

DOI 10.36074/09.10.2020.v1.03

ATTRACTING FOREIGN DIRECT INVESTMENT FROM FRANCE INTO THE ECONOMY OF UKRAINE: SECTORIAL DISTRIBUTION ANALYSIS AND PROSPECTS OF COOPERATION

ORCID ID: 0000-0002-9336-0202

Mariia Yaremenko

Fourth year student

Simon Kuznets Kharkiv National University of Economics

SCIENTIFIC ADVISER:

ORCID ID: 0000-0002-7751-585X

Kateryna Velychko

Phd in Economics, Associate Professor,

Department of international economics and foreign economic management

Simon Kuznets Kharkiv National University of Economics

UKRAINE

Formulation of the problem. Today Ukraine is at the stage of actively building relations with the EU, and, in this context, is actively pursuing a European integration direction in foreign policy priorities. From this point of view, France is an important and reliable trade partner of Ukraine and one of the leading investors in the economy of our country. The development of bilateral relations with France is carried out according to the national interests of Ukraine, based on the geopolitical location of the countries and the desire for a fuller economic integration into European structures. Immediately after Ukraine gained independence in 1991, the state began a deep work aimed at building close and strategic relations with leading countries, including France, as part of the EU.

The aspects of French-Ukrainian economic relations were studied by G. Hardy-Francon, A. Diaby, M. de Vergès and others. The role of foreign direct investments into the economy of Ukraine was studied by K. Shtepenko, O. Polonya, V. Koulich, M. Makarenko, G. Sydor and other scientists.

The purpose of this article is to analyze the investment cooperation of Ukraine and France and to justify the benefits for both sides in strengthening it. Promising directions for the development of French-Ukrainian economic relations are to be analyzed.

Results. The first document which confirms the intentions was the Protocol on the Establishment of Diplomatic Relations between Ukraine and the French Republic signed on the 24th of January 1992 in Kyiv. [1] The document points out a mutual desire to develop partnerships and cooperation in political, economic, cultural, humanitarian and other fields. Since then, a handful of other agreements, conventions, memorandums and protocols have been signed to facilitate and deepen the bilateral relations.

It should be admitted that France and the EU as a whole contributed at a large scale to the revival of Ukrainian economy through the periods of financial crisis in 2008-2009 and the armed conflict on its territory started in 2014.

The new push has been given by the Ukraine–European Union Association Agreement, which came into force on the 1st of September 2017. The economic part

of the agreement covers all major areas and sectors of the domestic economy, demonstrating the desire of the parties not only to take cooperation to a qualitatively new level, but also to significantly bring Ukraine's economic system closer to the EU system on the basis of mutual liberalization on trade.

Today France characterizes Ukraine as a country which confirms that it has overcome the crisis and is currently on the road of all-embracing reforms. Having a strong potential right at the door of the EU, Ukraine is considered as a perspective trade partner for exporting French goods and services. [2]

The cooperation between two countries would be incomplete without investments. That being the case, it is necessary to analyze the volumes and variety of foreign direct investment (FDI) from France to Ukraine firstly, and then the reverse flows.

Ukraine is a country that attracts foreign capital, because it has a number of factors that confirm its investment attractiveness: favorable geopolitical location, high level of natural resource base, relatively cheap skilled labor, large consumer market. Indeed, the need to attract FDI is due to lack of internal resources and savings, lack of management experience, lack of modern technologies and know-how, a long period of decline in domestic production, lack of resources for modernization, as well as the desire to access foreign markets. [3]

As it may be seen from the figure 1, the FDI to Ukraine is steeply but constantly increasing each year, having reached 5860,41 million US\$ in 2019. Even in 3 years the main state-investors have changed. The top is now presided over by Cyprus due to many offshore companies from Ukraine residing there.

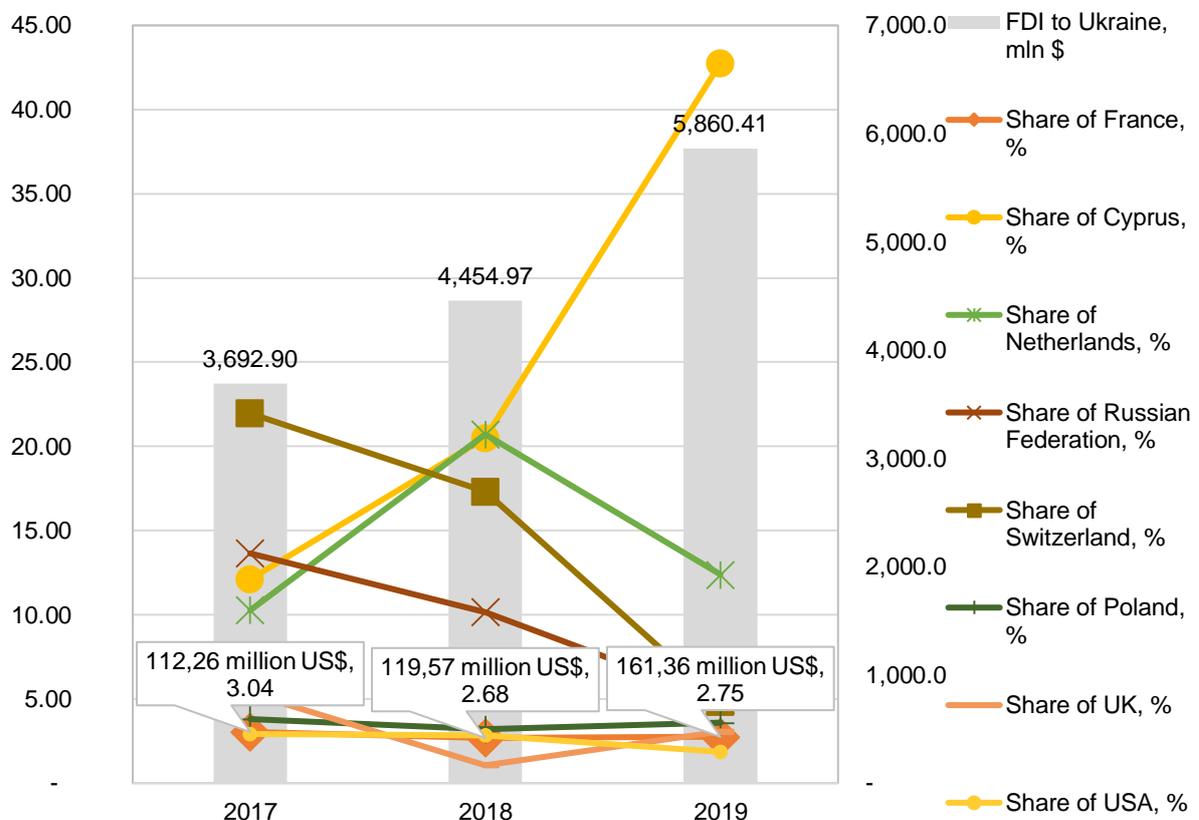


Fig. 1. FDI to Ukraine from main trade partners in contrast to the total value of FDI (2017-2019). Made by author according to [4]

Conversely, the French share in FDI is stable throughout the analyzed period. Its value is fluctuating, being 112,26 million US\$ in 2017, 119,57 million US\$ in 2018 and 161,36 million US\$ in 2019, equivalent to 3,04%, 2,68% and 2,75% respectively. In 2019 France was the 9th top investor in Ukraine, alongside with the UK on the 8th and Austria on the 10th. Actually, the cooperation of business entities from France and Ukraine started far in 1994. Since then, the FDI has grown 187 times in volume.

Ukraine is significantly interested in investment from this EU state, as it is the instrument for bringing in advanced technologies and innovations, modern management, marketing and production organization methods as well as the way of facilitating reproductive relations with the EU. Moreover, investments are a powerful tool to diversify exports pattern, because it contributes to expanding the range of finished commodities export (machinery and equipment firstly), which is now a priority of Ukraine's foreign trade.

According to France's officials, Ukraine might be described as "the country with a strong potential at the door of the EU". Not surprisingly, it constantly monitors the political situation as well as the economic indicators. After the Revolution of Dignity in 2013, Ukraine has taken the course on decentralization, which enhances better governance efficiency (separation of local powers and government), better quality of service and finally a higher level of competitiveness of the regions. Although there were hard times for Ukrainian economy, it has recovered – since 2016 the GDP is incessantly growing, and the World Bank forecasts 3.4% of growth for 2020 and 3.7% in 2021. [5]

France recognizes numerous positive aspects, which ensure the economic attractiveness of Ukraine in terms of perspective cooperation of states. Firstly, it possesses an extremely favorable logistic position on the confluence of important transport flows, being located at the geographical center of Europe. Moreover, the government is making efforts to improve road infrastructure. Secondly, the labor force in Ukraine is relatively cheap, especially bearing in mind people's intelligence and education, so it has already become R&D destination for many international companies and a European IT outsourcing hub. Hence it becomes investment attractive for France based companies to open branches and enter on the market in Ukraine. [6] Thirdly, there are certain distinct sectors, where France could make profits considering its specialization. These are the pharmaceutical sphere (well-known for French quality and Ukraine tends to import far more than produce itself), energy industry (after the cease of dual dependence from Russia, EU has become the first strategic partner; this is proved by the signature of Ukraine–EU Association Agreement and France is recognized for its achievements in nuclear power) and agriculture (has a long agrarian tradition and being one of the world's leading exporters of agricultural products, Ukrainian agrosector seeks modernization and renovation with a high possibility to give fruitful results due to the fertile soil and the large share of workforce employed there).

It is worth mentioning, that the arrival to the service of the new president in 2020 promises clear changes in terms of economic and social reforms, the fight against corruption and the armed conflict resolution on the East of Ukraine.

To illustrate, the figure 2 presents the sectorial distribution of France's investments to Ukrainian economy.

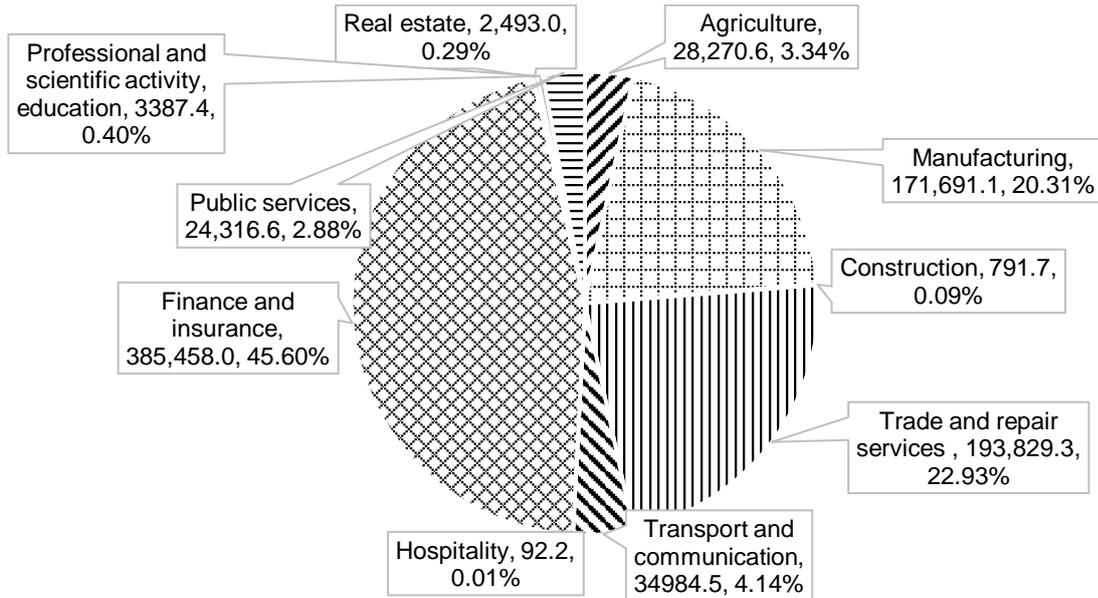


Fig. 2. Sectorial Distribution of France's Outward FDI in Ukraine (as of 31.12.2019), hundred US\$. Made by author according to [7]

It becomes clear from the graph above, that the majority of French investments comes to finance and insurance sector (45,6%). This fact is easily explained by the vast presence of grand financial structures. The French financial group BNP Paribas owns 51% of Uksibbank; Crédit Agricole SA is the owner of the Ukrainian Index Bank; Société Générale owns ProstoFinance Bank as well as Icarus Bank. In insurance domain the big French AXA insurance company is one of the leaders in risk insurance market in Ukraine. [3]

The next large sector of French investments is trade and repair services (22,93%). It is proved by the presence of such retail companies as Leroy Merlin, Decathlon, Royal Canin, Auchan (acknowledged as the largest foreign employer of 2019 in Ukraine) and others. [8]

The manufacturing is represented by companies in various spheres and amounted up to 20,31% of FDI in 2019. For example, Danone Group of Companies is a world leader in dairy production, baby food and mineral water. The Group's portfolio includes such brands produced in Ukraine as Activia, Actimel, Actual, Danissimo, Alpro, Nutrilon, Malipu and others. [9]

In 2018 Alstom, one of the world leaders in the production of railway rolling stock, opened its representative office in Kiev. Alstom's main objectives of settling down in Ukraine are liaising with the main Ukrainian stakeholders in the economy and railways in order to identify the needs of the local rail market, propose appropriate transport solutions and consider potential partnerships in the country. By agreement of French and Ukrainian sides, by the end of 2025 Ukrainian railways should receive the first 110 locomotives with an electric motor of Alstom. The possibility of joint production is being actively discussed, with propositions to locate it on the base of factories in Lviv or Zaporizhzhia.

Despite the fact that agriculture does not constitute a large share in France's investments yet, countries consider this sphere a highly perspective, because both states are worldwide known as agricultural leaders. French companies have a strong presence in the seed and grain production sector in Ukraine. Companies such as Euralis, Mais-Adour, Soufflet, and Malteurop have their own production facilities and are influential players in the domestic grain market. Bilateral cooperation in the

agricultural sector is facilitated by the activities of the Ukrainian-French Agricultural Club, which, in particular, encourages and helps the arrival of new investors in the industry. France is ready to assist Ukraine in implementing a system of certification of agricultural products in accordance with EU standards, as well as to share experience in the fields of genetics and biotechnology. In 2018 the parties discussed the perspectives of joint cooperation on a common meteorological cluster to help farmers. It aims to involve the latest technologies in the processing of meteorological data. [10]

It is worth taking into consideration the opportunities for bilateral cooperation in the fields of nuclear energy and nuclear safety, which are highly developed in France. As Ukraine plans to increase the capacity of nuclear power plants, the urgent tasks are the construction of new power units, extension of the service life of existing facilities, as well as the development of uranium ore deposits. In all these areas, cooperation with such French companies as AREVA, EDF is promising. [9]

The work of the joint Ukrainian-French intergovernmental commission on economic cooperation contributes to the deepening of Ukrainian-French economic cooperation. Founded in 1997, it has already hosted seven meaningful meetings of work groups on agriculture, manufacturing, energetics, transport and other fields of cooperation with the last one in October 2018. [11] The question on signing an agreement with French “Buigues Travaux Publics” on the strategic road construction was actively discussed. Due to the Covid-19 pandemics, the parties were obliged to postpone the next meeting of the commission planned for March 2020, the rearranged one is to be held shortly by the end of 2020.

In 2018, Ukraine and France concluded a landmark agreement valued at 550 million euros for the purchase of 55 Airbus helicopters for use by the Ukrainian police, border guards and emergency services. This has marked an extremely important vector of cooperation between states, as Airbus is a strategic company for France, moreover, the other EU countries are contributing to the production of helicopters and planes.

In order to promote the cooperation of France and Ukraine new organizations emerged. Founded in 1994, the Franco-Ukrainian Chamber of Commerce works on the activation of the French business community of companies wishing to export, develop or locate in Ukraine. Today, the Association counts more than 120 French and Ukrainian companies united by common interests. The number of members is constantly growing, in 2019 they accepted 21 companies more than in 2018. The main objectives that the CCI fixes are: promoting the development of commercial relations between France and Ukraine; organization of regular events; representation and protection of the professional interests of French companies in Ukraine; providing support services to companies like partner search and market entry assistance; improving the image of the French economic presence in Ukraine. [12] CCI tries to achieve these goals by organizing various events for the business communities. Thereby, in 2019 it has held conferences, round tables, cultural events, work groups, forum of recruitment and other events for its members – international companies, medium size companies, SMEs and individual entrepreneurs.

The other institution established by France and working actively on the strengthening of relations with Ukraine is BusinessFrance (French Agency for International Enterprise Development) which is an economic mission executing under the control of the French Embassy in Ukraine. Having its own global network of employees designed to support the export activities of small and medium-sized businesses in France, it offers its services in the field of development and support of

French exports to Ukraine, because it promotes the entry of small and medium-sized businesses from France into the Ukrainian market and helps French companies that want to do business in Ukraine to choose the appropriate development strategy. Moreover, BusinessFrance organizes an annual event “Rencontres Ukraine” in Paris, which aims to provide an updated and comprehensive overview of the political and economic situation in Ukraine, the climate and business opportunities. [13] Therefore, the potential business partners have the opportunity to encounter each other and discuss the ways of cooperating during the sectoral round tables: innovation, industry-infrastructure-transport-energy, health-pharmacy, parapharmacy-cosmetics.

With every year Ukraine becomes more attractive in terms of foreign investments. This is proved by the ranking Doing Business, renewed each year by the World Bank. In 2020 edition Ukraine jumped seven steps up comparing to the previous year. 64th place - so high the country has never risen. [14]

According to the National Bank of Ukraine, it also invests in France’s economy. However, the volumes of these FDIs are extremely low: during the last five years (2015-2019) they have never exceeded 0,2 million US\$. Ukraine always tends to invest in such sectors as trade and repair services, real estate, professional and scientific activity, education. [7] We can assume that these investments are made up by the Ukrainian citizens willing to settle in France by buying real estate there or by expanding their trade business network to the French public. The education share may be due to the cooperation between countries’ universities or Ukrainian student emigration, which is expanding annually.

Conclusions. Having analyzed the investments flows, we have come to a conclusion that the level of economic cooperation between Ukraine and France is quite high. The potential of Ukraine for France is enormous as well as Ukraine recognizes prospects in this direction. Notably it concerns the modernization of main industries and involvement of French FDI in a long-term basis. In general, given the growing expansion of French companies in the national market, where such enterprises as Louis Dreyfus, Mas Seeds, Maisadour (agriculture), Auchan, Leroy Merlin (trade), Danone, Lactalis, Belle (food production), RTE, Engie, Total Eren (energy), and Imerys, Veralia (industrial goods) are already actively functioning, it is extremely important for the growth of international trade and FDI to create a favorable investment environment by reducing the fiscal burden, simplifying customs procedures for foreign companies, as well as involving French enterprises in privatization processes.

References:

- [1] Verkhovna Rada of Ukraine. (1992). *Protocol on the Establishment of Diplomatic Relations between Ukraine and the French Republic*. Kyiv. Retrieved from https://zakon.rada.gov.ua/laws/show/250_002#Text
- [2] *L'Ukraine, un pays à fort potentiel aux portes de l'UE*. Businessfrance.fr. (2019). Retrieved from https://www.businessfrance.fr/ukraine_aux_portes_de_lue#.
- [3] Diaby, A. (2015). Modern scales and structural dimensions of investment cooperation between Ukraine and France. *Scientific Bulletin Of Kherson State University. Series «Economic Sciences»*, (13), p. 23-27. Retrieved from http://www.ej.kherson.ua/journal/economic_13/economic_13_2.pdf#page=23.
- [4] *Data*. National Bank of Ukraine. Retrieved from <https://bank.gov.ua/en/statistic/sector-external/data-sector-external>.
- [5] *Cadrage général - indicateurs et conjoncture - UKRAINE* | Direction générale du Trésor. [tresor.economie.gouv.fr](https://www.tresor.economie.gouv.fr/Pays/UA/cadrage-general-indicateurs-et-conjoncture). (2019). Retrieved from <https://www.tresor.economie.gouv.fr/Pays/UA/cadrage-general-indicateurs-et-conjoncture>.
- [6] *France - Bilateral trade and economic cooperation between Ukraine and France*. France.mfa.gov.ua. (2020). Retrieved from <https://france.mfa.gov.ua/spivrobitnictvo/289-torgovelyno-jekonomichne-spivrobitnictvo->

- mizh-ukrajinoju-ta-francijeju.
- [7] State Statistics Service of Ukraine. Ukrstat.gov.ua. Retrieved from <http://www.ukrstat.gov.ua>.
- [8] Hardy-Françon, G. (2019). *Many French businesses open, expand in Ukraine*. KyivPost. Retrieved from <https://www.kyivpost.com/world-in-ukraine-france/many-french-businesses-open-expand-in-ukraine.html?cn-reloaded=1&cn-reloaded=1>.
- [9] "State and prospects of development of relations between Ukraine and France". *Analytical note*. National Institute for Strategic Studies. (2010). Retrieved from <https://niss.gov.ua/doslidzhennya/mizhnarodni-vidnosini/stan-ta-perspektivi-rozvitku-vidnosin-ukraini-ta-francii>.
- [10] de Vergès, M. (2016). *French business in Ukraine: Developments and prospects*. 112.international. Retrieved from <https://112.international/article/french-companies-in-ukraine-developments-and-prospects-10613.html>.
- [11] *Information on the activities of the Joint Ukrainian-French Intergovernmental Commission on Economic Cooperation*. Me.gov.ua. Retrieved from <https://www.me.gov.ua/Documents/Detail?lang=uk-UA&isSpecial=True&id=fa2ba585-20f6-4478-8977-186badddbc15&title=Frantsiia>.
- [12] *Missions*. CCI FRANCO UKRAINIENNE. Retrieved from <https://www.ccifu.com.ua/chambre/missions.html>.
- [13] *Rencontres Ukraine*. BusinessFrance. (2019). Retrieved from <https://events-export.businessfrance.fr/rencontres-ukraine/>.
- [14] Rankings. Doing business. The World Bank. Retrieved from <https://www.doingbusiness.org/en/rankings>
-