another urgent task is to provide conditions to increase the competitiveness of Ukraine's stock market with its further civilized integration into the international capital markets.

Studies prove that the most perspective trends of the stock market include the agricultural sector, telecommunication, banking, whose companies according to experts' forecast, can receive financial resources worth \$2-3 billion by means of the IPO. This will diversify the stock market and allow foreign investors to enter more dynamic sectors of Ukrainian economy and integrate Ukraine efficiently into the EU and the world economy.

Conclusions

Studying and generalizing the theoretical bases, current state and tendencies of Ukraine's economic development and its integration into the world economy in the process of the international capital movement allowed making the following conclusions.

Ukraine possesses rather great industrial potential in spite of its ineffective infrastructure and out-of-date production assets. Having considerable intellectual and scientific and technical potential, Ukraine demonstrates unsatisfactory rates of innovation development and low effectiveness of implementing innovation potential which calls for searching for efficient

mechanisms which would promote the development of the national innovative system. Lack of economic motivation, imperfect legislation base, unstable financial provision, which is particularly tangible under conditions of the increasing world financial crisis, have a negative effect on innovative activity.

The role of foreign investors in financing innovative activity of Ukraine's industrial enterprises has increased in recent years. This is conditioned by limitation of their own capital and necessity to attract foreign capital to the industrial sector; the foreign capital is mostly used as direct foreign investments which recently have been the most stable factors to support Ukraine's payment balance and have promoted the integration of the national economy into the world economy. There is no reasonable alternative to the process of Ukraine's integration into the world capital movement, to the European economic space. European integration and the international capital movement form developed countries, namely European ones, influence the increase of Ukrainian economy. But it is important to take into consideration negative factors of the international capital movement which can cause certain threats for the national economy. There is a risk concerning the integration of Ukraine's industry into not very profitable branches (namely metallurgy, chemical industry); on the other hand, incoming foreign investments are not always accompanied by implementing modern high technologies and increasing domestic enterprises' competitiveness.

To avoid negative consequences, the European integration in the context of globalization tendencies should be gradual and reasonable, considering all industrial and financial risks which appear in the process of the international capital movement. The first and foremost task is to work out financial mechanisms to regulate the international capital movement towards strengthening its positive effect on the economic development and innovative renewal of Ukraine's economy. It is necessary to develop a coordinated system of managing innovative processes at the state level it is impossible to distribute financial flows (both Ukrainian and foreign ones) efficiently directing them to innovative technologies and modernization of production facilities of domestic enterprises enhancing the positions of Ukraine's industrial production in the world market. In the context of the world current economic tendencies and Ukraine's integration connection development, it is essential to provide membership in influential international organizations or integration grouping to defend their own interests and to promote dynamic economic development. It is also necessary to create domestic transnational corporations or to participate partially in foreign transnational corporations along with active stimulating of intellectual investments.

We should also create conditions for increasing competitiveness of Ukraine's stock market and efficient implementation of financial tools with its further civilized integration into the international capital markets. It is important to activate domestic enterprises' entering the world stock markets by means of the IPO as the main factor Ukraine's integration into the world economy and innovative development of the state's economy.

References:

1. Державна служба статистики України. Інвестиції в основний капітал. [Electronic resource]. - Access mode: URL: <http://www.ukrstat.gov.ua/>
2. Державна служба статистики України. Експрес випуск №03/5-27/204 від 17.02.2012р. «Інвестиції зовнішньоекономічної діяльності у 2011 р» [Electronic resource]. - Access mode: <http://www.ukrstat.gov.ua/>.
3. The Global Competitiveness Report 2010-2011, The Global Competitiveness Report 2009-2010. [Electronic resource]. - Access mode: URL <http://www.rondon.org/society-100929102306>.
4. UNCTAD, cross-border M&A database // [Electronic resource]. - Access mode: URL:// <http://www.unctad.org/fdistatistics>
5. WorldBank. Data profile // [Electronic resource]. - Access mode: URL://<http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport>