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INVESTMENT SECURITY OF UKRAINE: DYNAMICS AND FORECAST

The article considers dichotomy of the notion of security in its terminological application to investment processes. The author uses comparison and critical analysis of existing generally accepted approaches for offering own definition of the "investment security" notion and own approach to its assessment, based on structural consideration of investment security through components of the investment climate (investment potential, investment activity, investment risks) and on application of the cluster analysis and rating. The article considers dynamics of investment security of Ukraine. It graphically traces influence of the state policy in the country upon dynamics of investment security and gives a forecast of development of the phenomenon for the next year.

Key words: assessment, security, investment security, dynamics.

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ІНВЕСТИЦІЙНА БЕЗПЕКА УКРАЇНИ: ДИНАМІКА ТА ПРОГНОЗ

Розглядається дихотомія поняття безпеки у її термінологічному застосуванні до інвестиційних процесів. На основі порівняння і критичного аналізу існуючих загальноприйнятих підходів запропоновано авторське визначення поняття «інвестиційна безпека» та авторський підхід до її оцінки, який базується на структурному розгляді інвестиційної безпеки через складові інвестиційного клімату (інвестиційний потенціал, інвестиційна активність, інвестиційні ризики) та на застосуванні кластерного аналізу і рейтингування. Розглянуто динаміку інвестиційної безпеки України. Графічно прослідковано вплив урядової політики в країні на динаміку інвестиційної безпеки. Зроблено прогноз розвитку явища на найближчий рік.

Ключові слова: оцінка, безпека, інвестиційна безпека, динаміка

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ИНВЕСТИЦИОННАЯ БЕЗОПАСНОСТЬ УКРАИНЫ: ДИНАМИКА И ПРОГНОЗ

Рассматривается дихотомия понятия безопасности в ее терминологическом применении к инвестиционным процессам. На основе сравнения и критического анализа существующих общепринятых подходов предложено авторское определение понятия «инвестиционная безопасность» и авторский подход к ее оценке, основанный на структурном рассмотрении инвестиционной безопасности через составляющие инвестиционного климата (инвестиционный потенциал, инвестиционная активность, инвестиционные риски) и на применении кластерного анализа и рейтингования. Рассмотрена динамика инвестиционной безопасности Украины. Графически прослежено влияние правительственной политики в стране на динамику инвестиционной безопасности. Сделан прогноз развития явления на ближайший год.

Ключевые слова: оценка, безопасность, инвестиционная безопасность, динамика

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Introduction. Today, under the impact of objective circumstances the priority place in the system of economic security is occupied by factors of the investment security, which can provide resources for radical modernization of the economy.

Many scientists repeatedly addressed to the concept of «investment security». One of the first scientists, who considered this concept, was O. Baranowskiy: the investment security is achieving of such level of investments, which optimally meet current investment needs of the national economy in terms of structure and taking into account the effective use and return of funds invested. He considered the investment security as the optimal ratio between the size of domestic and

foreign investments for maintaining the national balance of payments surplus [9]. Despite the superficial simplicity, there are still no exact frames and terminological forms for the investment safety as a component of the economic security [6–8; 10; 13; 15]. There is still an open discourse: what is the most appropriate term for «investing» – safety or security.

So **the aim of the paper** is first of all to clear the terminology for investing component of the economic security and to analyse current dynamics of investment safety with further forecasting.

Investment safety: categorical approach. We attempted to build our logic scheme of definitions from the simple to complex, from the small to large. Thus, there is broadly used

definition of security – the degree of protection to safeguard a nation, union of nations, persons or person against danger, damage, loss, and crime [5]. The Institute for Security and Open Methodologies (ISECOM) defines security as «a form of protection where a separation is created between the assets and the threat» [2]. This includes but is not limited to the elimination of either the asset or the threat [3]. As well, there is broadly used definition of safety – the state of being “safe”, the condition of being protected against physical, social, spiritual, financial, political, emotional, occupational, psychological, educational or other types or consequences of failure, damage, error, accidents, harm or any other event which could be considered non-desirable [4]. So we can rephrase latter definitions:

- **security** is the process or means, physical or human, of delaying, preventing, and otherwise protecting against external or internal, defects, dangers, loss, criminals, and other individuals or actions that threaten, hinder or destroy an organization’s “steady state” and deprive it of its intended purpose for being;
- **safety** is the condition of a «steady state» of an organization or place doing what it is supposed to do.

Using this generic definition of safety it is possible to specify the elements of a security program. That gives us ability to surely put the arrow: safety → security. Thereby, to bind term safety (but not security) to the investing process. So through the terminological analysis we came to the thesis: the investment safety is a factor in ensuring of the economic security.

Widely spread is the definition of the **investment secure component of the state** – the level of correlation between the export volume of investments abroad and received investments that meets the needs of the domestic economy and maintains a positive balance of payments [10]. We propose shorter and more exact definition following from the latter analysis: the investment safety is a normative concept. It complies with situation-specific definitions of what is expected and acceptable. Investment safety can be limited in relation to some guarantee or a standard of insurance to the quality and unharmed function of an object, organization or state. The investment safety (IS)– we propose to consider as an investment potential of the state – the level of ability to attract investments and the level of socio-economic development of the state under the influence of investment inflows. So, IS can also be defined as the control of recognized hazards to achieve an acceptable level of investment risk (as for an investor, as for a recipient).

Assessment of the investment safety. Before the assessment of IS, it is necessary to understand what are investment safety indicators. In line, it should be clear the interpretation of such concepts as optimal, threshold and limit value of the IS indicators. The threshold ratio of IS indicator is a warning tool alarming about future security threat. It should be noted that the earlier threats or potential approach towards them will be identified, the better will be identified and implemented measures to prevent their negative impact.

At present, there are two basic approaches to determine the level of security:

- the indicative, based on the definition of limit values of IS indicators;
- the evaluation of hazards threats (call it structured method).

However methodological development and definition of limit and thresholds fields of IS is very weak, and an assessment technique is not diverse in means. All these methods are based on a comprehensive analysis of indicators of economic security with the identification of potential threats; they are used for the integrated assessment of IS with further expert mark of threshold limit. In particular, common to the most methods is the selection of the following parameters:

- investments in fixed assets (ratio to GDP);
- foreign direct investment (ratio to GDP);
- the share of FDI in total investment;
- the net increase in FDI (ratio to GDP).

The demonstrative examples of latter said are:

- InVenture method (Investment Security Index): assess of the state of the IS, namely, the level of stability of the economic system to attract and to domesticate investments aimed at providing expanded reproduction, rational restructuring and technological upgrading of the economy; based on an assessment of 23 indicators that characterize the investment activity, investment climate, economic development level, investment risk and investor expectations [1];
- methodology of assessment of the level of economic security of Ukraine: “investment security” can be defined as a level of domestic and foreign investments (supposing their optimal ratio), which is able to provide long-term positive economic dynamics at the appropriate level of R&D sector, the creation of appropriate innovative infrastructure and innovative mechanism [11].

Based on the latter said, we propose the most exact method of IS assessment that can help to apply the best governing practice for transferring through the increasing of investing to the enhancing of the investment safety and, thus, to move to more strong economic security of the state.

Fully clear, that IS of the host country is constantly under the influence of transformations and changes. IS assessment through the assessment of the investment climate, in fact, is a market instrument for optimizing the flow of capital, based on certain well-defined set of indicators that are analyzed. Taking in account proposed latter definition for IS, here we propose to define the category “investment climate”(IC) – as a system of investment relations, which are shaped under the impact of wide range of interrelated processes of economic, political, social, psychological, innovative, infrastructural, regulatoric, environmental, criminal nature. This generally is reflected:

- as objectively existing capacity of the state (region, industry, enterprise) for investing activity (defined as investment potential (IP));
- as the level of expected return and challenges for investments in the object (investee) (defined as investment risks (IR));
- as existing investment processes in the state (defined as investment activity (IA)).

So we can consider such function: $IS = f(IC) = f(IP, IR, IA)$, and using cluster analysis and rating technique will give the most objective assess of this function [14–15].

Dynamics of the investment safety. Any assessment technique has the aim to give us one line graph for better and clear picture what is happening in the field with further ability to develop analytical conclusions and remarks. The most interesting and novel is not only to compare and to analyse the dynamics of IS trend on the ratio to the threshold line, but to consider during what governing period the increasing/decreasing of IS was happened. It could be rather helpful in building fu-

ture government policy and political conclusions of experts. So if to analyze the dynamics of IS for the case of Ukraine (for the correct, non-subjective conclusions, estimations were made on the base of broadly used in Ukraine method [11]):

$$Lis = I/GDP * 100\%$$

I – sum of capital investments and FDI;

marginal value $Lis \geq 19-25\%$. We can see the general decreasing tendency (fig. 1) – the weakening of the state’s investment safety. However the government changed the tendency that is good signal for the economy – flexibility of the investment activity to the governing technique.

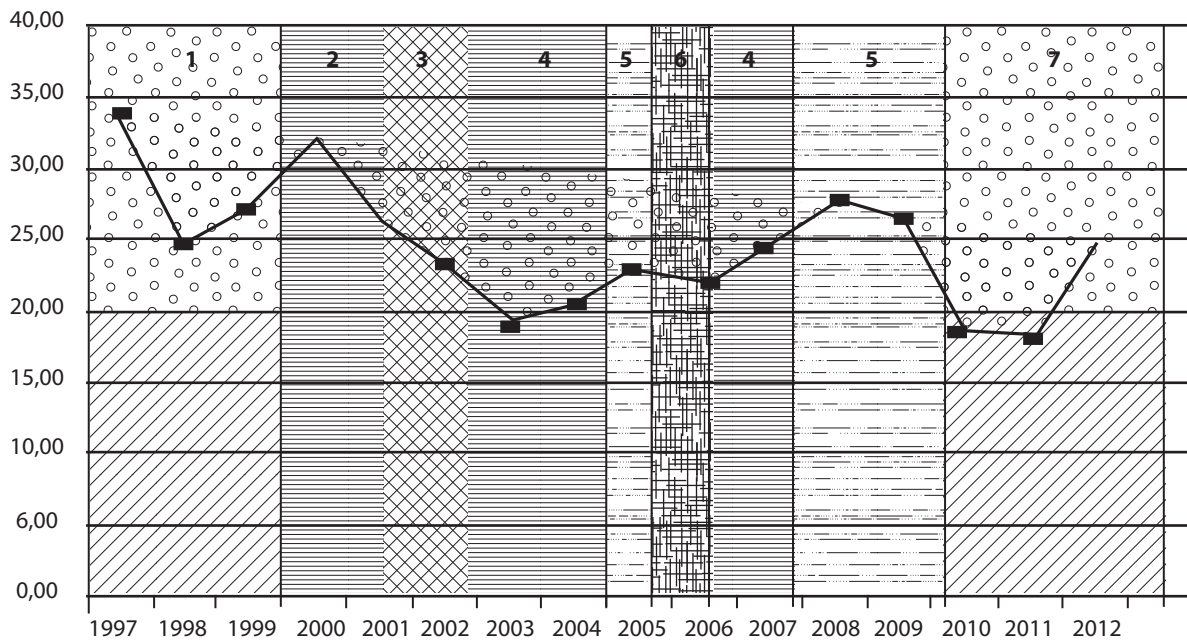


Fig 1. IS level for Ukraine (Lis) %, where the margin line – 19% – red zone,

1 – Pustovoitenko’s government (16/07/97-22/12/99), 2 – Yushchenko’s government (22/2/99-29/05/01), 3 – Kinakh’s government (29/05/01-21/11/02), 4 – Yanukovych’s government (21/11/02-5/01/05; 4/08/06-18/12/07), 5 – Timoshenko’s government (4/02/05-8/09/05; 18/12/07-3/03/10), 6 – Yekhanurov’s government (22/09/05-4/08/06), 7 – Azarov’s government (11/03/10-till now). Data source: [12]

It should be noted that the economic indicators and, accordingly, IS is the real statistics of the economy that more fully characterize the real phenomenon and trends in the economic sphere.

If to move from the estimated indicator to the initial statistics, considered case of Ukraine shows that trend dynamic of foreign direct investments (FDI) has the increasing tendency over the years 1995–2012 (fig. 2), but the increase of the investment indicator is mostly not linear, but a curve like polynomial or exponential one.

This tendency supposed to continue in 2014 as the forecast shows (fig.3), under current model conditions.

Even slight look on the graphs gives the opinion about the co-development and coincide of the investment safety in-

dicators’ dynamic (as assessment indicator as statistics of real inward). However we can consider some lag in the reaction. We assume arguing that the FDI inward statistics considered above is not enough for the description of the investment safety in its complexity, but, in any case, it gives us surely enough evidence to put the hypothesis: the investment safety is forecasted to strengthen in future a few years under current trends.

Conclusion. An important issue of modern investment process is to ensure its safety. Therefore, analysis of the investment safety is an important stage in the detection and evaluation of the investment activities in the state. Thus, the investment component of the economic security determines the initial conditions for the development of investment policy, on the one hand, and it’s result – on the other.

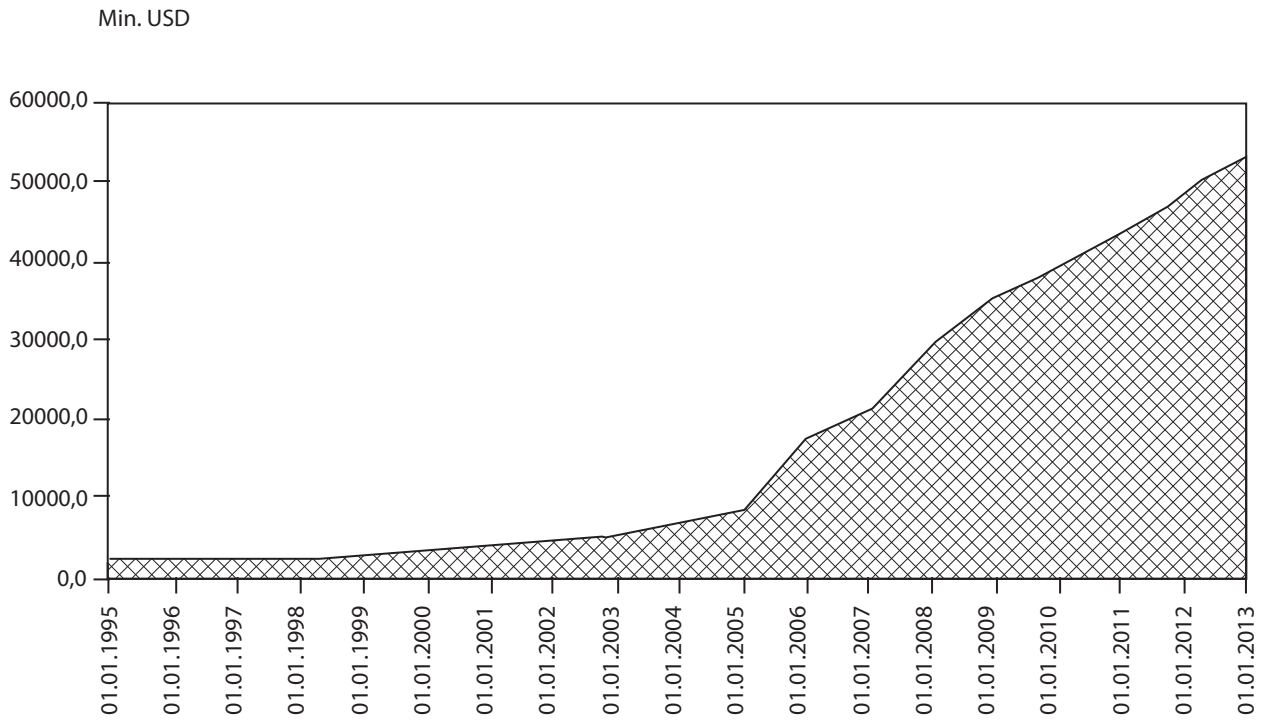


Fig. 2. The dynamics of investment inwards in Ukraine. Data source: [12]

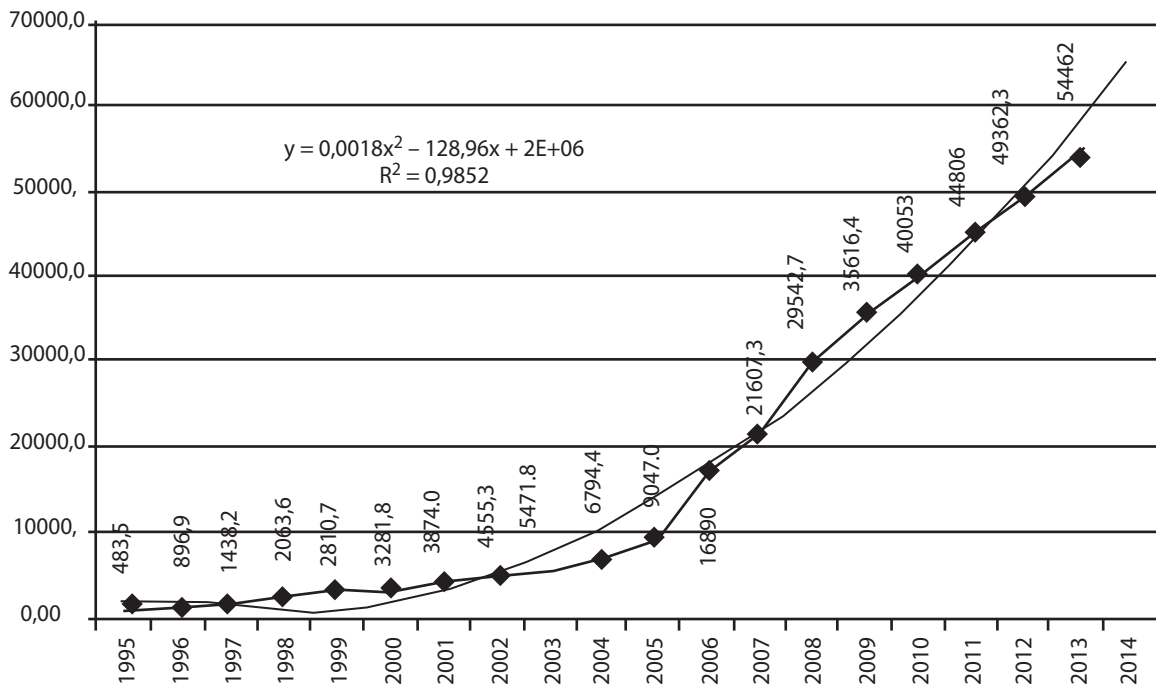


Fig. 3. Forecast: the dynamics of investment inwards in Ukraine. Data source: [12]

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