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MODERN SCALES AND STRUCTURAL DIMENSIONS OF INVESTMENT COOPERATION BETWEEN UKRAINE AND FRANCE

The article describes the stages of investment relations development between Ukraine and France and their effect on the structure of the Ukrainian economy. It's Based on a retrospective analysis of the basic tendencies and prospects of investment cooperation. Also revealed promising projects and areas of cooperation between the countries. Investigated the problems of investment cooperation and ways to solve them. Detected the role of French investments as a factor in the modernization of Ukraine's economy.

Keywords: international capital flows, investment climate, foreign direct investment and investment cooperation.

Діабі А. СУЧАСНІ МАСШТАБИ ТА СТРУКТУРНІ ВИМІРИ ІНВЕСТИЦІЙНОГО СПІВРОБІТНИЦТВА УКРАЇНИ ТА ФРАНЦІЇ

У статті розглянуто етапи розвитку інвестиційних відносин України і Франції та їх вплив на структуру української економіки. На основі ретроспективного аналізу визначено основні тенденції та перспективи інвестиційної співпраці. Також виявлено перспективні проекти і галузі взаємодії країн. Досліджено проблеми інвестиційного співробітництва та шляхи їх вирішення. Надано оцінку ролі французьких інвестицій як чинника модернізації економіки України.

Ключові слова: міжнародний рух капіталу, інвестиційний клімат, прями іноземні інвестиції, Інвестиційне співробітництво.

Диaby A. СОВРЕМЕННЫЕ МАСШТАБЫ И СТРУКТУРНЫЕ ИЗМЕРЕНИЯ ИНВЕСТИЦИОННОГО СОТРУДНИЧЕСТВА УКРАИНЫ И ФРАНЦИИ

В статье рассмотрены этапы развития инвестиционных отношений Украины и Франции и их влияние на структуру украинской экономики. На основе ретроспективного анализа определены основные тенденции и перспективы инвестиционного сотрудничества. Также выявлены перспективные проекты и области взаимодействия стран. Исследованы проблемы инвестиционного сотрудничества и пути их решения. Оценена роль французских инвестиций как фактора модернизации экономики Украины.

Ключевые слова: международное движение капитала, инвестиционный климат, прямые иностранные инвестиции, инвестиционное сотрудничество.

Statement of the problem. Investment relations between Ukraine and France are essential for a sustainable development of the national economy, especially in the current financial and economic crisis. It plays an important, pivotal role in the promotion of their national economic interests on the international arena by developing an optimal model for the interaction and complementarity of the national economic systems of

the two countries and for the implantation of their reproductive systems in the international division of labor and the global economy, as well as by ensuring the effective utilization of international capital flow channels by the countries.

Analysis of recent research and publications. Review of Ukrainian-French external economic relationship was the subject of analysis in the works of domestic

scientists S. Sokolenka, S. Kruglik, Y. Voytka. Partly attention to state regulation of external economic links in Ukraine, strategy and tactics of European integration can be identified in the works of V. Andriychuku, O. Bilorus, D. Luk'yanenko, I. Puzanov, A. Rummyantsev, V. Sidenko, V. Stepanenko, A. Filipenko, S. Tsyhanova, O. Sharova and others. Among foreign authors, Y. Vinslav, V. Coplin, L. Korneki, P. Krugman, P. Sanders, D. Hamilton, G. Schwarzenberger, D. Schneider and others dedicated their research to the problem of foreign investment in developing and transition economies, the impact of the crisis on investment processes in the global economy and the role of transnational corporations in international investment processes. Thus, the issue is still open and needs further research.

The purpose of the article is analyze of stages, dynamics and peculiarities of investment cooperation between Ukraine and France. Justify the necessity of intensive attraction of direct foreign investment from France in high-tech sectors of Ukraine's economy to achieve the objective of national economy modernization.

The main material. With regard to Ukrainian-French cooperation in investment, first, it may be viewed as a mechanism that, by embodying itself in specific forms of interstate industrial cooperation, enhances cooperation of Ukrainian and French enterprises in the production sphere and forms international reproduction relations pertaining to the production of a social product.

Second, with limited internal resources for economic development, the engagement of foreign investment plays a critical role in dealing with the investment slump and may be viewed as an instrument for bringing in advanced technologies and innovations, modern management, marketing and production organization methods, thus it is a powerful tool for Ukrainian production and diversification of its exports pattern which may bring Ukrainian-French economic relations to a new advanced level of strategic partnership.

Finally taking into account French's inclusion the reproductive process of the EU member-states, Ukrainian-French cooperation in investment and production facilitates the development of reproductive relations between the EU, France and Ukraine through participation of not only Ukrainian and French, but also European entrepreneurs in the production and technological cycle. The context opens wide prospects

for Ukraine to become engaged in the reproductive process of European Union countries through the development of an effective model of cooperation in investment and production with France.

Furthermore, motivational advantages of effective cooperation investment and production between Ukraine and France may also include Prospects or expanding Ukraine's export of finished commodities not only to the French, but also to the European markets (first and foremost machinery and equipment markets) by a comparatively insignificant growth of the purchase volumes of component parts, elements and units. Since strengthening its positions on the global markets through traditional trade channels is considerably complicated for Ukraine in this present context due to escalating competition and increasing, protectionism, cooperation with French and European companies through deliveries of primarily individual component parts and elements is more effective than the sale of finished commodities with the utilization of trade channels.

Research in the engagement of French investment capital into Ukraine permits us to conclude that the origin of the process virtually goes back to the collapse of the USSR. However, business entities of both states only became engaged in the Ukrainian-French investment cooperation in 1994. As the data in Figure 1 illustrates, the accumulative volumes of foreign direct investment (FDI) in Ukraine's economy kept constantly growing from the very beginning and on January 2014 amounted to USD 57.0564 billion, thus surpassing the relevant indicator for 1995 nearly 118 times. Conflict and geopolitical tension is pushing capital out of Ukraine and on April 2015 FDI in Ukraine's economy has fallen down to USD 49.1501 billion.

With regard to the geographical pattern of foreign capital investment in Ukraine's economy, a total of 133 countries invested in Ukraine and as of 1 April 2015 the greatest volumes of FDI came from non-residents from Cyprus (USD 11.6843 billion or 23.7 %), Germany (USD 5.4214 billion or 11.03 %), the Netherlands (USD 4.9576 billion or 10.08 %), Austria (USD 2.2650 billion or 4.6%), Russia (USD 2.1986 billion or 4.47 %), Great Britain (USD 1.8970 billion or 3.8%) and the British Virgin Islands (USD 1.8461 billion or 3.7%), while investments from France were relatively insignificant (USD 1,6890 million or 3.4%) (The State Statistics Committee of Ukraine).

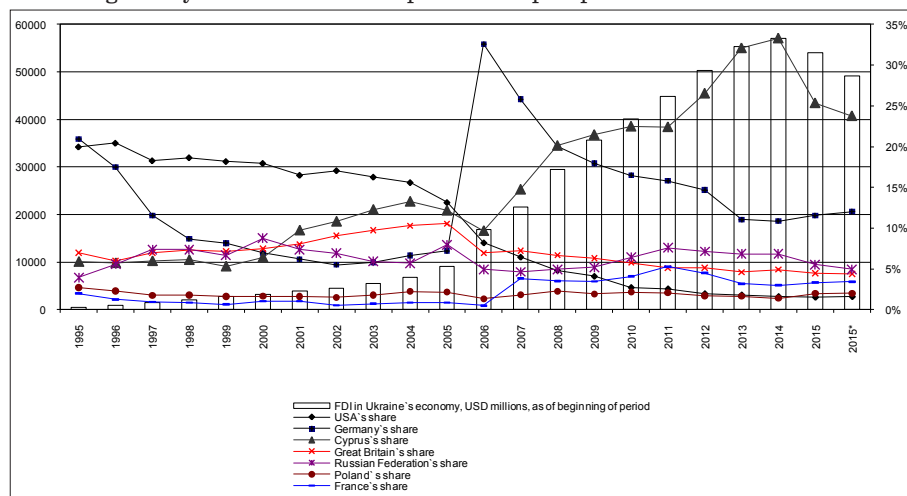


Figure 1. Dynamics of Foreign Direct Investment in Ukraine's Economy in 1995-2015

Developed by the author [2]

*As of 1 April 2015

The analysis of the dynamics of France's investments in Ukraine's economy (Table 1) permits us to make a number of general conclusions. First, France's total investment in Ukraine's economy 1995-2015 grew 187 times, which demonstrates that France's economy has enhanced its investment potential and that the Republic is interested in enhancing investment cooperation with Ukraine.

Also there is an absolute increase in France's investment, the share of France as a donor of FDI in Ukraine is increasing (from 1.99% in 1995 to 3.44% in 2015). However, France's investment in Ukraine did not considerably assist in dealing with the deficit of investment

resources in the state or contribute to its innovative and technological development, did not trigger the creation of effective jobs or the elimination of regional disproportions of social and economic development, while in terms of significance for Ukraine's economy, France's investment is essentially behind the capital investments of such states as Germany, Cyprus, the Netherlands, Great Britain or the Russian Federation.

Second, even though the absolute volumes of Ukraine's foreign investment in France are relatively insignificant, its dynamics is characterized by high indicators: in 1995–2015 absolute volumes grew from USD 0 million to USD 0.2 million. At the same time, in 2007–2014 the dynamics of Ukraine's FDI in France were characterized by stagnation, as the share of France as a recipient of Ukraine's foreign investment shrank from 0.082% to 0.002%.

With regard to the sector composition of France's investment in Ukraine's economy, the largest-scale investments of France are presently in the *Financial and insurance activities*– 72.4% (Figure 2). French investors were significantly interested in the sectors of Ukraine's economy that guarantee fast circulation of capital, specifically domestic trade, as well as finances, insurance and crediting. For instance, in the middle of 1993 is created the first bank with absolute foreign capital Cr dit Lyonnais. It was the subject of poor management during that period which almost led to its bankruptcy. It was acquired by former rival *Credit Agricole* in 2003. *Open joint-stock company* «Credit Agricole Bank» is a universal bank owned by one of the largest financial groups in Europe – Credit Agricole Group (France). The regional network of the Bank covers all regions of Ukraine with more than

170 points of sale. The Bank pays special attention to cooperation with the companies of agribusiness. The reliability and business reputation of Credit Agricole in Ukraine confirmed the highest possible rating from FITCH, 450,000 private and 30,000 corporate clients, including small and medium-sized businesses, large Ukrainian companies and international corporations[5].

Furthermore, another bank with French capital operates in Ukraine – *UkrSibbank*, which serves approximately 2 million of Ukrainians and has more than 700 branches in the country. In 2006 BNP Paribas bought 51% of *UkrSibbank* shares. BNP Paribas is a global leader on the financial market, one of the world's largest financial groups having over-two-century long history and being present in about 80 countries. In 2009 the stake of the French group increased to 81.42% and in 2010 to 99.99%. In August 2011, European Bank for Reconstruction and Development (EBRD) completed a deal to buy 15% *UkrSibbank's* shares. Thus, the share of BNP Paribas totaled 84.99%. During the period of strategic partnership with BNP Paribas, *UkrSibbank* has reached an absolutely new service level and opened a new business line. Today it is a universal bank that follows a balanced development strategy in retail and corporate banking.

In the sphere of insurance activities, the company *AXA Insurance* is one of the leaders in risk insurance market in Ukraine. It's a part of AXA Group (France). Sixth consecutive year, AXA - Insurance brand №1 in the world. Today in Ukraine of trust over half a million customers. For the sixth consecutive year AXA is an insurance brand №1 in the world (according to the international agency Interbrand). It is presented at the Ukrainian insurance market since 2007. Today

Table 1

**DYNAMICS OF UKRAINIAN-FRENCH DIRECT INVESTMENT IN 1995-2015
(at the beginning of period)**

Year	Foreign direct investment in Ukraine's economy, USD millions		France's share in foreign investment in Ukraine, %	Foreign direct investment in France, USD millions		Poland's share in Ukraine's foreign investment, %
	Total	From France		Total	From France	
1995	483.5	9.6	1.99	20.3	-	-
1996	896.9	11.3	1.26	84.1	-	-
1997	1,438.2	13.6	0.95	97.4	-	-
1998	2,063.6	18.1	0.88	127.5	-	-
1999	2,810.7	18.6	0.66	97.5	-	-
2000	3,281.8	33.7	1.03	98.5	-	-
2001	3,875.0	39.9	1.03	170.3	-	-
2002	4,555.3	24.2	0.53	155.7	-	-
2003	5,471.8	40.1	0.73	144.3	-	-
2004	6,794.4	59.2	0.87	166.0	-	-
2005	9,047.0	79.0	0.87	198.6	-	-
2006	16,890.0	87.9	0.52	219.5	0.0	0.000
2007	21,607.3	830.3	3.84	243.3	0.2	0.082
2008	29,542.7	1,044.8	3.54	6,196.6	0.2	0.003
2009	35,616.4	1,231.2	3.46	6,203.1	0.2	0.003
2010	40,053.0	1,630.8	4.07	6,226.3	0.2	0.003
2011	44,806.0	2,367.1	5.28	6,868.3	0.2	0.003
2012	50,333.9	2,260.4	4.49	6,899.7	0.2	0.003
2013	55,296.8	1,766.6	3.19	6,483.3	0.2	0.003
2014	57,056.4	1,700.0	2.98	6,597.4	0.1	0.002
2015	53,997.7	1,798.4	3.33	6,561.2	0.2	0.003
2015*	49150.1	1,689.00	3.44	6484.7	0.1	0.002

* - as of 1 April 2015

Source: Calculated and drafted by the authors on the basis of the data of the State Statistics Committee of Ukraine // www.ukrstat.gov.ua

in Ukraine, over half-million of customers have trust in the company. The regional network of insurance company *AXA Insurance* is represented in more than 200 cities in Ukraine, and agency network consists of more than 2,800 agents.

At the same time, financial contributions in the industrial sector; retail and wholesale trade, repair of vehicles and motorcycles; transport, warehousing, postal and courier activities; agriculture, forestry, fishery and others sectors presently do not exceed 12.5 %, 11.2 %, 1.5% and 2.4 % of the total French investment in Ukraine respectively (figure 2). Thus, one may ascertain that France's investment in Ukraine has a limited impact on the economic development of the country.

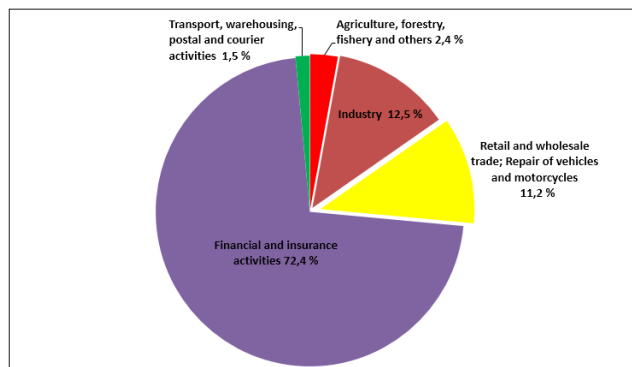


Figure 2. Direct foreign investment in Ukraine from France as of 1 April 2015 by type of economic activity

Developed by the author [2]

The strategy of French investors for penetrating and consolidating domestic capital in Ukraine's economy gives significant consideration to the establishment of joint ventures with Ukrainian partners. According to statistics, joint French-Ukrainian ventures presently don't represent a prevailing form of France's direct investment in Ukraine.

With regard to the benefits and weaknesses of Ukrainian-French investment cooperation in the form of joint ventures for economic entities of Ukraine, the following should be included in the benefits: opportunities for raising material and financial resources which are part of the enterprise's fixed assets and do not require payment: consolidation of interests of the Ukrainian and French partners, which implies motivation, commitment to the improvement of production and market penetration: as well as opportunities for the free promotion of goods produced at such enterprises in third countries' markets (first and foremost, post-Soviet states and the European Union).

A pragmatic approach to the strategy of Ukrainian-French economic cooperation permits the determination of priorities in co-production that involves Ukraine and France. For instance, inter-state cooperation in agriculture has broad prospects for development. Such cooperation could be enhanced creating joint ventures for cultivating agricultural crops (sugar beets and sunflower) with the application of French technologies and Ukraine's supply of raw materials and subsequently entering third countries' markets; food processing; constructing storage facilities; arranging co-production of machinery and equipment in Ukraine for the mechanization of technological processes in vegetable farming, gardening and livestock; organizing the agricultural market; deliver-

ing low-capacity slaughterhouses, bakeries and grinding mills by French partners; staff training; creating and ensuring the operation of new organizations for the state; regulation of the agrarian market, privatization of state agricultural enterprises, modernization and re-structuring of agriculture, etc.

French companies have a strong presence in the production of seeds and grain in Ukraine. Companies such as *Euralis*, agro-industrial group *Mais-Adour*, *Soufflet*, *Malteurop* have their own capacities and are influential players in the domestic grain market. Other companies, such as *Limagrain*, *Agri-obtention* have their representative offices in Ukraine and consider the possibility to start production activities. In Ukraine large French groups - manufacturers of dairy products *Lactalis*, *Danone*, are very well presented. They have several factories and trademarks. In the production of cheese should be noted the company *Bel* and *Bongrain* [1].

Bilateral cooperation in agriculture contributes to the activities of the French-Ukrainian agricultural club, which, in particular, encourages and helps the arrival of new investors in the sector.

France stands ready to assist Ukraine in the implementation of system of agricultural products certification in accordance with EU standards and share experiences in the fields of genetics and biotechnology. Significant opportunities exist in the field of import to Ukraine of high-quality agricultural equipment, in which French companies and manufacturers are continuously increasing their share, but it's still inferior to companies in Germany, USA and Netherlands.

At the same time the development of Ukrainian-French cooperation in production in the pharmaceutical industry also offers prospects. For instance, investment may be used for the implementation of joint projects in the production of vitamins and multi-vitamins on the basis of concentrated juice, fruits and vegetables, microelements and sorbents: bacterial preparation and vaccines; cardio-vascular and anesthetic agents: non-fusion solutions and generic drugs.

The production and sale of construction materials is another sphere of investment and production cooperation between Ukrainian and French economic entities. The high prospects of such cooperation emerge from, on the one hand, the dynamic development of construction and home, renovation in Ukraine and, on the other hand, a wide assortment, high quality and reasonable prices of construction materials produced in France.

In the context of the promotion of Ukraine's and France's national economic interests, enhancing cooperation and implementing investment projects in the energy sector becomes particularly relevant. In Ukraine is well aware such French companies as *Schneider Electric*, *Francem*, *Electricite de France (EDF)*, *Gaz de France (GDF)*, *Alstom*. Companies offer advisory services, technical solutions, participate in the modernization of energy infrastructure. Particularly noteworthy the possibility of bilateral cooperation in nuclear energy and nuclear safety, which is very developed in France.

Since 2030 Ukraine plans to increase nuclear power capacity, the current task for the state is the construction and commissioning of new reactors service life extension of existing facilities and the development of deposits of uranium ore. In all these areas the cooperation is promising with French companies as *Areva*, *EDF*, *Alstom*.

The French company *Novarka* is the principal developer and implementer of the project New Safe Confinement (NSC) «Shelter» of the Chernobyl nuclear power plant. The relevant contract was signed in 2007.



Bilateral cooperation in aviation and the military-technical field is also positively developing. Software-engineering solutions of *Dassault* Company is used by *The Antonov Aeronautical Scientific-Technical Complex*. A number of French companies, including *Thales*, *Crouzet Automatismes* participate in the modernization of aircraft «An» (AN-74, AN-70 and others.), which are equipped with their modern avionics and in the production of promising new models. Since 2008 Ukraine participated in the Franco-British helicopter initiative, which provides, in particular, the modernization of Ukrainian military helicopter fleet. Modern avionics on helicopters sets French Ukrainian Company Sagem [1].

Conclusions. The cooperation in investment and production is a critical component of the strategic partnership between Ukraine France economic sphere. The intensification of inter-state investment cooperation between Ukraine and France is possible only through the transition of Ukrainian-French business entities

from mere trade activities to investment and production activities. Such form of cooperation must include: enhancement of the manufacturing presence of French partners on the Ukrainian market: broader participation of French enterprises in privatization processes in Ukraine; France's investments in top-priority sectors of Ukraine's economy (the energy complex, coal-mining, chemical and oil-refining industries and food processing).

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