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INFLUENCE OF INTENSIVE ECONOMIC DEVELOPMENT OF BRICS-COUNTRIES ON UKRAINAIN ECONOMY IN TERMS OF FOREIGN DIRECT INVESTMENT**Prof. Orlovska J.V.
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This article examines the essence of phenomenon of the countries BRICS (Brazil, Russia, India, China and the South Africa), their current state and development trends of foreign direct investments, acting at the present time as a new factor development of the global economy and international relations. On the basis of empirical analysis it was considered the volume of the involved foreign capital due to close cooperation of BRICS-countries. The article also studies the investment activity condition of Ukraine during latest period. The influence on the investment climate of the state has been analyzed and urgent problems on which solution of the execution of state investment policy under present-day conditions depends. The study is based on the official documents of the BRICS authorities or positions stated by the national leaders and their representatives in international institutions.

Key words: foreign direct investment, BRICS, cooperation, integration, economic growth, globalization.

У даній статті розглядається суть явища об'єднання країн БРІКС (Бразилія, Росія, Індія, Китай і Південна Африка), їх сучасні тенденції економічного стану і розвитку прямих іноземних інвестицій, що діє в даний час в якості нового чинника розвитку світової економіки і міжнародних відносин. На основі емпіричного аналізу був проаналізований обсяг залучених іноземних інвестицій завдяки тісній співпраці країн БРІКС. Також у статті досліджуються стан інвестиційної діяльності України протягом останнього періоду. Вплив інвестиційного клімату та термінових проблем, рішення котрих в сучасних умовах залежить від державної інвестиційної політики. Дослідження базується на офіційних документах групи БРІКС або офіційних документів, які значені країнами або їх представниками у міжнародних інститутах.

Ключові слова: прями іноземні інвестиції, БРІКС, співробітництво, інтеграція, економічний зріст, глобалізація.

Actuality of issue. In the era of global competition, the role of foreign direct investment (FDI) is to attract not only the required amount of capital

and modern technology, but also innovation management and highly skilled managers. Those countries, which are actively involved in international scientific and information exchange, have more advantages to win in attracting FDI. However, the globalization of world economic relations with foreign direct investment accompanied by diversification of forms and directions of international competition, methods of struggle for the possession and control of the technological, labor, intellectual, natural resources and investment. The question of the place and role of Ukraine in the global FDI market is of paramount importance in defining and further growth of the national economy, which is important to determine the level, conditions, forms and methods of integration into the world economy and international capital markets. Therefore, to effectively attract FDI to priority sectors and areas of socio-economic development is necessary coordinated and scientifically based economic policies enhance foreign direct investment and a favorable investment climate, according to the perspectives of structural transformation of the economy and long-term development strategy based on innovation.

Brazil, Russia, India, China and South Africa (BRICS) countries are becoming countries with intensive the dynamic development, which attracted the attention of several researchers at the beginning of the XXI century. This interest was caused by the fact that the BRICS countries ahead of many developing countries in terms of exporting of goods and services, the value of foreign direct investment (FDI) abroad and attracting foreign capital, as well as their participation in the creation of the world gross product.

Through direct investment BRICS enter the markets of developed countries, primarily in North America and the European Union. The accumulation of foreign assets can be described as a stage of investment expansion of international corporations of BRICS countries to foreign markets. This interaction in the future may become the basis for the formation of supra-national regulation of competitive relations in cross-border markets in our countries and become an analogue of the European model of regulation of such relationships.

Analysis of previous research. The above, taken together, provides in-depth research methodologies updating FDI in the global competition, various aspects of which are reflected in a number of works by Ukrainian and foreign researchers. Basic theoretical and methodological approaches in terms

of attracting foreign direct investments contained in the writings of leading Ukrainian scholars, such as: A. Amosha, I. Blanca, E. Boyko, V. Vasilenko, A. Vlasyuk V. Voloshin, A. Hawryluk, P. Haidutsky, B. Heytsya, B. Gubskiy, B. Danilishina, M. Denysenko V. Zagorski, S. Zakharina, A. Merzlyakov, A. Mokiy, V. Osetskoho, I.M. Tkachuk, V. Fedorenko, A. Filippenko, M. Chumachenka, L. Shynkaruk, M. Jakubowski and others.

In the fundamental works of scholars such as K. Akamatsu, L. Bakli, R. Vernon, A. Williamson, D. Hoffmann, J. Gray, J. Daninh, K. Iversen, M. Kasson, D. Kaddinhton, C. Kindleberher , K. Koji, H. Coase, S. Mahi, R. Mandell, T. Ozawa, M. Porter, A. Ruhman, P. Ruth, P. Samuelson, T. Suon, Ya. Tinberhen, P. Fisher, C. Haymer, William Sharpe were found the conceptual basis of research the impact of foreign direct investments on the main macroeconomic indicators on the recipient countries, the relationship of the main flow of foreign investments with the intensification of innovation processes and activities of transnational corporations in the processes of integration and globalization. At the same time it is necessary to point out the lack of clear and coherent policy priority and involvement of foreign investment, which would bare the multiplier effect of economic development, as well as the limitations of effective approaches to assess the impact of foreign investment on the economic security of the country and their effectiveness with regard to strategic national interests. The necessity of solution of these problems determined the choice of research topic and defined its goals and objectives.

Purpose of the article. The purpose of the given work is to outline the prospects of BRICS cooperation in conditions of world space transformation and to research the relations of BRICS-countries at the present stage, a place of a format BRICS in these relations, prospects of their future development, particularly with Ukraine. It is necessary to consider the influence of economic growth of all country-participants on the inflow of foreign direct investments in Ukrainian economy.

Statement of main research. The creation of BRICS (Brazil, Russia, India, China, the republic of South Africa) was one of the most significant geopolitical events in the beginning of the XXI-st century. These countries play a powerful and constantly growing role in world politics and the international relations. The modern name of association was included into the international practice in 2011 after joining of the South Africa (December 2010). From that

moment the association was called BRICS. For the first time the term BRICS was used in the report of investment bank «Goldman Sachs» in the November, 2001 [1] devoted to the forecast of economic conditions in the middle of the XXI-st century. The author of the term is an American economist Jim O'Neill, who used it with reference to group of developing countries - Brazil, Russia, India, China considering grouping as the new investment offer. In 2003 the bank published the developed research entitled «Dreaming together with BRIC: a way by 2050» [2]. In the report dynamics of development of the countries BRICS which apply for a role of constant leaders in the regions was highly estimated. They possess of enormous natural resources, considerable industrial potential, and 40 % of the world population. For the short period «developing economy - China, Russia, Brazil, India - began to turn to a political reality. They have unequivocally declared that the modern international mechanism of relations does not correspond to XXI-st century realities, and have suggested to build a new world order on the basis of international law and cooperation». The economic activity of the country - participants BRICS already now make certain impact not only on economies of these countries, but also has an important influence on other developing countries.

According to report issued by UNCTAD [3] FDI inflows of BRICS countries and their share in global FDI inflows increased significantly and reached a record of 20% in 2012, almost three times more than the 6% share registered in 2000. The big jump in FDI inflows to BRICS took place particularly from 2003 to 2008, growing from \$77 billion to \$281 billion, with China and the Russian Federation accounting for the lion's share of growth (figure 1). Almost half (46%) of FDI flows to BRICS go to China, followed by Brazil (25%), the Russian Federation (17%) and India (10%). With the rapid rise in inflows, FDI stock in BRICS countries are increasing as well, standing at 11% of global FDI stock, and catching up with developed economies.

As noted above, BRICS countries are also increasingly important outward investors. FDI outflows show the following key features:

- The rise in FDI outflows started slightly later than that of inflows, jumping from US\$31 billion in 2005 to US\$93 billion in 2006 (figure 2).
- BRICS investors also remained resilient to the crisis, with outflows dropping by only 26% in 2009, compared to 41% for the world as a whole.

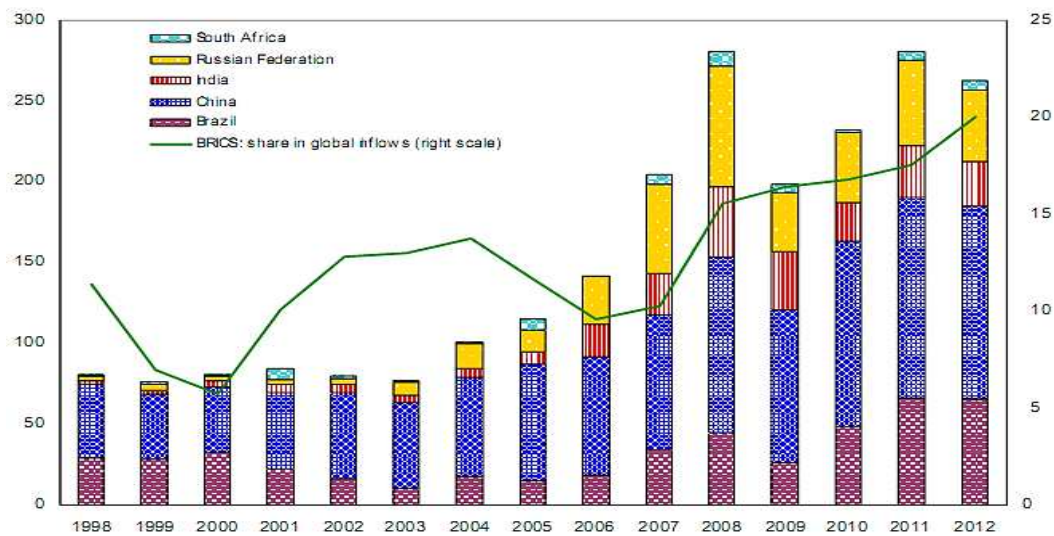


Figure 1. BRICS countries: FDI inflows and their share in global FDI inflows, 1998-2012 (Billions of US dollars and per cent)

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

As a result, the role of BRICS as investors increased significantly, now accounting for 9% of world outflows in 2012 - ten years before that share was only 1% (figure 2).

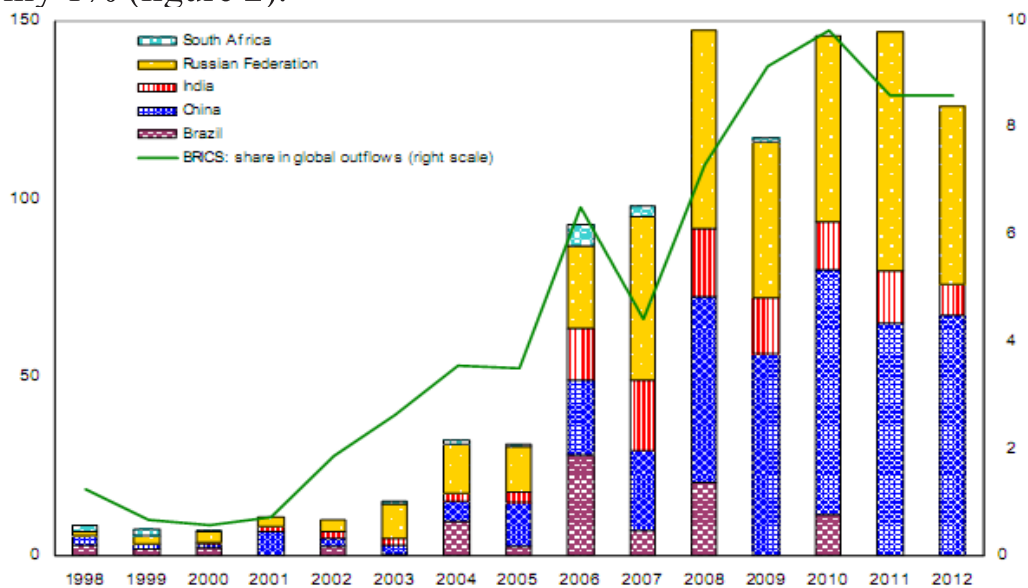


Figure 2. BRICS countries: FDI outflows and their share in global FDI inflows, 1998-2012 (Billions of US dollars and per cent)

Source: UNCTAD, FDI/TNC database

The given influence can be both negative, and positive. Positive sides of existence BRICS basically can be considered from the point of view of influence on economy of the country.

The influence of activity BRICS can be considered from 2 points of view:

- From a position of influence on internal processes of the country

entering into BRICS;

- From a position of influence on economic.

Positive effects of intensive development of BRICS-countries:

1. *Increase of investment appeal of the countries BRICS.* BRICS- countries gradually cease to be perceived only as a source of a cheap labour and natural resources, but latest research by auditing company PricewaterhouseCoopers states that heads of transnational corporations look at countries BRIC (Brazil, Russia, India and China) as on the new largest commodity market.

2. *Industrial growth in the countries participants BRICS.* Industrial growth in China and India supports demand for metal and oil. Therefore developing countries yet should not be afraid of falling of quotations at raw stock exchanges.

3. *Growth of level of incomes in the countries BRICS.* Inflow of money from raw export stimulates growth of well-being of the population. Basically owing to activity of the BRICS- countries, incomes of separate groups of people (e.g. owners of transnational corporations) increase.

4. *Stimulation of development of economic.* The opportunity of exits into the world market for the large enterprises based in the countries BRICS promotes growth of a competition among manufacturers that positively affects economic development.

5. *Improvement of a demographic situation.* Growth of incomes of the population inevitably leads to improvement of a standard of living and accordingly to increase of birth rate and life expectancy of the population.

6. *Increase of stability level of currencies.* The countries BRICS, also become richer by increase of cost of currency. Currencies tend to rise, as more high efficiency leads economy to rapprochement of the level of purchasing power parity (PPP) with level of the rate of exchange. The accurate tendency that the countries with high level of the income per capita establish the rate of exchange approached to PPP level. In all BRICS countries the exchange rate is established at lower level than the accepted according to PPP.

During the process of economic development the growth rates decrease, while the exchange rate of currencies increases. Both growing rate of currencies, and fast economic growth gradually increase dollar gross domestic product per capita, and distinctions between the countries BRICS and the developed world slowly are erased.

7. *Increase of political stability.* We can assume that during the further some decades each of the countries BRICS will meet various difficulties in terms of political transformations. For some countries (especially for Russia) institutional transformations are the most important in acceleration of economic growth.

If the creation of BRICS has more positive influence basically on the countries-participants, the disadvantages of this phenomenon consider mostly with reference to the world economy.

We can consider such negative consequences of countries' activity in the following:

1. Economy globalization. This statement can be controversial as there are either positive or negative results of actual globalization process, but still some economists are inclined to consider economy globalization, as the negative phenomenon.

2. Regrouping of world currencies. The high increase of value of currencies can lead to increase in profitableness of investments in these countries and to the raised demand for the capital. The specific density of BRICS in portfolio investments can rise sharply. Thus, it can lead to high capital forthcoming to these countries that finally it will regroup the priority of basic currencies.

3. Possibility of occurrence of world economic instability. Displacement of economic balance of countries participation will lead to possible instability. So, the new economic crises related to redistribution of the world capital can arise in future.

Consequently, the positive sides of economic development of the above-named countries outweigh all ascertained negative sides. Thus, nowadays the most perspective countries for business and economic cooperation, according to many analysts, are Brazil, Russia, India, China and the South Africa. Hereby, the Ukrainian government should pay more attention considering the perspectives of economic cooperation with BRICS countries.

Considering interrelations in terms of influence of economic growth of BRICS countries on Ukrainian economy we should analyze the inflow of foreign direct investment to Ukraine. In 2012, investments in Ukraine were received from 128 countries; among them should be mentioned 10 main countries-investors covering 83% of the total volume of FDI (figure 3).

Fig. 2. FDI in Ukraine as of on 01.01.2012
(as % of total)

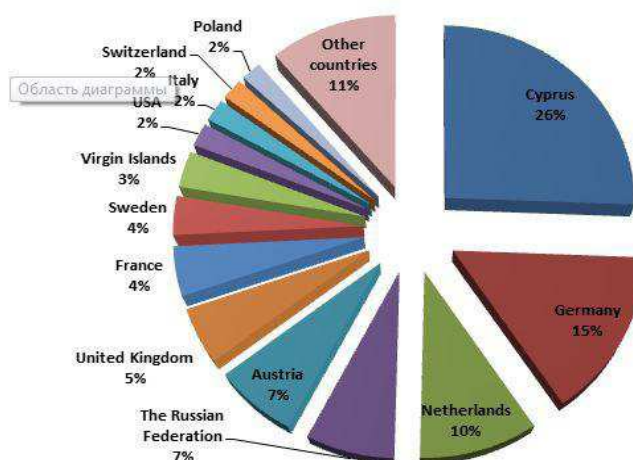


Figure 3. Inflow FDI in Ukraine as of on 01.01.2012 (as % of total)

Source: State statistics committee of Ukraine

We can see that basically FDI (among BRICS countries) go from the Russian Federation that does not show the close cooperation of all BRICS group and Ukraine.

According to report issued by Doing Business [4] **Ukraine has developed legal environment for investments.** Ukrainian legislation provides indispensable guarantees for investors' activities. On the territory of Ukraine foreign investors are assisted by **national regulations for investment activity**, i.e. they find themselves in equal conditions with native investors. Foreign investments in Ukraine are **not subject to nationalization.** In case of cessation of investment activity a foreign investor will **reliably receive return on investments** in natural form or in the currency of investments without duties as well as investment income in monetary or commodity form. The state also guarantees free and immediate transfer of income and other means in foreign currency abroad if received legally as a result of foreign investments made. Verkhovna Rada of Ukraine signed and ratified intergovernmental agreements on promotion and mutual protection of investments with more than 70 countries. To support foreign investors on their communications with executive authorities and local government bodies **State are founded.**

Obviously, due to inflow of foreign direct investment each country can achieve significant progress in modernization and dynamism of specific industries, even entire industries and the development of export potential. Unfortunately, relying only on foreign investment, it is impossible to achieve stability and quality

of economic growth as a whole. For successful attraction of foreign direct investment is better to provide more incentives for foreign investors, but much more important is the perception of foreign investors: unstable and unpredictable political and economic position of Ukraine. Moreover, the macroeconomic stability should be associated not only with low inflation, but with consistent development, including sustainable production growth, effective demand, expanding and economic structure that is constantly must be upgraded. None of the countries has experienced with economic success if their economic policies would be subordinated only with attraction of FDI at any cost.

We can suggest that today foreign investment does not significantly affect the economy of Ukraine and will not significantly contribute to the solution of problems identified as priorities: economic restructuring, technological renovation of production and overcoming the dependence on, import. Therefore, it is issue for Ukrainian economic policy to improve the economic situation of the country and form a roomy dynamic internal market.

Conclusions. Despite all the differences, BRICS countries have common characteristics, including: a significant role in international trade, based on accelerated growth, intense process of urbanization and industrial upgrading, as well as a huge population, vast territory and a large amount of natural resources that allow them to take a strategic position on the global level.

BRICS as an informal international group has considerable potential for development and increasing of influence in the geopolitical sphere. For the achievement of this objective it is important to settle issues in bilateral relations and encouraging internal development. Today BRICS carries significant influence on events in global governance. An important step towards greater economic integration of the BRICS should be an introduction of mechanisms for financing and payments in national currencies. This can significantly reduce the dependence of members from Western countries and, above all, the United States. There is a real prospect of expanding membership of this informal creation, in particular, by combining with the involvement of other nations. This step will increase significantly the total economic potential of BRICS and its ambitions on the international scene.

Ukraine currently does not have a clear position towards the cooperation with all group BRICS as, developing only bilateral relationships with its participants. Based on the fact that the BRICS countries occupy a predominant

place in the geographical structure of foreign trade of Ukraine, and on the fact that Ukraine has common goals with this group of these countries (in particular, to accelerate the pace of recovery of the global economy, to improve the mechanisms of global governance and to strength their own position, etc.) is considered a more appropriate representation of Ukraine in the active high-level events of BRICS as well as the intensification of communication in the operating mode. In this regard, the Ministry of Foreign Affairs of Ukraine in agreement with the President of Ukraine should develop a set of appropriate measures.

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