UDC 339

Investment Expansion Components in the Visegrad Countries: Challenges for Ukraine

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ABSTRACT. This article considers the individual components of expanding foreign direct investment flows and their impact on economic development in the Visegrad countries. Features of the policy aimed at attracting investment resources for the development and strengthening of a competitive economy are defined. The interrelation and mutual influence between foreign direct investment (FDI), foreign trade, and privatization during the course of investment enlargement are established. Given the experience and practice of Visegrad countries in attracting investment, this article defines challenges and problems surrounding the promotion and attraction of investment resources to Ukraine, the account of which will affect investment climate in the short and medium term positively and ensure the sustainability of economic growth and development.

KEYWORDS. Visegrad Group, economic growth, foreign direct investment, foreign trade dynamics, privatization, investment attractiveness.

Introduction

Global economic processes in general and the deepening of Ukraine's integration into the European space, among others, raised the issues of updating and improvement of an effective

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external economic strategy of the state. The measures to achieve this should include both internal transformations, especially regarding formation of an innovation-investment economy model and effective use of foreign economic expansion potential, taking into account positive international experience.

The dynamic competitive environment of the global economy requires continuous updating and strengthening of international economic relations, and sustainable investment expansion for those countries who do not want to stay on the sidelines of contemporary global processes. As Table 1 shows, the share of investment in fixed assets in the structure of global GDP over the past decade is growing steadily; while during the 1980s' it barely exceeded 20%, in recent years it has grown up to 24%[2]. At the same time, the expansion of the global trading system is also inextricably linked to investment flows, especially the foreign direct investment. So while in 1980-1990 every dollar of FDI accounted for over USD 20-30 of exports of goods and services, in the post-crisis period this figure dropped to USD 15-17, while the share of accumulated FDI in world GDP has more than tripled[3], which is a sign of the increased FDI importance in the global economy.

Table 1 **SOME INDICATORS OF THE GLOBAL ECONOMY`S DEVELOPMENT, $ trillion**[4]

	1990	**2005-2007 (avg.)**	**2011**	**2012**	**2013**
FDI inflow	0.20	1.49	1.70	1.33	1.45
FDI inward stock	2.08	14.79	21.12	23.30	25.46
Exports of goods and services	4.10	15.03	22.38	22.60	23.16
Gross fixed capital formation	5.07	11,80	16.50	17.17	17.67
GDP (current prices)	22.33	51.28	71.31	72.81	74.28

There is no doubt that, despite some reduction in the current rate of economic growth of the global economy, global trade and investment flows will continue to play an increasingly greater role

[2] In most dynamic developing countries, the share of investment in GDP is much higher. For example, in China, South Korea, Hong Kong, the figure reached 30-40%. Similarly, in successful European countries during the drastic transformations (in 1990) it was 24-28%.

[3] Today, new agreements on promoting trade regimes (primarily the establishment of free trade areas) in most cases are accompanied by agreements on investment protection and promotion.

[4] World Investment Report 2014: Investing in the SDGs: An Action Plan. [Electronic resource] - Access: http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf.

in the development of both individual countries and entire regions. This requires strengthening the consistency of government policy in promoting the economic development, and meanwhile it is reasonable to review and utilize "best practices" – i.e. the experience of countries, which have successfully developed and/or transformed their national economies and today occupy a worthy place in the international division of labor[5].

In this context, it may be essential for Ukraine to reference the experience of Central European countries who have managed to actively attract foreign capital by creating favorable investment climates, and who have transformed their economies, becoming full members of the European Community within a relatively short time. Among these countries, we single out the *so-called* Visegrad Four (V4) consisting of Poland, Slovakia, Hungary, and the Czech Republic[6], whose experience in transformation processes in general and the use of investment preferences in particular is fundamental for Ukraine[7].

It is due to consistent investment expansion and strengthening that these countries managed to implement a policy of sustainable development, achieving a relatively high rate of growth not only in transformation (1990's - early 2000s'), but also in the post-crisis period (2011-2012 to date). Although the experience of the convergence policy and FDI impact on development of V4 countries is widely presented in foreign literature[8], it seems that investment expansion components deserve

[5] See, in particular: Investments to Ukraine's economy: status, issues, and needs / A. Rachok, L. Shanghina, V. Yurchyshyn and others. // National Security and Defence. - 2006 – No. 6 - p. 3-52. [In Ukrainian].

[6] Let's recall that in 1991, the Presidents of Poland, Hungary and Czechoslovakia agreed on the creation of an informal union of their countries. Soon, after formation of independent Slovakia and Czech Republic and the quartet (which was also called Visegrad Four), the countries formed a Central European Free Trade Agreement CEFTA, which proved to be a very successful instrument for promoting the convergence and development, and after some time CEFTA was joined by Slovenia, Croatia, Romania, Bulgaria, Moldova, the countries of the former Yugoslavia, and Albania. Although after the EU accession, the countries of V4 withdrew from CEFTA (like Bulgaria and Romania), however, the said Association continues to operate successfully.

[7] Unfortunately, it should be noted that almost every year the President and the Government of Ukraine declare the need to create a favorable investment environment. However, the results are still quite unsatisfactory, Ukraine remains among the least attractive countries for investment in Europe.

[8] See, in particular: *Bevan A.A.* The Determinants of Foreign Direct Investment in Transition Economies [Electronic resource] / A. A Bevan, S. Estrin // William Davidson Institute. Working Paper - 2000 - №342 - Access mode: http://wdi.umich.edu/files/publications/workingpapers/wp342.pdf.; *Kawecka-Wyrzykowska E.* (ed.) Five years of the EU eastward enlargement. Effects on Visegrad countries: lessons for the future [electronic resource] / E. Kawecka-Wyrzykowska (ed.) // Warsaw School of Economics, 2009- Access: http://www.researchgate.net/publication/261975402_Five_Years_of_the_EU_Eastward_Enlargement__Effects_on_Visegrad_Countries_Lessons_for_the_Future_by_Elbieta_Kawecka-Wyrzykowska.; *Landesmann M.* Redirecting the growth model in Central and Eastern Europe: Policy issues / M. Landesmann, V. Gligorov // WIIW, Current Analyses and Forecast - February 2010. - P.1-22 .; *Lim S.* How investment promotion affects attracting foreign direct investment:

more attention, since they could have helped revive transformation processes in Ukraine. Therefore, the focus of this study will be FDI's importance in improving macroeconomic stability in the Visegrad countries.

Institutional Investment Expansion Factors

It should be recalled that the modern globalized world is characterized by an increasing freedom of capital flows, which can bring both positive shifts and cause unforeseen complications in the countries. Certainly, the safest and preferred (among various capital flows) are foreign direct investment through which the countries can not only receive modern equipment and technology, but also promote the inclusion of relevant enterprises in the international division of labor, improve management, and increase resource efficiency (including human resources) which is especially important for ascending[9] countries. Therefore, the most important components of public policy usually include the activities and mechanisms of attracting the foreign capital, especially direct investment, which allow for stable long-term benefits.

The positive impact of FDI on accelerating the economic development is exercised through[10]:

- maintaining the GDP growth by an additional increase in direct investments (as a component of investments in the structure of GDP by end-use categories);

- promotion of economic growth through increased productivity (as a determining factor of production);

Analytical argument and empirical analyses [electronic resource] / S. Lim // International Business Review. - 2008 - Vol. 17, Issue 1 - pp. 39-53 - Access: http://www.sciencedirect.com/science/article/pii/S0969593107001035; *Resmini L.* The determinants of foreign direct investment in the CEECs. New evidence from sectoral patterns [electronic resource] / L. Resmini // Economics of Transition. - 2000 - Vol. 8, №3 - pp. 665-689 - Access: http://onlinelibrary.wiley.com/doi/10.1111/ecot.2000.8.issue-3/issuetoc; *Hanousek J.* Direct and Indirect Effects of FDI in Emerging European Markets: A Survey and Meta-Analysis [electronic resource] / J. Hanousek, E. Kočenda, M. Maurel // Economic Systems. - 2011 - №3 - pp. 301-322 - Access: http://www.sciencedirect.com/science/article/pii/S0939362511000367; *Wojciechowski L.* The Determinants of FDI Flows from the EU-15 to the Visegrad Group Countries - A Panel Gravity Model Approach / L. Wojciechowski // Entrepreneurial Business and Economics Review - 2013. - №1 (1) - pp.7-22; *Vozhnyak M.* Integration and development through real technological convergence. Experience of Poland and lessons for Ukraine / M. Vozhnyak, D. Firsht, L. Yablonskii // International Economic Policy. - 2014 – No. 2 (21) - P. 32-51. [In Ukrainian].

[9] The ascending economies (emerging economies/markets) include the developing countries and countries with economies in transition.

[10] See, in particular, Investments to Ukraine: status, issues, and needs / A. Rachok, L. Shanghina, V. Yurchyshyn et al. // National Security and Defence - 2006 – No. 6 - P. 3-52. [In Ukrainian].

- creation of new employment opportunities (including as a result of restructuring of public enterprises);

- formation of highly competitive and dynamic export-oriented sectors (including through inclusion in existing and newly created global production networks).

In general, the positive impact of FDI is manifested through the growth and strengthening of enterprises with foreign participation and their influence on the business of domestic producers, i.e. foreign enterprises and enterprises with foreign capital are the most dynamic and productive, which increases the motivation of domestic producers to use their benefits, including “process” and “managerial” ones, to ensure their own competitiveness. These traits are especially characteristic of the V4. As can be seen from Table 2, the employment rates in these undertakings and their total sales, including the exports, grew significantly within a relatively short period.

Table 2 **SHARE OF FOREIGN INVESTMENT ENTERPRISES IN EMPLOYMENT AND SALES, % OF TOTAL**[11]

	Employment		**Sales volumes**		**Export**	
	1998	2001	1998	2001	1998	2001
Poland	26.0	32.9	40.0	52.0	52.3	66.2
Slovakia	18.5	36.4	36.2	59.3	59.0	74.9
Hungary	44.9	45.2	70.0	72.5	85.9	87.9

FDI inflow allows improvement in the production efficiency of more than just enterprises to which investment is are directly targeted. Thus, international experience shows that[12]:

- there is a *so-called* "efficiency spillover" effect from the companies with attracted FDI to the other, resulting in increased productivity and competitiveness of the economy as a whole[13];
- the more successful country reforms are, the easier it is to attract the foreign investment;

[11] *Hunya G.* FDI in the new EU borderland [electronic resource] / G.Hunya // INDEUNIS Papers - 2006, February - p.26 - Access: http://indeunis.wiiw.ac.at/index.php?action=filedownload&id=64.

[12] See, in particular, the World Economic Outlook. Globalization and External Imbalances 2005 // IMF - April 2005. [electronic resource] - Access: http://www.imf.org/external/pubs/ft/weo/2005/01/.

[13] Learn more about the spillover patters, in particular, in *Fedorov E.* Evaluation of horizontal and vertical spillover-effects from direct foreign investment in Russia. / E. Fedorova, Y. Barykhina // Issues of economy. - 2015. – No. 3. - P. 46-60. [In Russian].

- there is a steady relationship between the efficiency of public policies (including the ensuring of macroeconomic stability, a low budget deficit, transformational changes) and structure (by type, source, orientation) of capital flows into the country.

These positive influences are best manifested in the V4 countries. Thus, by 1990, FDI in these countries were virtually absent. However, already the first decade of transformation (1990s'), which was marked by resolute institutional and economic transformation, opened up the opportunities for rapid development of private entrepreneurship[14], demonopolization, production efficiency and effectiveness (Table 3) resulting in a sustainable increase of citizens' welfare and improvement of quality of life standards.

Table 3 **KEY REFORMS OF ECONOMIC TRANSFORMATIONS OF THE V4 COUNTRIES**[15]

Direction	Events
Liberalization	Cancellation of trade protectionism; elimination of administration of prices, wages, interest rates, exchange rates etc., abolition of obligatory mediation of the state in foreign economic activity.
Property reform	Privatization of small and large enterprises, restructuring of large enterprises, creation of new private enterprises, establishment of hard budget constraints, strengthening of property rights and creation of institutions of corporate governance.
Financial markets deregulation	Building of institutional foundations for functioning of the autonomous banking and financial system; development of real deregulation of financial markets; implementation of regulatory standards for financial markets mandatory in the EU.
Labor market deregulation	Limiting the government interference in the functioning of the labor market, increasing the freedom of employers regarding the employment, time, forms of employment, wages, and attraction of labor resources freed in the course of reform.
Commodity market deregulation	Elimination of the state industrial and trade monopolies; providing all economic operators with the right to export and import without having to obtain a license (with certain exceptions, in particular on the import of weapons and military equipment, radioactive materials etc., and export of energy resources).

Certainly, the economic transformation in V4 countries created a tension in some areas, but due to coherence and consistency of economic policies, the countries managed to achieve positive results. In fact, we can speak of two waves of relatively high economic dynamics: *first,* since the

[14] The private sector indeed began to play a dominant role in the economy of the V4. So, while at the beginning of transformation processes, the private sector delivered 11-28% of GDP, in 1995 it was 60-70%, and in 2010 - 75-80% of GDP. The share of employment in the private sector reached 73-75% of the total employment of countries in question. – See, in particular: *Borish M.S.* Private Sector Development in the Visegrad Countries [electronic resource] / MS Borish, M. Noel // IMF - Access: http://www.imf.org/external/pubs/ft/fandd/1996/12/pdf/borish.pdf

[15]Compiled based on materials of the Convergence of economic models in Poland and Ukraine: Monograph / [D. Lukyanenko, V. Chuzhykov, M.G. Vozhnyak et al.]; scientific editor D. Lukyanenko, V. Chuzhykov, M. Vozhnyak. - K.: KNEU, 2010 – 719 p. [In Ukrainian].

early 1990s until 2000-2002 (formation of economic and institutional foundations of a market economy), and *second,* integration strengthening from 2002-2003 to the crisis of 2008-2009 (Fig. 1). We cannot talk about the beginning (2013-2014) of the "third" (post-crisis) wave of the V4 countries, because economic deceleration in the "old" EU member states can have a restrictive effect on the European economy as a whole.

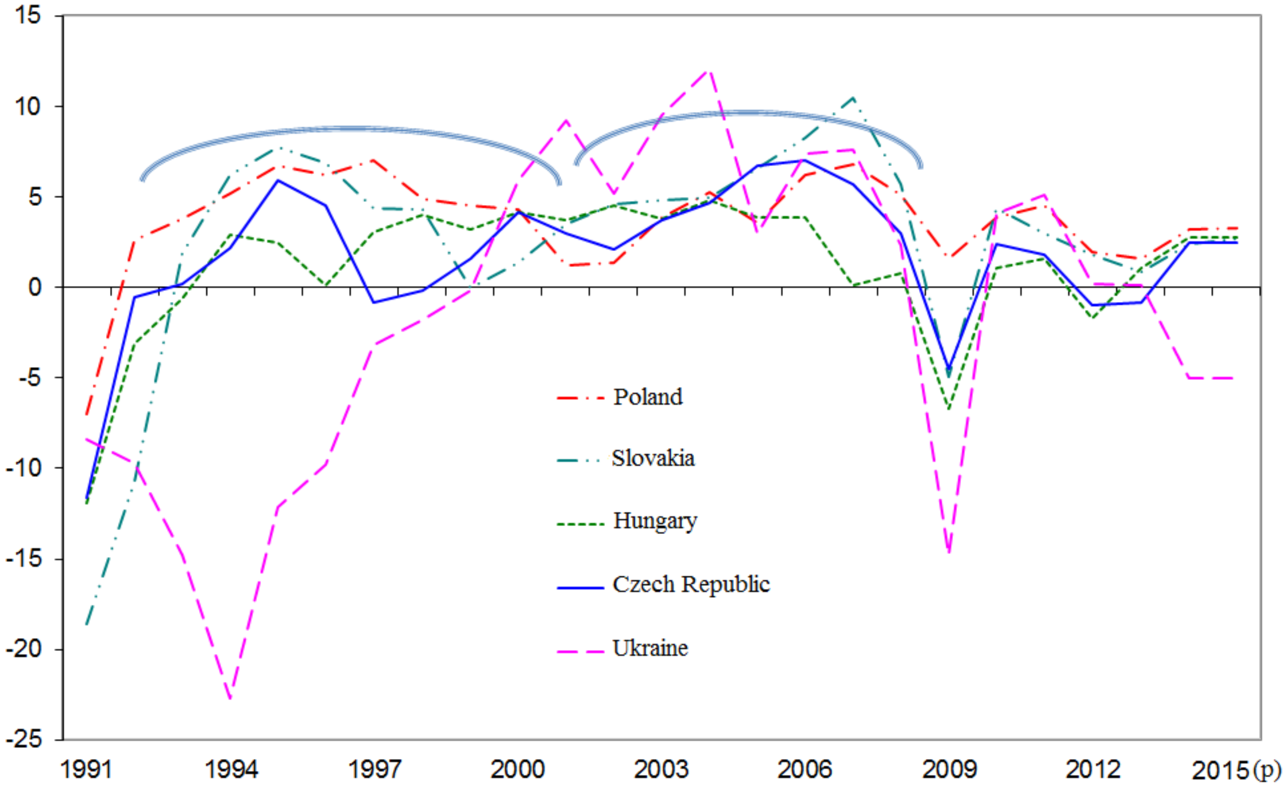


Fig. 1. Real GDP growth, (annual %)[16]

Let's note that the V4 countries' readiness to join the EU became a factor for further transformation, since the integration guidance identifies a number of "updated" requirements which, in turn, provided incentives to investment expansion, competitiveness improvement and economic strengthening. So:

- investment attraction requires new knowledge, skills, management skills of managers, a higher level of enterprises' competitiveness, which, at the same time, strengthens the export potential of the country (especially in engineering and other technological fields);

[16] World Economic Outlook Reports - IMF [electronic resource] - Access: https://www.imf.org/external/ns/cs.aspx?id=29 (issues from different years).

- small and medium enterprises from Western Europe are starting to invest more boldly in new EU member states, though they were afraid to do this before 2004 (because of high political and economic risks, and significant cross-border costs);
- the multinationals implement additional structural changes aimed at wider inclusion of new areas in their own production and consumer networks. Still, the investors were attracted by lower wages in the Eastern European countries compared to the Western European ones, higher productivity in many economic sectors, as well as tax incentives, traditionally introduced by transformation countries.

Undoubtedly, these findings can be directly transferred to the current Ukrainian economic environment, which requires fundamental transformations.

It should be noted that integration processes in V4 countries exhibit a consistent and long-term nature; the countries introduced measures in different areas to improve the competitiveness of industries and products. Therefore, the direct entry of the V4 countries to the EU, although it provided the countries additional benefits and improved the perceptions of their economic environment by international business, was not clearly pronounced. Furthermore, additional factors of economic acceleration ("second wave") were the result of decisive institutional reforms implemented before the V4 countries joined the EU[17].

We'd like to note that the results of the economic acceleration and convergence policies were tangible and eloquent; in all V4 countries in 2000, the GDP per capita was twice higher than the corresponding figures of 1990, and positions in the Human Development Index (HDI) were fixed in a narrow range of 30-40, which correlate with those of developed countries (Fig. 2). As indicated, during the 2000s, the V4 countries managed to extend the dynamics of significant improvement of economic indicators (another doubling of GDP per capita), but progress in other public areas varied considerably; in particular, Hungary's performance in the HDI even worsened.

[17] *Balcerowicz E.* Economy in Poland after EU Accession [Electronic resource] / E. Balcerowicz // Beyond Transition - 2007, January-March - Access: www.cefir.ru/download.php?id=1011. [In Russian].

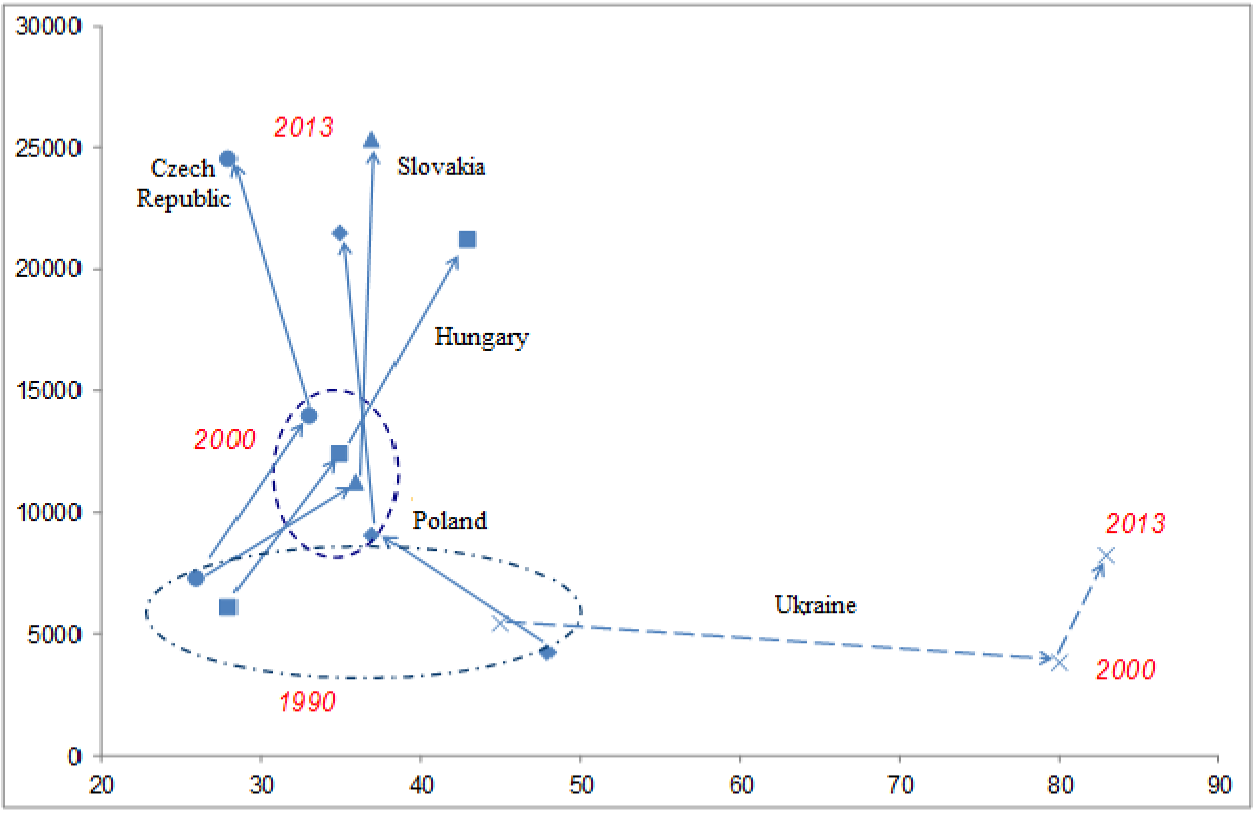


Fig.2. GDP per capita ($, vertical axis) and countries place in the UN Human Development Index (horizontal axis)[18]

In this context, Ukraine's losses are clearly evident; with very good "starting" conditions[19], the country not only failed to achieve good economic acceleration (Fig. 1), but also incurred significant loss in quality of life, which rejected it (Ukraine) to the second half of the HDI rating (Figure 2).

Investment Expansion Importance

It was extremely important for V4 development that the countries quickly and almost completely focused on EU accession, and their investment processes have become especially accelerated since the early 2000s', when the fundamental political decisions on the imminent EU

[18] Done by authors on the information basis of Human Development Reports - UNDP [electronic resource] - Access: http://hdr.undp.org/en/reports (various years).

[19] So, in 1990, Ukraine was ahead of Poland by HDI and GDP per capita, and featured the highest potential for successful market reforms among the former Soviet republics. In particular, as estimated by Deutsche Bank, Ukraine ranked first place, and was characterized by a high estimated degree of industrialization, agriculture, export opportunities, and mineral resources. - For details, see the Convergence of economic models in Poland and Ukraine: Monograph / [D. Lukyanenko, V. Chuzhykov, M.G. Vozhnyak et al.]; scientific editors D. Lukyanenko, V. Chuzhykov, M. Vozhnyak. - K.: KNEU, 2010 - 719 p. [In Ukrainian].

accession were made. The combination of expanding trade and investment caused the acceleration and strengthening of the integration process, which, in turn, ensured the sustainability of economic growth, improving the structure of the economy in general and exports in particular.

This not only opened up the highly absorbent markets of the developed European countries, but also actively promoted the export of European investment capital in V4; the majority of FDI came from the "old" EU member states (Table 4.). At the end of 2013, the total amount of FDI raised by V4 countries amounted to about $ 558 billion. The leader among these countries in FDI raising was Poland, where the volume of FDI reached $ 252 billion (45% of the total FDI raised by V4 countries).

Table 4 **FDI INWARD STOCK IN THE V4 COUNTRIES FROM INDIVIDUAL EU COUNTRIES, € billion**[20]

	2000	2003	2006	2009	2011
Austria	4.6	12.0	20.1	31.0	30.7
Netherlands	17.3	30.9	49.7	70.6	69.2
Germany	14.1	28.0	48.0	51.8	58.8
France	5.6	11.2	18.3	25.0	28.6

The importance of FDI for development of V4 countries is clearly shown by their place in the capital accumulation. In developed and stable economies, the share of FDI in the said accumulation usually ranges within 4-17% of the total investment[21], but for the Visegrad countries, its share in some years of the transformation period exceeded 50% (Table 5).

Table 5 **FDI INFLOWS AS A PERSENTAGE OF GROSS FIXED CAPITAL FORMATION**[22]

	1995	1999	2003	2007	2013
Poland	14.8	17.7	13.1	23.8	7.4
Slovakia	53.3	7.1	12.8	23.7	7.8
Hungary	54.2	28.7	6.3	15.2	6.7
Czech Republic	14.0	36.7	7.3	15.1	8.2

[20] *Hunya G.* Mutual trade and investment of the Visegrad countries before and after their EU accession / G. Hunya, S. Sándor Richter // Eastern Journal of European Studies - 2011, December. - Volume 2, Issue 2 - r.77-91.

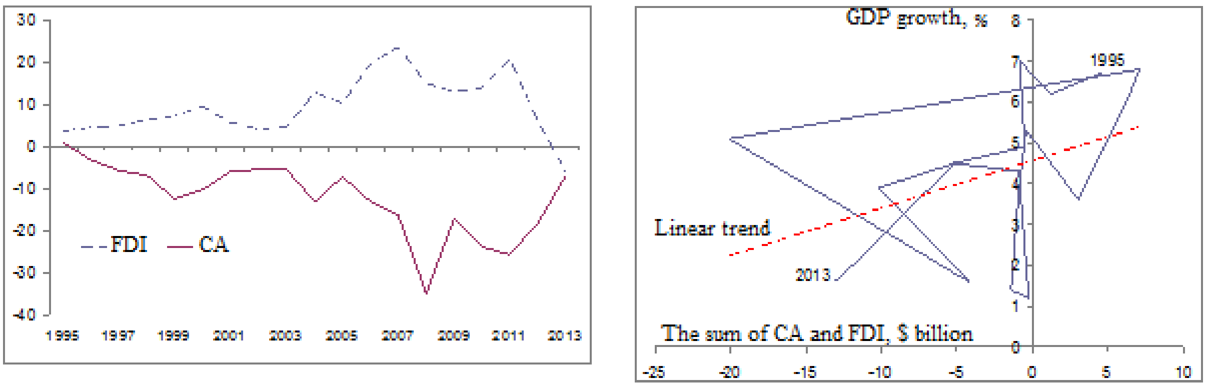
[21] *A. Bevan* The impact of EU accession prospects on FDI inflows to central and eastern Europe [electronic resource] / A. Bevan, E. Saul, G. Heather // Sussex European Institute, Policy Paper - 2001 - №6 - Access: http://www.mcrit.com/scenarios/visionsofeurope/documents/one%20Europe%20or%20Several/A%20Bevan%20S%20Estrin%20H%20Grabbe.pdf

[22] World Investment Report 2014: Annex Tables - UNCTAD [electronic resource] - Access: http://unctad.org/en/pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx

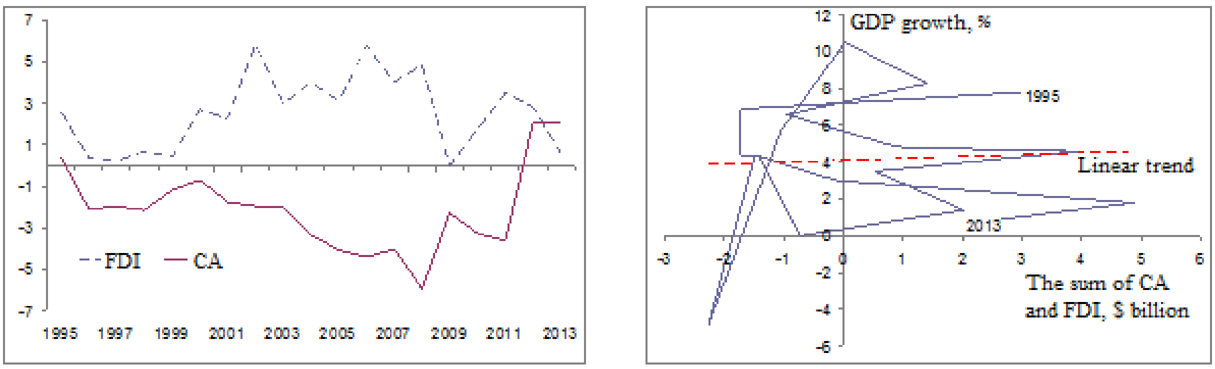
Sustained economic growth, and the need for a competitive economy required the V4 countries to import significant volumes, primarily technologies, modern components and raw materials, which worsened the foreign trade balances. However, the current imports combined with FDI became the factors of competitiveness and economic growth.

According to international practice, the amount of resources determined by the current account (CA) and FDI, is associated with economic dynamics. This is because both CA and FDI are the resources generating a fast and direct[23] impact of the current economic environment (Figure 3). In V4 countries, FDI largely financed the CA deficit (mainly due to high import needs, as specified)[24]. Therefore, the positive significance of FDI for the V4 countries is also explained by the fact that they actually addressed the issue of very significant foreign trade deficits.

Poland



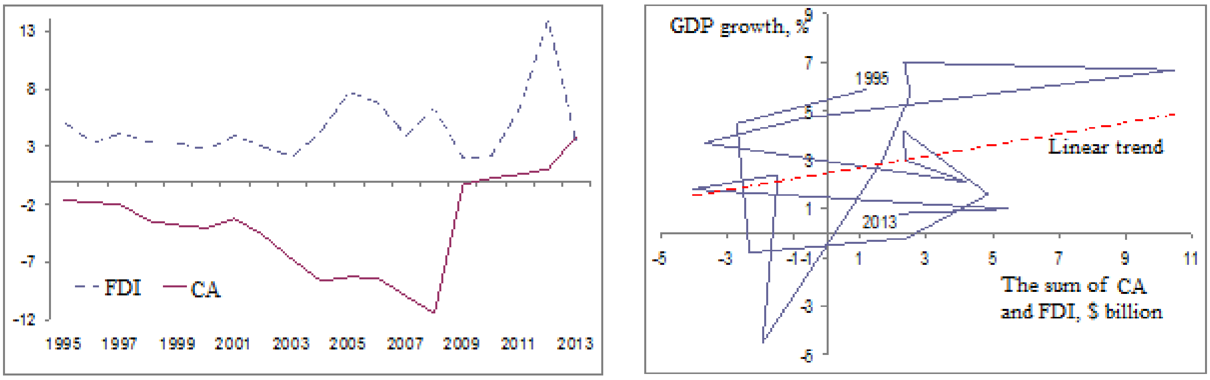
Slovakia



Hungary

[23] ... though in the system of national accounts FDI are classified as capital (not current) resources, but in the context of the growth sources, the specified "combination" is often in focus

[24] Only in Hungary FDI backlogged, the imports dynamics, and the country had to extend the debt financing.



Czech Republic

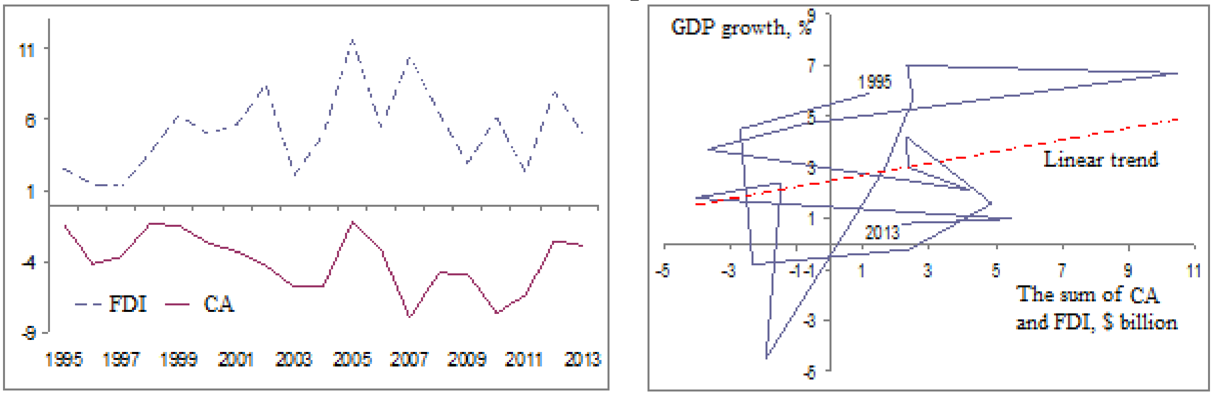


Fig. 3. FDI and CA (left column, $ bln.) and their inter-linkages with economic growth[25]

It should be mentioned that due to the inflow of investment and enhancement of competitiveness, the V4 countries already in the transformation period significantly increased both total exports and the volume of mutual trade. It was accelerated in the following years, during the so called "integration decade" (from the late 1990s' until the global economic crisis of 2008s'); the turnover, both with major trading partners, which is mainly Western Europe, and other regions of the world increased significantly. In 2004-2013, the V4 countries have increased their share of exports in world trade from 2.3% to 4.1% and increased the share of exports in trade with "old" member states (EU-15) from 4.5% to 7.3%[26].

Moreover, after EU accession, the bilateral trade growth rate was accelerated significantly, and the commodity turnover between V4 countries grew even faster than the commodity turnover

[25] Done by authors on the information basis of IMF World Economic Outlook, World Investment Reports (issues for various years).

[26] Eurostat - European Comission [electronic resource] - Access: http://ec.europa.eu/eurostat

between V4 countries and the "old" EU members, at a higher pace than in previous years[27] (Table 6). Obviously, the elimination of institutional, commercial and technical barriers and adoption of common EU standards for economic activity have played a crucial role in expansion of trade and enhancement of enterprises' competitiveness.

Table 6 **V4 MUTUAL TRADE, € million**[28]

	1999	2003	2007	Increase, the number of times
Poland-Hungary	992	2,012	5,877	5.9
Poland--Slovakia	848	1,697	4,870	5.7
Poland-Czech Republic	2,349	3,985	10,965	4.7
Hungary-Slovakia	691	1,689	5,436	7.9
Hungary-Czech Republic	787	1,764	5,425	6.9
Slovakia-Czech Republic	3,755	5,899	13,075	3.5

Before V4 countries' accession to the EU, there were precautions associated with the loss of industrial capacity and increase of labor intensity in the countries because of cheap labor. However, such fears proved groundless; the countries significantly broadened and strengthened their production and export potential, which, of course, was made possible by substantial FDI inflows and increase in production of competitive products with high added value.

Meanwhile, the share of raw commodity exports decreased significantly, while the countries managed to achieve remarkable success in increasing the share of exports of products with high added value, especially engineering (Table 7). The development of such production has become a priority of increasing the volume and improvement of export structure of V4 countries towards increase of the share of high-tech products (Table 8).

Moreover, FDI inflows substantially contributed to the rapid involvement of V4 countries' enterprises into European production networks. A greater proportion of V4 exports was generated

[27] *Hunya G.* Mutual trade and investment of the Visegrad countries before and after their EU accession / G. Hunya, S. Sándor Richter // Eastern Journal of European Studies - 2011, December. - Volume 2, Issue 2 - r.77-91; *Hornok C.* Trade enhancing EU Enlargement and the Resurgence of East-East Trade [electronic resource] / C. Hornok // Focus on European Economic Integration. - 2010 - Issue 3, №10 - p. 79-94 - Access: http://www.oenb.at/dms/oenb/Publikationen/Volkswir ... nok_tcm16-204836.pdf

[28] *Hunya G.* Mutual trade and investment of the Visegrad countries before and after their EU accession / G. Hunya, S. Sándor Richter // Eastern Journal of European Studies - 2011, December. - Volume 2, Issue 2 - r.77-91.

by structural divisions or subsidiaries of multinational corporations from developed countries of Europe and the world[29].

Table 7 **GOODS EXPORTS RESTRUCTURING IN V4, % OF TOTAL EXPORT[30]**

Country		**1994**	**1998**	**2004**	**2008**
Poland	Raw materials	4.7	3.0	2.6	2.2
	Machinery and transport equipment	19.8	29.6	38.8	41.4
Slovakia	Raw materials	5.1	3.8	2.8	2.3
	Machinery and transport equipment	19.0	39.4	45.8	54.0
Hungary	Raw materials	4.9	1.9	2.0	1.9
	Machinery and transport equipment	22.8	57.1	62.5	60.1
Czech Republic	Raw materials	6.9	3.7	2.6	2.6
	Machinery and transport equipment	24.5	43.2	51.6	53.6

Table 8 **HIGH-TECHNOLIGY EXPORTS IN THE V4, % OF MANUFACTURED EXPORTS [31]**

	1994	**1998**	**2008**
Poland	2	3	4
Slovakia	4	4	4
Hungary	5	21	23
Czech Republic	5	9	14

Foreign direct investment in the V4 countries was expanded not only due to the countries' accession to the EU, but rather due to the targeted institutional changes in terms of deepening of liberalization of the national investment regimes and use of an impressive arsenal of mechanisms and methods to stimulate FDI inflows (tab. 9). Besides, an important territorial form of FDI raising has become the technological and industrial parks, due to which the countries managed to launch a process of accelerated development of backlogged areas. At the same time, it is recognized that various preferences in the V4 countries played only a "local" role (in promoting specific sectors or regions), and the institutional strengthening (especially in terms of harmonizing the rules with EU

[29] *Hunya G.* Mutual trade and investment of the Visegrad countries before and after their EU accession / G. Hunya, S. Sándor Richter // Eastern Journal of European Studies - 2011, December. - Volume 2, Issue 2 - r.77-91.

[30] Compiled based on WIIW Handbook of Statistics // The Vienna Institute for International Economic Studies. - 2009 - p.406;

[31] The World Bank: Indicators [electronic resource] - Access: http://data.worldbank.org/indicator.

standards and requirements of the EU) of the general economic environment has a systemic significance.

Table 9 **V4 INVESTMENT ATTRACTION VEHICLES**[32]

Poland	**Fiscal incentives:** Income tax exemption in SEZ (taking into account the investor's costs for labor and investment), property tax exemption in SEZ (depending on the region), tax reduction on acquisition of new technologies and financing of research centers.
	Financial incentives are provided through: - EU structural Funds - mainly for development of science, technology, innovation and support of entrepreneurship and low carbon economy. - National Program of Investment Support, aimed at supporting the creation of new jobs and new investment[33].
Slovakia	**Fiscal incentives:** income tax exemption for 10 years.
	Financial incentives are provided through: - EU structural funds, to even out the regional disparities, develop the technological and scientific parks, information technology, and increase the share of "green" energy in the total energy consumption. - Financial support to create new jobs in areas where unemployment is above the national average. - Cost reduction of state/municipal property to the investor. Reimbursement of costs of land acquisition, technical equipment, appliances, intangible assets - licenses, know-how etc.
Hungary	**Fiscal incentives**: income tax reduction for up to 10 years after the investment by 80%[34].
	Financial incentives are provided through: - EU structural funds – to increase the employment, competition and international activity of the business environment, encourage R&D, energy efficiency. - Subsidies - to encourage the business cooperation with universities and research institutes. - Government VIP Subsidies: - for investments (investment of at least € 10 million) - to create new jobs (at least 250 in depressed regions, or at least 150 in micro-regions); - education, improvement of skills etc.
Czech Republic	**Fiscal incentives:** corporate tax exemption for up to 10 years for new companies; corporate tax partial exemption for 10 years for existing companies; R&D.
	Financial incentives are provided through: - EU structural funds - for the development of R&D and support. - Additional resources to create new jobs (up to € 7,300 for one), training and retraining[35].

[32] Compiled according to Taxation and Investment in Czech Republic 2014: Reach, relevance and reliability - Deloitte [electronic resource] - Access: http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-czechrepublicguide-2014.pdf; Investment Incentives - Polish Information and Foreign Investment Agency [electronic resource] - Access: http://www.paiz.gov.pl/governmental_grants;Invest in Slovakia - Slovak Investment and Trade Development Agency [Electronic resource] - Access:http://www.mzv.sk/App/WCM/ZU/taipeiseku/main.nsf/vw_ByID/ID_DF628447E0D55943C1257A600026E54B_SK/$File/Invest%20in%20Slovakia.pdf;Why invest in Hungary? Investment Guide Hungary 2014 - PWC [electronic resource] - Access: http://www.pwc.com/hu/hu/publications/investing-in-hungary/assets/investing_guide_en_2014.pdf

[33] To create one job in the biotechnology sector, aviation, automotive, electronics, science and technology, € 800-3,900 was allocated. The new investments are supported by the cost covering, from 2% to 12.5%, depending on the sector.

[34] The qualification for benefits is a certain level of investment (not less than € 100 mln, depending on the region), creation of the required number of jobs, spending a certain amount (not less than € 0.33 mln) in the environmental protection, R&D and information technology development projects etc.

	- Direct covering of capital investment costs in strategically important projects in industry and development of process centers (up to 5% of total costs). - Provision of land plots equipped with required infrastructure at favorable prices.

Economic strengthening of V4 countries was also assisted by inclusion of national investment flows into global ones. Before countries' accession to the EU, the capital flow showed mostly a "one-way" process; countries imported the capital actively at rather insignificant investment export volumes. After 2004, the V4 countries' economy began showing a new trend; the countries increasingly began to act as investors (and not just as FDI recipients)[36]. While in 2000, the total amount of FDI inflows exceeded the FDI outflows 20-30 times in Poland, Hungary, Czech Republic, in 2013 the said index decreased significantly and for every $ 3-5 of attracted investments these countries exported $ 1 (only in Slovakia the ratio of FDI inflow and outflow remained virtually unchanged, FDI imports exceeded exports 13-14 times) (Table 10).

Table 10 **ACCUMULATED FDI IN THE V4 COUNTRIES, $ MLN**[37]

	2000	**2013**	**2000**	**2013**	**2000**	**2013**
	inflow		outflow		inflow/outflow, times	
Poland	34,227	252,037	1,018	54,974	33.6	4.6
Slovakia	6,970	58,832	555	4,292	12.6	13.7
Hungary	22,870	111,015	1,280	39,613	17.9	2.8
Czech Republic	21,644	135,976	738	21,384	29.3	6.4

There is no doubt that the FDI expansion by V4 countries will continue to the other ascending markets. In this regard, Ukraine has a chance to become one of the leading recipients of FDI from V4 countries based on existing cross-border cooperation, skilled labor (which, due to the hryvnia devaluation collapse, has become much cheaper), and Euro-integrative orientation of foreign policy, thereby entering a new level of development and prosperity within a relatively short period, as indicated by experience.

[35] The coverage of 25% to 45% of total costs, provided the investment in areas where unemployment is 50% higher than the national average.

[36] At the end of 2013, the total amount invested overseas by V4 countries totaled $ 120.3 billion, i.e. about 1% of such investment in Europe in general.

[37] World Investment Report 2014: Investing in the SDGs: An Action Plan. [Electronic resource] - Access: http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf

Privatization Component of FDI Inflow Promotion

Along with liberalization of trade and prices, labor and capital markets, one of the major reforms in transformation of V4 economies was privatization, which was an important component of investment expansion. Successful privatization processes and investment expansion reinforce each other's effectiveness. Enterprises with foreign investment or enterprises owned mostly by foreigners usually are better nested in the international network, have better process equipment and employees with higher qualification, which allows them to maintain technological advantages (including through the use of the parent companies' resources) over the enterprises with national capital only.[38]

Certainly, each country used different methods of privatization, and the privatization processes and private sector developments featured significant differences. For example, in the Czech Republic and Slovakia the dominant "non-standard" method was voucher privatization (which, predictably, has to become a fast, effective and fair way of attracting private capital into the economy). In Poland, the private sector was formed through the creation of new companies and holding of the so-called "liquidation" privatization (sale of assets of state enterprises and their eventual closure). Hungary had mainly relief on direct marketing (which was due, as mentioned, to the need to finance the deficit of public finance and debt repayment) (Table 11).

Table 11 **SOME CHARACTERISTICS OF PRIVATIZATION MEASURES IN V4**

<table>
<tr><th>Country</th><th>Events</th></tr>
<tr><td>Poland</td><td>Privatization of the existing state enterprises through the state-organized sale of large facilities usually to foreign investors, less frequently to the national ones, and only in some cases to labor unions.
Preferential sale of companies to their staff through so-called "liquidation privatization".</td></tr>
<tr><td>Czech Republic</td><td rowspan="2">Restitution, i.e. property return to its original owner or its lawful heir.
Voucher privatization implies that a significant amount of state property is transferred to private hands not for money, and in exchange for vouchers. Development of closed-type investment funds organized according to the principle of joint stock companies accepting investment checks from owners and then investing them in the privatized enterprises.</td></tr>
<tr><td>Slovakia</td></tr>
<tr><td>Hungary</td><td>Privatization through joint ventures with attraction of foreign investment in small and medium enterprises.
"District privatization" is the creation of privatization institutions by the state, playing a major role in the privatization of large enterprises.</td></tr>
</table>

[38] Investment in Ukraine's economy: status, issues, and needs / A. Rachok, L. Shanghina, V. Yurchyshyn and others. // National Security and Defence. - 2006 – No. 6 - P. 3-52.

	"Secured" restitution, i.e. receipt by the former owners of nationalized companies of vouchers, which could have been used for the purchase of shares in privatized state enterprises or for the acquisition of public buildings or land.

Let's mention some privatization peculiarities in the Visegrad countries.[39] Thus, in Hungary, which desperately needed foreign currency to service the huge inherited external debt, attitude to foreign investment was more than favorable.[40] Contrary to expectations of takeover of the national economy by TNCs (and use of their resources for industries which the developed countries do not want to have in their territories, including the energy-intensive or harmful production), a share of the product, the production of which is based on unskilled labor, was considerably reduced in the Hungarian economy.

The Czech Republic chose a compromise. External debt was small, but its economic system was fairly centralized. Privatization in the country took place in two stages; about 350 large enterprises, in which the domestic and foreign investors showed interest, were sold individually; the other large and medium-sized enterprises have been privatized using the voucher method. However, the voucher patterns in developing countries feature a lack of transparent legislative framework regulating the capital markets, so the protection of shareholders' rights is weak, which has become an obstacle to foreign investment.

Despite a weak or inconsistent start in reforming the ownership structure, Slovakia has achieved a favorable outcome within a relatively short time, which was preceded by an active policy of the country in attracting FDI. Until 2000, the country was clearly inferior to its neighbors in terms of investment attractiveness. However, its investment situation then improved significantly, which provided a significant inflow of investment and high economic dynamics (today's GDP per capita in Slovakia makes it a leader in V4).

Poland's experience is different. An important role in the expansion of transformation processes and FDI attraction to the country was played by provision of extensive rights to the regions. They were delegated to determine the successful bidders, sign contracts, and monitor the

[39] Investment in Ukraine's economy: status, issues, and needs / A. Rachok, L. Shanghina, V. Yurchyshyn and others. // National Security and Defence. - 2006 – No. 6 - P. 3-52.

[40] The state was trying to sell the large state-owned enterprises to foreign investors, and the services sector was quickly opened to privatization and the entry of foreign companies.

conditions and due dates of liabilities. Also, the cooperation of regional authorities with major commercial banks, including the exchange of information on the newly created companies, was recognized as successful. This, in turn, contributed to the creation of strong investment institutions in the Polish regions.

In general, the V4 countries clearly show a positive correlation between FDI inflow and privatization success. Thus, FDI was channeled to the economic environment of a rapidly growing private sector, including through deregulation, privatization and monopolization. As a result, productivity is increased, commodity structure improved, export position strengthened, firm long-term growth is ensured, and foreign trade deficit financed etc.

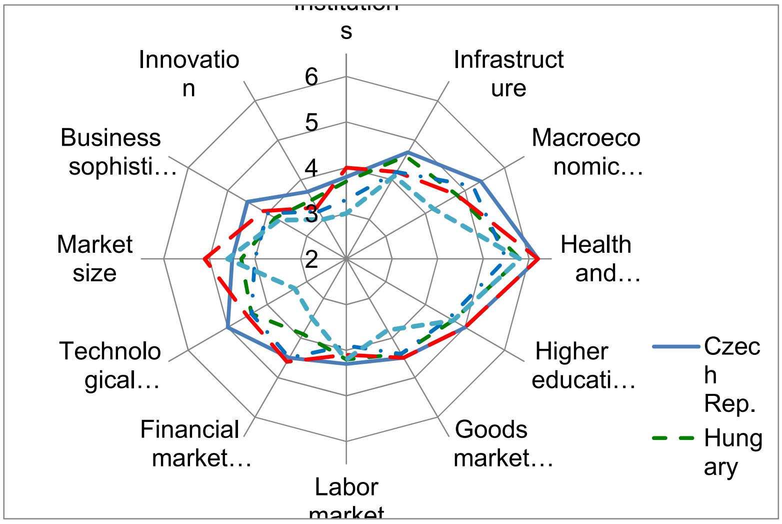
As regards Ukraine, unfortunately, the view is still prevalent that arrival of foreign investors will entail a "sellout of the country." This only shows that the country still lacks a constructive privatization policy able to take into account the European vector of the country, the balance of national state interests, private sector and potential investors.

Some Conclusions and Challenges for Ukraine

In the early 2000's, the EU expressed concern that the new countries that were to join the EU would weaken Europe's position in the global economy. However, the reforms, despite the fact that they were somewhat painful, activated the economic growth, formed a new production niche, and launched the inclusion of competitive industries in the global network. Foreign direct investment has become one of the major factors and components ensuring the creation of modern export-oriented globally competitive integrated production in V4 countries.

There is no doubt that the policy of attracting investment can become the basis for Ukraine's economic policy in general. However, the country still delays the most important changes, which would really convince national and international investors of the feasibility of entering the economic space of Ukraine.

The most noteworthy are components of the Global Competitiveness rating (Fig. 4). Ukraine substantially loses (has the lowest rank) to the Visegrad countries in existing institutions (rules of the game), macroeconomic conditions, commodity market efficiency, technological readiness and innovation.



Ranking: 1 (lowest) - 7 (highest).

Fig. 4. Assessment of the Global Competitiveness index key indicators[41]

The results and implications of the investment expansion of V4 countries are more than strictly positive, but still determine the challenges for Ukraine (overcoming them is a precondition for formation of modern competitive economy)[42]:

- active open policy of FDI attraction contributes to increased exports and production with high added value (at the same time, special incentives to foreign investors misbalance the investment environment and worsen the conditions for formation of a transparent investment policy);

[41] The Global Competitiveness Report 2014 - World Ecomomic Forum [electronic resource] - Access: http://www.weforum.org/reports/global-competitiveness-report-2014-2015.

[42] See, in particular, Investment in Ukraine's economy: status, issues, and needs / A. Rachok, L. Shanghina, V. Yurchyshyn and others. // National Security and Defence. - 2006 – No. 6 - P. 3-52.

- privatization of large state-owned enterprises with involvement of foreign investors, although it requires more time and effort, obviously is the most effective way to attract investment resources and use the same efficiently;

- investment inflow, accompanied by economic growth, itself becomes a factor for further investment promotion; while the primary factors of high attractiveness for FDI were the privatization process, subsequently, provided that the volume and structure of FDI reach a certain "critical mass" (share and place of investors in the national economy), the investment process successfully continues without particular reference to privatization, using the internal tools, including through capital market;

- even relatively high but stable taxes and rising labor costs are no longer essential to investment decisions;

- political uncertainty causes investors to postpone strategic decisions;

- privatization of strategic enterprises, including the service sector (banks, insurance and telecommunications) with a full admission of foreign investors creates an investment environment, and stimulates FDI inflow in other sectors of the economy, while maintaining the foreign trade balance;

- active position of the regional power, its interest in distribution of privatization processes and formation of private ownership institute, as well as its willingness to cooperate with investors is an important factor in the favorable investment expansion.

The above requirements and challenges point to significant opportunities for investment expansion of Ukraine provided there is a creation of a decent business environment in the country and a search for active forms of cooperation with potential investors.

In conclusion, we emphasize that the main economic benefits obtained by the V4 countries after EU accession, which are also available to Ukraine after signing of the Association Agreement with the EU (subject to its performance) is the support of investment, enhanced process support of production and management, reduction of government spending, as well as improvement of efficiency and quality of innovation.

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