

## INVESTMENT RELATIONS WITH UKRAINE OFFSHORE ZONES

**Problem.** The modern economy of Ukraine is impossible without investment cooperation with offshore zones, since minimizing taxes and protect their capital are key benefits of offshore business, which now manifests itself in all kinds of business. Ukraine's relations with offshore zones marked by growing dynamics of attracting foreign investment from the territory of Ukraine. Cyprus is one of the most important partners of Ukraine in the advanced industrial activities, it is a strategic partner of Ukraine, which is not the first takes the lead in terms of investments in Ukraine.

**Analysis of recent research and publications.** Some aspects of investment relations with offshore zones were investigated in the works T. Gurov, A. Efremenko [1] V. Zheleznyak [2], L. Zakharov [3] and others.

**Statement of the problem.** Study of investment cooperation, dynamics and structure of investment flows between Ukraine and offshore zones.

**The main material research.** Offshore zone - one of the free economic zones. They belong to the service of free economic zones, which feature is to provide entrepreneurs favorable monetary and fiscal regimes, high and legislative guarantees of banking and commercial secrecy, loyalty regulation.

The modern economy is impossible without an offshore business. In order to save costs and minimize risks of offshore business are used in almost all industries. Ukraine - is no exception. Moreover, our businesses are among the leaders in the number of offshore companies created. The global financial crisis has only exacerbated the problem of optimization and business taxes and increased popularity offshore.

Currently, offshore business is on the cutting edge of the global economy. Offshore schemes are based on foreign - trade contracts for leasing, trust, commissions and other legal forms of the complex commercial projects [1].

All the more urgent is the ability to create not just separate offshore companies, but schemes that included both offshore and not offshore companies, their branches and representative offices in different countries [1].

If you remember the offshore business in Ukraine, it is worth noting that the first Ukrainian businessmen got chance open offshore companies in 1991. In April 1991 the Swiss company Riggs Walnut Group announced that enters the Ukrainian market with a proposal to organize companies. Offered not only help in creating tax-free companies, but also support their activities - making annual contributions to the budget based, providing secretarial services for the treatment of irregular mail, organizing the annual meeting of shareholders, the balance sheet, etc. By international standards, the cost of services was quite high: \$ 4,800 for registration and \$ 1,100 annually for the support [1].

Often as offshore areas stand small countries with special state - legal status. The power of these lively stimulate the offshore sector for the purpose of attracting additional investment, which in turn increases employment and improves the economic situation.

According to the current legislation of Ukraine [4] to the list of offshore zones include: Guernsey, Jersey, Isle of Man, Isle of Alderney, Bahrain, Belize, Andorra, Gibraltar, Monaco, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Bermuda Islands, British Virgin Islands, Virgin Islands (US), Grenada, Cayman Islands, Montserrat, Netherlands Antilles, Puerto Rico, Saint Vincent and the Grenadines, St. Kitts and Nevis, Saint Lucia, the Commonwealth of Dominica, Turks and Caicos Liberia, Seychelles, Vanuatu, Marshall Islands, Nauru, Niue, Cook Islands, Samoa, Maldives.

A complex system of taxation in Ukraine makes more and more entrepreneurs to actively search facilities planning and tax minimization. For this widely practiced experience of the West, on the creation of so-called offshore companies. This leads to the fact that the budget does not receive the full tax revenues. However, the establishment of offshore companies are not prohibited by law, and formally income appears to entities other countries. All fraud related to conceal income offshore called "offshore schemes" [3].

According to the State Statistics Committee [5] more than 90% of investments in Ukraine comes to Cyprus, much smaller part goes to another offshore country - Virgin Islands.

Table 1

**The structure of direct investment in Ukraine's economy with the world**

<i>Countries</i>	<i>Direct investment on 01.10.2013 (million dollars usa)</i>	<i>Percentage of total</i>
<i>Cyprus</i>	<i>18712, 0</i>	<i>33, 1</i>
<i>Germany</i>	<i>6194, 8</i>	<i>11, 0</i>
<i>Netherlands</i>	<i>5504, 0</i>	<i>9, 7</i>
<i>The Russian Federation</i>	<i>3842, 1</i>	<i>6, 8</i>
<i>Austria</i>	<i>3216, 4</i>	<i>5, 7</i>
<i>Great Britain</i>	<i>2724, 4</i>	<i>4, 8</i>
<i>Virgin Islands</i>	<i>2452, 4</i>	<i>4, 3</i>
<i>France</i>	<i>1843, 0</i>	<i>3, 3</i>
<i>Switzerland</i>	<i>1277, 5</i>	<i>2, 3</i>
<i>Italy</i>	<i>1259, 0</i>	<i>2, 2</i>

<i>Belize</i>	<i>1036, 6</i>	<i>1, 8</i>
<i>USA</i>	<i>985, 8</i>	<i>1, 7</i>
<i>Poland</i>	<i>831, 8</i>	<i>1, 5</i>
<i>Other countries</i>	<i>6685, 4</i>	<i>11, 8</i>
<i>Total</i>	<i>56565, 2</i>	<i>100, 0</i>

*The table shows that as of 01.10.2013 foreign direct investment in Ukraine offshore totaled 22.201 billion. Dollars. US 39, 2% of the total FDI. Including FDI from Cyprus - 18 712, 0 mln. USD. United States (33.1%), Virgin Islands - 2452, 4 mln. USD. US and Belize - 1036, 6 mln. USD. USA (1.8%).*

*Table 2*

*The structure of FDI from Ukraine in the economies of the world*

<i>Countries</i>	<i>Direct investment on 01.10.2013 (million dollars usa)</i>	<i>Percentage of total</i>
<i>Cyprus</i>	<i>5818, 4</i>	<i>88, 6</i>
<i>Russia</i>	<i>360, 4</i>	<i>5, 5</i>
<i>Latvia</i>	<i>96, 9</i>	<i>1, 5</i>
<i>Poland</i>	<i>55, 5</i>	<i>0, 8</i>
<i>Georgia</i>	<i>32, 8</i>	<i>0, 5</i>
<i>Virgin Islands</i>	<i>25, 8</i>	<i>0, 4</i>
<i>Kazakhstan</i>	<i>25, 4</i>	<i>0, 4</i>
<i>Other countries</i>	<i>153, 2</i>	<i>2, 3</i>
<i>Cyprus</i>	<i>6568, 4</i>	<i>100, 0</i>

*Information show that nearly 90% of FDI from Ukraine comes to Cyprus, which may indicate that investors may be exposed to financial fraud and money laundering. The overwhelming share of Ukrainian investments made to Cyprus residents engaged in real estate transactions, leasing, engineering and services businesses. It is also important to note that the priority sectors for investment in Ukraine from Cyprus are: manufacturing, finance, trade and repair of motor vehicles.*

*Table 3*

*Dynamics of investments in Ukraine by countries and offshore zones*

Date	However mln. USD.	Cyprus		Virgin Islands		However, offshore,%
		mln. USD	%	mln. USD	%	
01.01.2010	40026, 8	8593, 2	21, 5	1348, 0	3, 4	24, 9
01.04.2010	40007, 4	9105, 1	22, 8	1333, 8	3, 3	26, 1
01.07.2010	40402, 1	9079, 2	22, 5	1333, 9	3, 3	25, 8
01.10.2010	42511, 9	9579, 1	22, 5	1425, 5	3, 4	25, 9
01.04.2011	45602, 3	10665, 0	23, 4	1403, 8	3, 1	26, 5
01.07.2011	47205, 7	11619, 6	24, 6	1524, 2	3, 2	27, 8
01.10.2011	48466, 2	12089, 1	25, 0	1561, 4	3, 2	28, 2
31.12.2011	49362, 3	12645, 5	25, 6	1607, 0	3, 3	28, 9
01.04.2012	50793, 5	13661, 9	26, 9	1648, 0	3, 2	30, 1
01.07.2012	52426, 7	14521, 5	27, 7	1749, 7	3, 3	31, 0
01.10.2012	52673, 8	15 075, 5	28, 6	1805, 7	3, 4	32, 0
31.12.2012	54462, 4	17275, 1	31, 7	1884, 9	3, 5	35, 2
01.04.2013	55708, 9	17692, 2	31, 8	2253, 7	4, 0	35, 8
01.07.2013	55318, 2	17928, 5	32, 4	2418, 4	4, 4	36, 8
01.10.2013	56565, 2	18712, 0	33, 1	2452, 4	4, 3	37, 4

*This dynamics shows that in the period from 2010 - 2013 the volume of offshore investment flows increased by 12.5%. Investment flows from the Virgin Islands in the period 2010 - 2012 remained stable at 3 1 - 3, 4%, and in 2013 increased by almost 1%. Nearly 4-year investment from Cyprus increased by more than 10 million US. And on the Virgin Islands for more than 1,000 mln. USD.*

*Table 4*

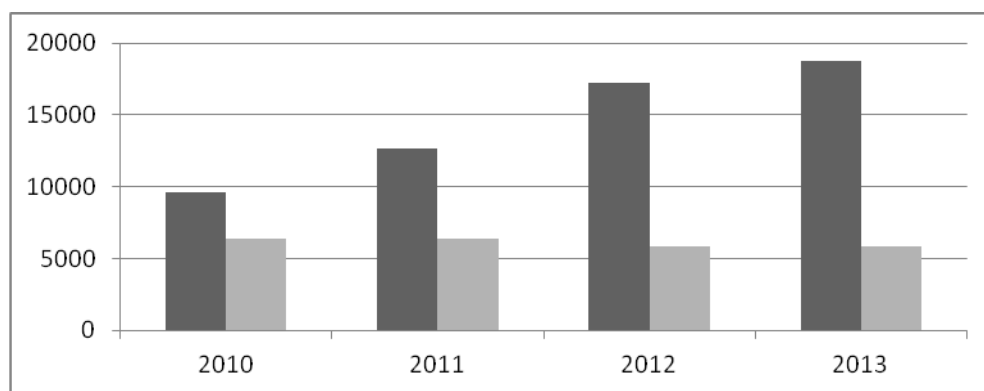
*Dynamics of investments from Ukraine by countries and offshore zones*

Date	However mln. USD.	Cyprus		Virgin Islands		Howeve r, offshore,%
		mln. USD	%	mln. USD	%	
01.01.2010	6223, 3	5778, 5	92, 9	20, 8	0, 3	93, 2
01.04.2010	6793, 2	6346, 4	93, 4	20, 8	0, 3	93, 7
01.07.2010	6764, 2	6300, 1	93, 1	20, 8	0, 3	93, 4
01.10.2010	6851, 3	6358, 0	92, 8	20, 8	0, 3	93, 1
01.04.2011	6920, 6	6379, 0	92, 2	25, 8	0, 4	92, 6
01.07.2011	6934, 1	6389, 3	92, 2	25, 8	0, 4	92, 6
01.10.2011	6860, 6	6352, 4	92, 6	25, 8	0, 4	93, 0
31.12.2011	6898, 0	6342, 1	92, 0	25, 8	0, 4	92, 4
01.04.2012	6421, 4	5810, 5	90, 5	25, 8	0, 4	90, 9
01.07.2012	6399, 8	5810, 1	90, 8	25, 8	0, 4	91, 2
01.10.2012	6427, 9	5810, 3	90, 4	25, 8	0, 4	90, 8
31.12.2012	6481, 9	5810, 5	89, 6	25, 8	0, 4	90, 0

<b>01.04.2013</b>	6518, 9	5817, 0	89, 2	25, 8	0, 4	89, 6
<b>01.07.2013</b>	6540, 4	5817, 2	88, 9	25, 8	0, 4	89, 3
<b>01.10.2013</b>	6568, 4	5818, 4	88, 6	25, 8	0, 4	89, 0

*Dynamics shows that in the period from 2010 - 2013 the volume of investment flows from offshore Ukraine has decreased by 4, 2%. Investment flows to the Virgin Islands in 2011 increased by 0, 1% and the end of 2013 remained at the same level. Investment flows to Cyprus decreased by 4, 3%, but Cyprus is still a leader in getting investment from Ukraine.*

*To better understand the fundamental difference between colliding investment flows between Ukraine and Cyprus, consider the dynamics in graphical form (see Pic. 1).*



*Pic.1. Counter investment flows between Ukraine and Cyprus in 2010 - 2013. (mln. USD. USA).*

*As we see investment flows from Ukraine to Cyprus remain stable, and investments from Cyprus to Ukraine steadily increasing each year for 3 - 5%.*

*According to the statistics [5] trend as investment flows from Cyprus counter exceeds investment in 2 - 3 times, and investment flows from the Virgin Islands reciprocal investment flows exceeding 10 times.*

*Such dynamics shows that Ukraine's relations with offshore zones continue to grow big and absolutely safe to say that they will steadily grow in the future.*

**Conclusions:** *Thus, we can conclude that the data that has been hovering in the article, there is a fruitful cooperation between Ukraine and offshore cents. It is especially necessary to note two offshore partner - Cyprus and the British Virgin Islands. The third part of investment flows to Ukraine take investments from Cyprus, but counter investments make up 90% of the total volume of investments from Ukraine. This indicates that Ukrainian businessmen and investors seeking to avoid taxes, the existence of "shadow" investment flows and "laundering" money.*

### *References:*

- 1. Gurov TA, Efremenko AV Offshore areas as a way to preserve capital in a volatile economic situation / Economics .- 2. Foreign Economic Activity*
- 2. Zhelezniak V. Trends in the investment relations with Ukraine offshore zones. [Electronic resource]. –  
Access: [http://www.nbuuv.gov.ua/portal/soc\\_gum/Vmntu/2011\\_2/7.pdf](http://www.nbuuv.gov.ua/portal/soc_gum/Vmntu/2011_2/7.pdf)*
- 3. Zakharova LV Development of offshore business in Ukraine today / International student conference "Modern economic science: experience, trends and prospects" 11.28.2012 - 11.29.2012*
- 4. CMU "On the list of offshore zones" of 23 February 2011 g. N 143-p*
- 5. <http://ukrstat.gov.ua/> - official site of the State Statistics Service of Ukraine.*

*Командровська В.Є., Шульга О.О.*

#### ***ІНВЕСТИЦІЙНІ ВІДНОСИНИ УКРАЇНИ З ОФШОРНИМИ ЗОНАМИ***

*У статті досліджено розвиток інвестиційних відносин між Україною та офшорними зонами; проаналізовано динаміку і структуру інвестицій; зроблено прогноз на розвиток цих відносин у майбутньому.*

*Ключові слова: інвестиції, інвестиційні відносини, офшорні зони.*

*Командровська В.Е., Шульга О.А.*

#### ***ІНВЕСТИЦІЙНІ ВІДНОСИНИ УКРАЇНИ З ОФШОРНИМИ ЗОНАМИ***

*В статье исследовано развитие инвестиционных отношений между Украиной и офшорными зонами; проанализировано динамику и структуру инвестиций; сделано прогноз на развитие этих отношений в будущем.*

*Ключевые слова: инвестиции, инвестиционные отношения, офшорные зоны.*

*Komandrovskaya V.E., Shulga O.O.*

#### ***INVESTMENT RELATIONS WITH UKRAINE OFFSHORE ZONES***

*In this paper investigates the development of investment relations between Ukraine and tax havens, analyzes the dynamics and structure of the investment; the forecast was made for the development of these relationships in the future.*

*Key words: investments, investment relations, offshore zones.*

## *About the Authors*

*Surname: Komandrovska*

*Name: Veronica*

*First Name: Evgenivna*

*Degree: Ph.D. in Economics*

*Title: Associate Professor*

*Affiliation: Department of Economics NAU*

*Position: Associate Professor*

*Work address: Kyiv, Komarova 1, block 2, aud.2-414 / 1*

*Phone: 0636520863*

*E-mail: veronkom@rambler.ru*

*Surname: Shulga*

*Name: Olga*

*First Name: Aleksandrovna*

*Degree:*

*Title:*

*Place of work: FEP IEM NAU*

*Occupation: student*

*Work address: Kyiv, Komarova 1, block 2, aud.2-414 / 1*

*Phone: 0934267789*

*E-mail: energy1993@ukr.net*