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**Institutional, Financial and Economic
Challenges and Prospects of
Cooperation between Ukraine and
MENA Region**

Under Ed. Dmytro Lukianenko and Zoriana Lutsyshyn

Bielsko-Biała, 2020

Institutional, Financial and Economic Challenges and Prospects of Cooperation between Ukraine and MENA Region

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The monograph presents the results of many years of work of scientists from leading universities of Ukraine and Poland. The research of institutional, financial and economic cooperation between Ukraine and MENA region was carried out on the basis of fundamental provisions of economic science in the context of the latest trends and dynamics in economy, technology and finance. The monograph covers the following issues: the institutional paradigm for international economic cooperation, regional supply chains in foreign trade, the role of the Middle East and North Africa in the international division of labor markets, the preconditions for emergence and evolution of the Islamic finance doctrine and some aspects of institutional arrangements of financial relationship between Ukraine and MENA region.

The monograph is offered for scholars, teachers, graduate students and students, as well as for anyone who interested in the problems of regional economic cooperation.

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ISBN 978-83-63649-03-6

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FOREWORD

Sustainable economic development and economic security of the country depend on its ability to diversify its geo-economic interests, create centers of economic growth, ensure diversification of trade and investment. According to official data, there are four main target areas of foreign economic interest of Ukraine: EU countries, CIS countries, Asian countries and countries of the Middle East and North Africa (MENA) region.

To date, there are significant problems and economic imbalances in relations of Ukraine with the MENA countries. It seems that implementation of an effective concept of modeling of development of economic and financial cooperation of Ukraine with the Middle East and North Africa countries and harmonization of its institutional foundations will open the window of opportunities to intensify the processes of realization of the huge potential of relationship between Ukraine and the countries of this macro-economic region, and to create preconditions for a long-term economic growth of Ukraine.

First of all, it is necessary to solve a number of theoretical and applied problems: to evaluate the existing contradictions and obstacles to the development of economic relationship of Ukraine with the MENA countries; to explore the experience of trade, production, financial cooperation of developed countries with the countries of the Middle East and North Africa; to analyze the current state and trends of development of this macro-region in terms of assessing the potential for strengthening mutual relationship; to develop a methodology of harmonization of the institutional framework for economic cooperation focusing on deepening of the international division of labor market, strengthening international cooperative relationship, diversifying the trade in order to increase the competitiveness of the national economy and ensure its economic security and stability.

Transformation processes make significant contribution to modern geo-economic reality. The European Union is the most prominent example of these transformations. Since the formation, EU has been the epitome of a new type of international relations,

in which the system of interstate relations was based not on brutal force and violence, but on the idea of joint development and harmonization. To date, with the aggravation of problems in financial and monetary policy of integration, amid a massive influx of refugees, Brexit, growing mistrust between citizens and the European elite, the European project does not ensure a stable balance in economic and political development of the member countries. This new reality requires adjustments to the whole geo-economic system of links between national economies of countries that are oriented towards the EU, but have not yet gained full membership. In such circumstances, the successful economic development of the country depends on the ability to diversify geo-economic interests, create diverse centers of economic growth, ensure trade and investment diversification. This strategy in turn requires the implementation of a new regional-oriented approach to foreign economic cooperation, activation and expansion of economic cooperation in other regions of the global economic system, where the Middle East and North Africa is of particular relevance to our country.

At the same time, there are significant disparities in economic relations of Ukraine with the countries of the Middle East and North Africa, namely, the imbalance of foreign trade and insufficient investment. Thus, according to official data, the share of domestic exports to the countries of this region is 13.0%, and imports is 1.2%, respectively. The level of investment between Ukraine and the capital-capacious (Gulf Cooperation Council, GCC) countries of the region is particularly unsatisfactory. The amount of accumulated foreign direct investment is only 0.2%. Taking into account the priorities of the national economy and tendencies of development of geo-economic space, this situation may be caused by the lack of studies of the economic potential of the Middle East region, uncertainty of methodological and applied aspects of formation of international economic and financial relations with the region.

Introduction of a new instruments and improving of the existing mechanisms for the implementation of international economic and financial cooperation can lead to the significant increase of foreign direct investment in the economy of Ukraine and to

intensification of cooperation in complex infrastructure projects and to increase share in exports of value-added products. Note that the study of the problems mentioned above in our monograph and implementation of its conceptual modelling can contribute to solving of the actual theoretical and applied problems of development of international cooperation of Ukraine with the countries of the Middle East and North Africa region.

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CHAPTER 1.

THE INSTITUTIONAL PARADIGM OF INTERNATIONAL ECONOMIC COOPERATION OF UKRAINE WITH MENA REGION

1.1. Geo-economic diversification as a factor for ensuring sustainable economic growth

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History has proved that international relations play a crucial role in the economic development of any country. However, this undeniable fact does not always reflect the reality, especially when we consider geographical structure of trade. State Department for Statistics of Ukraine declares that there is a positive trade balance with the Middle East and certain North African countries (MENA) while there is a long-term negative trade balance of the country in general. However, it cannot be argued that these positive trade trends with MENA countries are becoming sustainable and are being reproduced by Ukraine in relations with other regions. The “organic” part unlikely can be independent of the shortcomings of the whole system.

The reasons can be different due to our history, ideology and bureaucratic culture.

Leaving the Soviet Union's autocratic structures, Ukraine has too slowly mastered a geopolitical view of international relations. For long time, the CIS region dominated in relations, but now the EU and its member countries dominate our trade. The methodological basis and policy settings of these geopolitical formations differ from each other. However, information processing and mastering the other components of geopolitics (in particular, geo-economics) is mandatory even for enterprises. The world market, block chains, crypto currencies, world information and other networks require the appropriate ability to predict geopolitical development, to conduct analysis by countries, to provide behavior planning and staff training. Integration of these various components produces the new paradigm that is considered in our study. And it applies not only for Ukraine.

Without being a leading geopolitical player, Ukraine is heavily dependent on the state of international affairs. Neglecting of this fact entails serious consequences. Understanding the international trends, preferably in advance, with smart application, clearly contributes to the successful development of the country and strengthening of its independence. The MENA countries form the region of intertwined world interests and a specific ground for application of this approach, in particular by implementation of this new paradigm.

The Ukrainian media occasionally provide information about the plans of the Ukrainian business or government to cooperate with other countries, including particular regions. Moreover, corresponding programs or strategies of Ukraine's development were created at almost every change of the government. However, they do not take into account that the process of development of Ukraine as a self-sufficient country coincide in time with the erosion of the world order and the confrontation (or competition) of the leading world powers. Without proper consideration of changes in the factors of this “external environment”, it is impossible to build effectively the public institutions, to implement reforms and to develop policies.

There should be an understanding of what the real goals of major powers, such as the USA, China and Russia, are regarding the other countries (in our case, the Middle East and North Africa countries). The conflicts of interest of the mentioned “triad” in the region have long raised concerns for the rest of the world. Ukraine also suffers the consequences of the US-China trade war (for instance, the “Motor Sich” deal with Chinese investor); the China-Russia partnership; technological confrontation in the field of modern information technologies (G-5, AI, Big Data) between China on the one hand and the USA and EU on the other hand. These circumstances have prompted even such a small country as the Netherlands to carefully examine the implications of “China - USA, EU” trade and technological confrontation and the possibility of using export controls to protect themselves. The authors of this research are trying to answer the questions about how Ukraine could fit the world relations between the “America First” and “China Dream” fields, how to take advantage of the innovative benefits of artificial intelligence (AI) and the Internet of Things (IoT) without delving into the geopolitical uncertainty related to G5. The Fourth Industrial Revolution is making its toughest demands.

Whether we like it or not - Ukraine is involved in these processes. The question is whether Ukraine should not intervene in this confrontation or whether it should learn to use the circumstances for advantage. Economic cooperation, including the regional one, in particular with the countries of the Middle East and North Africa, is one of the effective means on this way. Following the institutional approach, at least several important areas of Ukraine’s interaction with these countries can be distinguished (for example, science, technology and education, cooperation of small and medium-sized companies, cybersecurity, arms export control, attracting investments, etc.) and trade takes a prominent place among them. The data provided in other sections of this monograph proves that.

The segment of economic activity mentioned above fall under the responsibility of the Ministry for Development of Economy, Trade and Agriculture of Ukraine. Along with the development of the entire complex of national economy, the Ministry is responsible for the formation and implementation of a unified foreign economic policy, a policy of integrating the national economy into the

world economy and cooperation with the WTO. But, despite the fact that it is responsible for the policy, the institution produces “programs” or “strategies” as well as the predecessors did.

The difference is quite significant. The programs and strategies of the Ukrainian development focus mainly on activities, while policy primarily involves principles. The policy, that is based on principles, ensures that effective regulatory decisions are made, while the strategy is nothing more than a deliberate plan for their instrumental implementation.

For example, when it comes to foreign trade policy, at least the exports/imports ratio should be determined, requirements and regulatory instruments should be introduced in regard to exports type (raw, high-tech or mixed type). The role of imports should be defined in terms of ratio between critical, important or general as well as of import substitution. At least, it is about coordinating the country's industrial, scientific and technical policies.

However, the lists of measures for the “improvement”, “deepening”, etc. are generally produced. Such an effectiveness indicator in the “Export Strategy: Roadmap for Strategic Trade Development of Ukraine 2017-2021” as “achieving a life satisfaction rate in Ukraine at the level 70%” can hardly be taken seriously.

Nevertheless, this document is valuable, since it represents significant development in the right direction compared to the earlier efforts and it meets the requirements of the institutional paradigm. All 8 objectives of the Action Strategy together with the 62 measures are focused on strengthening the integrated institutional framework for stimulating innovations, enhancing the relevant capacity at the enterprise level, in particular small and medium-sized companies. It is also about the improvement of legal and economic conditions for international trade, the coordination of the activities of the respective institutions, including information and education services. However, approximately only 38% of the planned measures were implemented. It looks like there will be similar rate of implementation of tasks of the year 2019. The criticism by large Ukrainian exporting enterprises concerns the measures regarding the application of the market access provisions outlined in the WTO Agreement and in the Association Agreement with the EU.

Besides the Ministry mentioned above, other organizational structures and institutions also have to maintain consistent policies. In particular, they are The International Trade Council, The Export-Credit Agency, State Institution “Export Promotion Office of Ukraine”, “UkrEximBank”, Customs Committee, Chamber of Commerce and Industry of Ukraine, bilateral commissions for economic cooperation, industrial associations, etc. In fact, they form the institutional basis of the paradigm considered in our study. The question is how effective this paradigm is today, and whether it will meet the target level at the end of the term of the Strategy.

Since independence in 1991, Ukraine was fascinated by both exports and imports. Unfortunately, the last one prevails to date: the negative balance of trade in goods has not yet been corrected

(it is \$10 bln. in the current year). According to Ministry for Development of Economy, Trade and Agriculture of Ukraine, among the problems of foreign trade of Ukraine in 2019 there is still “a significant raw materials exports orientation and significant dependence of enterprises on the external market”, i.e. “systemic problems of development of foreign economic activity”.

Of course, neither export nor import should be absolutized. China is ranked second in the world ahead of Germany in terms of foreign trade, mainly due to exports factor, however at the cost of the decline of the domestic market. It is currently making extraordinary efforts to correct the situation. The consequences of import absolutization are also well known. It is enough to look at the barely alive economies of some countries in Latin America or Africa.

Thus, the principles of Ukraine's foreign trade policy should strictly follow the rules to keep two types of balances: between export and import (taking into account the competitiveness and needs of the national economy), and between ensuring the competitiveness of the national producers and the level of liberalization of trade relations with other countries.

In the first case, it is not only about maximizing the positive foreign trade balance, but also about modernizing the production structure of industry and services. The second one is about the level of foreign trade liberalization, which is proportional to the increase of competitiveness of the domestic producers. The issue of the state support for domestic exporters in relation to these objectives has been actively discussed in Ukraine for, at least, the last 20 years. The government issued the order dated 26th of October 2001 “On Approval of the Export Promotion Program”. The document referred to various forms of lending, which would be ensured by granting the exporters both medium and long-term loans through appropriate institutions. Even financial support for the implementation of the Program itself was assumed.

These steps were taken in the right direction, although the amount of the proposed financial support for the period 2002-2006 (UAH 7 119.39 million) was beyond any criticism. Formed by the newly established Export-Credit Agency (registered on November 23, 2018), the authorized capital of UAH 200 million is also not very inspiring, despite the possibility of borrowings.

For comparison, let us mention the size of similar support to Brazilian exporting companies during their peak of economic development. Before the 2008 crisis, it reached \$ 4-5 bln., accounting for only 2.7% of Brazilian exports. However, 96% of the country's small and medium-sized exporting companies were the beneficiaries of this support.

The implications of Brazil's policy are pretty clear: it had had a trade deficit of \$ 721 million in 2000, the foreign trade surplus averaged \$ 40 bln. in 2004-2008.

However, the experts note that the national strategy of Ukraine for promoting domestic exports and adequate coordination between all relevant authorities is ineffective as it was in previous years. In order to clarify the expectations of Ukrainian exporting enterprises from the mentioned

Economic Development Strategy, more than 140 entities of foreign economic activities were interviewed recently. The survey showed that more than 44% of the total respondents do not use government-supported export support services. Only 17% of those polled are interested in effective dialogue between business and government. However, services to attract exporters to international exhibitions and fairs and related trade missions are quite popular. The assessments regarding the efficiency and transparency of the procedures related to trade defense of exporters were also not high. It is noted that appropriate attention is needed to develop an extensive system of regional offices for exports promotion in Ukraine. First of all, it is important for serving small and medium-sized businesses, improving their access to foreign trade information and finding potential export markets.

Among the means of support of the Ukrainian exporters, the importance of exhibition activity in foreign trade practices is difficult to overestimate. Moreover, its significance only grows over time in the world. For example, it is important to note that for the 2010 International Exhibition in Shanghai (EXPO 2010), the Chinese government spent more money than for the Beijing World Olympic Games.

Since 2001, the situation in Ukraine has been improved. The work on standardization of exhibition activity has accelerated and statistical reporting was introduced. Budget financing of Ukraine's national expositions at the world's largest exhibitions has resumed, Ukraine has joined international agreements to simplify customs procedures for importing exhibits and so on. Quantitatively (by the conducted events) Ukraine's involvement in exhibition activities is also slowly increasing.

However, it cannot be stated conclusively about the country's extremely important participation in exhibitions and fairs abroad. Its share in the total number of exhibitions in which Ukraine is represented varies (depending on the year) within several percent. The geography of this involvement is largely confined to single countries in Eastern and Western Europe, as well as the Middle East. In the context of globalized trade, there is no need for comments.

It is also difficult to make a conclusion on the commercial effectiveness of Ukraine's participation in these activities. Data on the number and total value of deals concluded during exhibitions are mainly absent.

There are several reasons for the described state of affairs: the lack of qualified personnel and exhibition facilities, the lack of international experience, etc. However, the most significant one is the lack of proper state support for exhibition activities. The share of events financed by the state and, sometimes, by local budgets does not exceed 2-3% of their total number. To date, the foreign trade policy instrument of Ukraine mentioned above is clearly underestimated.

However, there are some positive things regarding the exhibition activities in the MENA region. In order to prepare Ukraine's participation in the EXPO-2020 World Exhibition (Dubai) a con-

tract for the construction of the exhibition complex was signed in 2018 with the UAE developer. It is the step in the right direction since the first attempt of this kind, that took place in the Emirate of Sharjah in 2002, unfortunately failed because of the broken bureaucratic system in Ukraine.

Until now, the information support of economic cooperation for participants was mainly handed by state structures such as the Ministry of Economic Development and the Ministry of Foreign Affairs of Ukraine. Trade and economic missions (TEMs), as well as the state information enterprise “Derzhzovnishinform” of the Ministry of Economy, have played a leading role here. To date, the State Enterprise “State Information and Analytical Center for Monitoring of Foreign Goods Markets” of the Ministry of Development of Economy, Trade and Agriculture (SE “Derzhzovnishinform” (DZI)) is a leading information and analytical and expert center in Ukraine that is responsible for research of foreign and domestic markets of goods and services. According to the order of the Ministry, the DZI is authorized to monitor prices on the external and internal markets, to study the dynamics of prices on the markets and the relevance of (foreign) contract prices on the world market.

The company provides a full range of information, analytical, research and expert services: examination of foreign economic contracts, research of domestic and foreign markets, consulting on business and management. However, over time, large enterprises were able to afford their own missions abroad, the number of which became much larger than the TEM ones. Even some regions of Ukraine already possess this tool. However, the lack of such opportunities in other companies, especially small and medium-sized ones, raises the issue of their information support in the most serious way.

This is especially important because the efficiency of the above-described system of this provision is considered unsatisfactory by the Government of Ukraine. Since June 2018, the State Office for Export Promotion of Ukraine has been involved. Is it enough?

For comparison, let us refer to the experience of well-known exporting countries.

Export and investment support for businesses, for example, in the United States is provided by 109 regional centers, more than 170 foreign offices in the United States, and 9 government information websites. 13 governmental or US government-affiliated institutions that support domestic companies in 12 areas (both at the federal and regional levels) should be also added to this list.

It is quite clear that the causes of the institutional problems mentioned above are rather domestic problems than the foreign ones, and are related, first of all, to the low level of appropriate management decisions and the effectiveness of their implementation.

Recognizing the lack of experience, Ukraine and its institutions are increasingly cooperating with its foreign carriers, first of all, with international institutions and integrated regional unions.

Thus, since 1991, the OECD and Ukraine have been cooperating to improve public administration and economic development. In 2014, a Memorandum was signed to deepen this cooperation. Some programs are realized by the OECD in cooperation with the EU.

The government of Ukraine should also pay attention to the conclusion of free trade agreements with organizations, such as the Gulf Cooperation Council (GCC), and other similar regional associations. The advantages in this case are obvious. Since November 2018, the office of the Ukraine Business Hub in GCC started operating in Dubai (UAE) as a platform for Ukrainian producers seeking to enter the Arab markets. The first attempt of this kind took place in 2002 in the free economic zone of the port city of Dubai (UAE), the fate of which was similar to that of the Sharjah Exhibition Pavilion. The reasons for the failure are similar.

To conclude, we must state that the diagnosis of existing “diseases” by public institutions is more or less correct. However, there is a problem with the “cure” for recovery. The results of international economic cooperation in recent years, first of all, in foreign trade, clearly demonstrate the need for qualitative changes that are “warming up” by the fourth industrial revolution.

Returning to the title of section 1, it should be noted that Ukraine has made significant progress in institutionalizing of its economic cooperation with other countries. However, it looks discreet and it does not meet the requirements of the modern international communication paradigm.

A reasonable foreign trade policy of the state is a rather practical tool to provide national producers of goods and services with favorable conditions for competition on foreign markets. First of all, it concerns the instruments of support of foreign trade in general, improving export procedures, developing national export potential, and achieving a favorable balance of payments. The regional elements of this system are integral parts.

Usually, there are three stages of policy development and transformation:

1. Accurate and unambiguous formulation of the goals.
2. Development of action programs (regional, sectoral, goods oriented, as well as market oriented).
3. Assessment of the resources needed to achieve the goals and their accumulation within the approved programs.

World practices convince us that foreign trade policy of a country is a balanced system of goals and programs with active use of the palette of the following means (instruments): customs tariffs, border duties, conditions of state procurement, exports subsidies of various forms, customs and other preferences for national production and trading companies, intellectual property protection and competition support. “Without proper government regulation and intervention, markets do not lead to economic efficiency”, says the Nobel laureate Joseph Stiglitz in his book “Making Globalization Work” (New York London, 2006).

One way or another, it is about a clear idea of the government of the country regarding where and to whom, as well as what and under what conditions to sell from own set of goods and services in terms of national benefits (the same approach applies to imports). And most importantly, what the government (the state) needs to do to achieve this purpose.

Such clarity arises when there is a necessary network of relevant institutions (both state and public), focused and involved in foreign trade, and that rely on advanced market information, promptly obtained from reliable sources and professionally processed.

Having a considerable set of institutions involved in the implementation of foreign trade policy, their systematic interaction and appropriate coordination are still insufficient in Ukraine at such an extremely important stage as development of approaches to national foreign trade policy and formulation of its goals. Existing shortcomings in programming and budgeting are nullifying the targeting efforts.

It is clear that the success of Ukraine's foreign trade and international economic cooperation in general depends on the organic connection in the triad of "reform - economic growth - foreign trade policy". We have only briefly considered the last component of this triad, its problems and opportunities. Without increasing reliance on other components, Ukraine's further development is insignificant, if possible at all.

1.2. Regional supply chains of foreign trade of the Middle East and North Africa countries

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From the second half of the twentieth century, the Middle East and North Africa countries began to be regarded as a regional community by international organizations and scholars. However, there is no recognized list of the countries that make up this community. The World Bank (WB) includes into MENA community the following countries: Algeria, Bahrain, Djibouti, Egypt, Yemen, Israel, Iraq, Iran, Jordan, Qatar, Kuwait, Lebanon, Libya, Malta, Morocco, United Arab Emirates (UAE), Oman, Palestinian Territories, Saudi Arabia, Syria and Tunisia [1]. Thus, the MENA Group is formed by 21 countries. However, the countries are quite differentiated by size, population, rate of economic development, per capita income, availability of natural resources, structure of the economy, etc., affecting the dynamics and indicators of their foreign trade. Thus, the World Bank has included into the list of countries in the MENA region some developing countries and two developed

one: Israel and Malta. Seven countries in the list mentioned above are members of the OPEC: international oil exporter organization. They include Algeria, Iraq, Iran, Kuwait, Libya, the UAE and Saudi Arabia. According to the WB classification, there are the countries with high income: Qatar, Israel, UAE, Kuwait, and others, the countries with medium income include: Lebanon, Morocco, Algeria, Egypt and others, and countries with low income include Yemen and Syria [2].

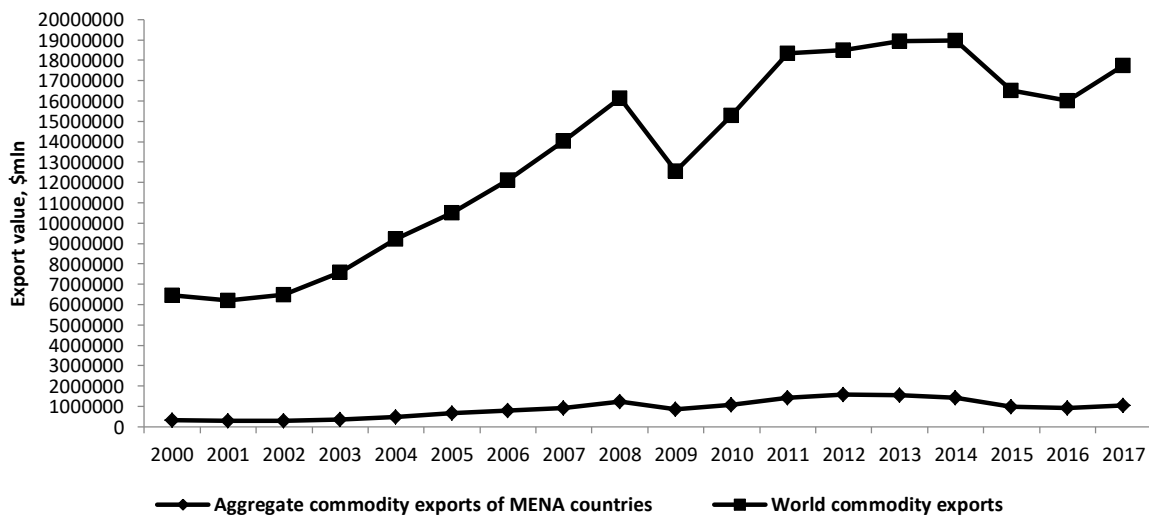


Fig. 1.1 Dynamics of aggregate exports of MENA countries and world exports (2000-2017).
 Source: calculated according to the data: [3, 4].

Foreign trade of the Middle East and North Africa (MENA) countries is extremely important for the economic development of the region. However, exports are concentrated mainly in sectors with low value-added production and low labor productivity that have mostly raw features. In the fourth industrial revolution it may in some way hinder the economic growth of these countries.

The dynamics of exports of goods of the MENA countries is broadly in line with the dynamics of world exports (Fig. 1.1).

Over the period under consideration, the region's share in the world exports varied according to fluctuations of aggregate regional exports of goods. Since 2000, the share of total merchandise exports of the MENA countries in world exports has ranged from 4.7% in 2001 to 8.5% in 2012, with a further decline to almost 6% in 2017 (Fig. 1.2).

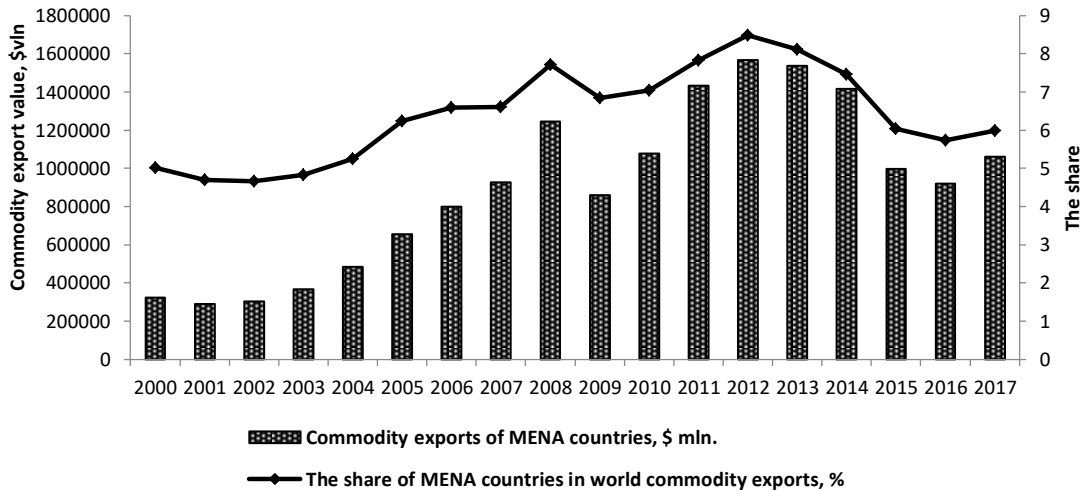


Fig. 1.2. Dynamics of the share of MENA countries in world commodity exports (2000-2017, %).
 Source: calculated according to the data: [3, 4].

Significant fall in exports after 2012 was driven by global trends of a decrease in trade turnover as a result of the global financial crisis of 2008-2009, as well as by the fall in prices of oil and other commodities during this period, which in turn caused a decrease in the region's total exports, given the largely raw nature of exports of these countries.

The importance of exports for the economic development of the region, can be proved by the fact that the contribution of regional exports to the GDP of the region was 33.6% in 2017. This indicator reached its maximum in 2011-2013 due to the favorable conditions of world commodity markets. However, the fall in demand and consequently the prices for commodities on the world market in 2015-2016 led to a decrease in the export value of MENA countries and its share in regional GDP. Overall, the share of regional exports in the aggregate GDP of MENA countries fluctuated within the range 26-45% in 2002 and 2012, respectively (Fig. 1.3).

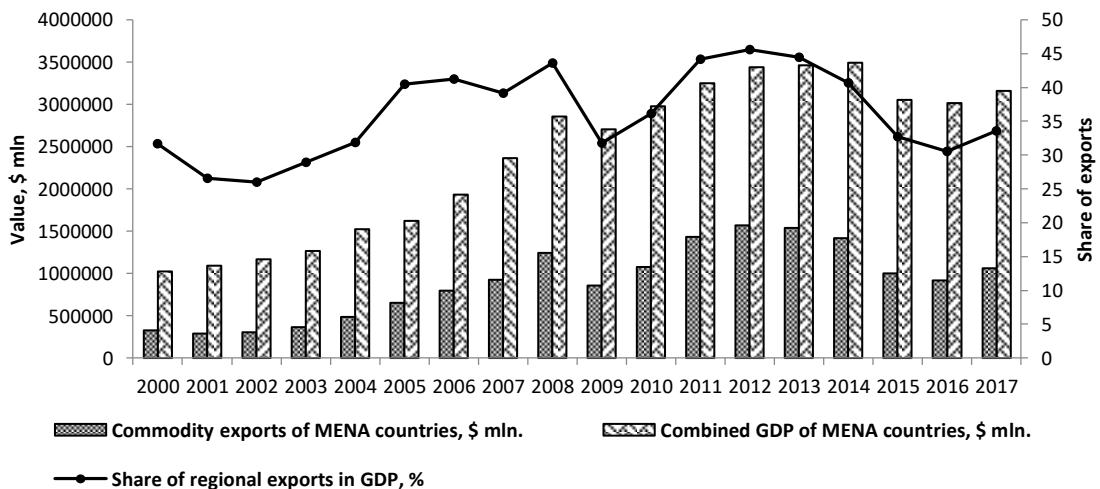


Fig.1.3. Exports-to-GDP ratio of the MENA countries.
 Source: calculated according to the data: [3, 4].

Our correlation-regression analysis of the dependence of exports on GDP of the region showed that increasing or decreasing of the exports by \$1 million leads to a corresponding increase or fall of GDP of the region by an average \$ 2 million ($GDP = 2,0006 * Ex + 602372$; $R^2 = 0,9$).

The correlation between exports and GDP of the MENA countries is also confirmed by almost synchronous dynamics of changes in these indicators over the period 2000-2017, with some prevalence of the rates of export changes over the rates of changes of regional GDP (Fig. 1.4).

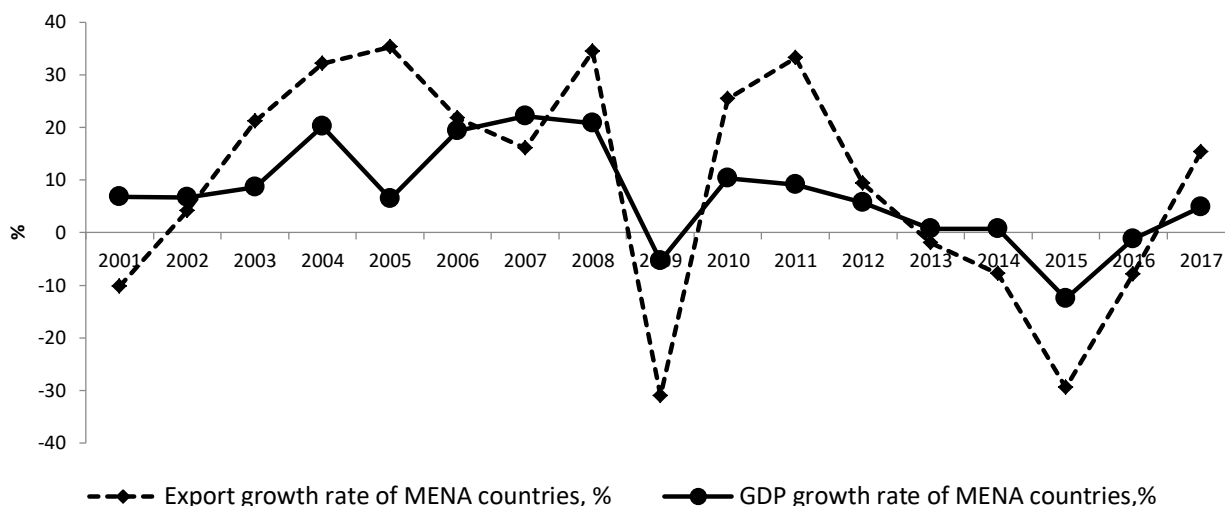


Fig. 1.4. Export and GDP growth rates of the MENA countries (2000-2017, %).
Source: calculated according to the data: [3, 4].

Due to the existing differences between the countries, primarily due to the presence of absolute and relative advantages in trade, differences in systems of state regulation of foreign trade and rate of socio-economic development, their shares in total regional exports differ significantly (Tab. 1). Oil-producing countries (UAE and Saudi Arabia) have the highest shares, accounting for more than 50% of the region’s total goods exports in 2017. Seven out of twenty-one countries of the region (UAE, Saudi Arabia, Iran, Qatar, Israel, Iraq and Kuwait) provide over 80% of the region's exports. Thus, it can be argued that the regional structure of MENA exports (by countries) reflects the Pareto principle (20/80): one third of countries accounts for 82% of goods exports and 70% of countries accounts only for 18%.

The structure of aggregate exports of MENA countries is typical for developing countries, with commodities domination in exports share (65% – mineral fuels and lubricants, chemicals and related products), and industrial products have a small share (Fig. 1.5). Hereinafter, commodity structures of exports and imports were analyzed according to the SITC (Standard International Trade Classification) [2].

Comparing export structures of the MENA countries, it should be noted that these countries form three typical groups:

- countries with mono-oil exports (the share of this group in the country's exports exceeds 80%): Algeria (96%), Iraq (96%), Libya (88%), Qatar (85%), and Kuwait (82%);
- countries with diversified export of goods (the number of product groups exceeds 220 units.): UAE – 259, Saudi Arabia – 250, Iran – 242, Egypt – 240, Oman and Morocco – 230 each, Bahrain – 224, Israel – 220 commodity positions (Appendix A).

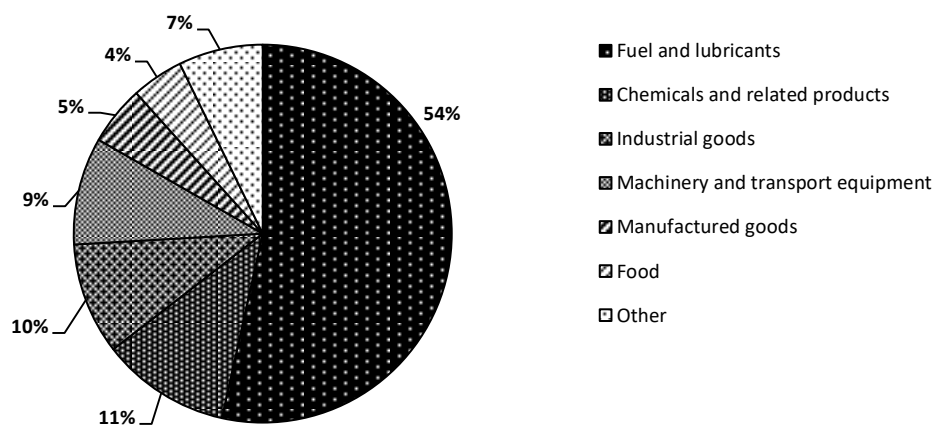


Fig. 1.5 Distribution of aggregate exports by product groups (2017, %).

Source: calculated according to the data: [3, 4].

Besides, there is a small group of countries (Iran, Oman and Saudi Arabia), which fall under both criteria – having both a high mineral material share in national exports (60-70%) and diversified exports (230-250 goods items), (Tab. 1.1).

Table 1.1

Key exports indexes of the MENA countries (2017).

Country	Share of exports (mln.USD)	Share of exports in aggregate regional exports (%)	Share of exports in world exports (%)	Country	Share of exports (mln.USD)	Share of exports in aggregate regional exports (%)	Share of exports in world exports (%)
UAE	313504	29,74	1,77	Libya	18379	1,77	0,1
Saudi Arabia	220159,4	20,88	1,24	Bahrain	15505,7	1,24	0,09
Iran	92764	8,8	0,52	Tunisia	14199,8	0,52	0,08
Qatar	67433,3	6,4	0,38	Jordan	7469,2	0,38	0,04
Israel	61150,1	5,8	0,34	Lebanon	4025,7	0,34	0,02
Iraq	58173,8	5,52	0,33	Malta	2516,3	0,33	0,01
Kuwait	54985,2	5,22	0,31	Syria	1800	0,31	0,01
Algeria	35191,1	3,34	0,2	Yemen	1500	0,2	0,01
Oman	32904	3,12	0,19	Palestinian Territories	841,3	0,19	0,005
Egypt	25943,2	2,46	0,15	Djibouti	142,3	0,15	0,001
Morocco	25624,3	2,43	0,14				

Source: calculated according to the data: [3, 4].

Taking into account the division of the MENA countries in foreign trade, we consider it appropriate not to determine the TOP-10 countries by exports, but to examine the groups of leaders by key merchandise groups (Tab. 1.2).

The calculations show that major exporters in the MENA region include the following countries: the UAE, Saudi Arabia and Israel. It should be noted that these countries are also leaders in regional imports, providing more than 50% of their volume (Tab. 1.3). However, the structure of aggregate regional imports is fundamentally different from the structure of aggregate regional exports. In particular, almost 35% accounts for machinery and transport equipment, over 17% accounts for industrial goods and about 14% accounts for food. Imports of non-food raw materials (except for fuel) are rather insignificant (Fig. 1.6). Such a structure of imports reflects the needs of these economies and the priorities of national development.

Table 1.2

Top-10 exporters by product category (MENA countries, 2017).

Mineral fuels and lubricants		Chemicals and related products		Industrial goods by type of material		Machinery and transport equipment		Other manufactured goods	
Country	Share in aggregate exports	Country	Share in aggregate exports	Country	Share in aggregate exports	Country	Share in aggregate exports	Country	Share in aggregate exports
Saudi Arabia	52,03	Saudi Arabia	35,91	UAE	47,1	UAE	53,1	UAE	52,03
UAE	13,09	Saudi Arabia	15,59	Israel	18,01	Israel	16,73	Israel	13,09
Qatar	8,73	Israel	13,68	Iran	6,69	Morocco	8,45	Морокко	8,73
Iran	7,2	Iran	10,09	Saudi Arabia	6,39	Tunisia	5,64	Morocco	7,2
Iraq	4,3	Qatar	4,9	Morocco	5,47	Saudi Arabia	5,33	Egypt	4,3
Kuwait	3,52	Kuwait	3,92	Egypt	4,43	Egypt	2,11	Jordan	3,52
Algeria	2,28	Oman	3,69	Bahrain	3,59	Kuwait	1,85	Saudi Arabia	2,28
Oman	1,84	Egypt	3,52	Oman	2,68	Oman	1,46	Iran	1,84
Libya	1,83	Morocco	3,35	Qatar	1,78	Iran	1,06	Bahrain	1,83
Bahrain	1,18	Jordan	2,04	Tunisia	1,23	Malta	1	Oman	1,18
Total share of TOP-10 countries in aggregate exports	99,49		96,68		97,38		96,73		96

Source: calculated according to the data: [3, 4].

Table 1.3

Key import indexes of the MENA countries in 2017

Country	Imports (Total, mln.USD)	Imports Share in aggregate regional imports (%)	Imports Share in world imports (%)	Country	Imports (Total, mln.USD)	Imports Share in aggregate regional imports (%)	Imports Share in world imports (%)
UAE	268000	28,84	1,49	Tunisia	20654	2,22	0,11
Saudi Arabia	134519	14,48	0,75	Jordan	20498	2,21	0,11
Israel	71908	7,74	0,4	Lebanon	19911	2,14	0,11
Egypt	61627	6,63	0,34	Libya	11357	1,22	0,06
Iraq	51325	5,52	0,29	Bahrain	10848	1,17	0,06
Iran	49499	5,33	0,28	Yemen	7500	0,81	0,04
Algeria	46059	4,96	0,26	Palestinian Territories	7362	0,79	0,04
Morocco	44924	4,83	0,25	Malta	5809	0,63	0,03
Kuwait	33599	3,62	0,19	Syria	5800	0,62	0,03
Qatar	30885	3,32	0,17	Djibouti	768	0,08	0,004
Oman	26435	2,84	0,15				

Source: calculated according to the data: [3, 4].

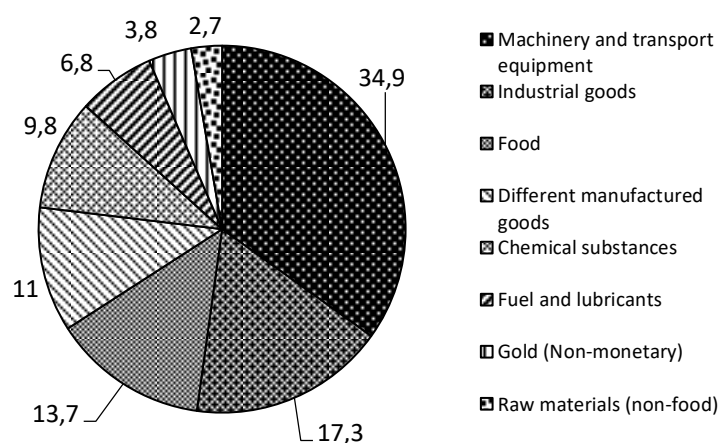


Fig. 1.6. Distribution of aggregate imports of MENA countries by product groups.

Source: calculated according to the data: [3, 4].

The structure of imports of the countries of the region is presented in Appendix B. First, it is necessary to pay attention to the greater diversification of imports compared to exports. While exports have a minimum of 103 items, instead 208 product items (Djibouti) are imported, and most countries have 240-250 product items as imports.

Second, in seventeen countries out of twenty-one, the imports are dominated by machinery and transport equipment (from 23% of Egypt imports to 48% of Qatar’s imports), with Malta, 46%, Saudi Arabia, 42%, Iran – 40%, Kuwait – 39%, 36% – AOE, Algeria, Israel and others.

Third, all the countries in the MENA region (except the UAE and Israel) are food importers (wheat, rice, sugar and honey, meat and dairy products, etc.). The largest share of food in imports have the following countries: Yemen – 40%, Palestinian Territories – 28%, Iraq – 26%, Libya – 22%, and Syria, Lebanon and Algeria have 20%, respectively.

Absolute leaders in terms of imports (as well as exports) are three countries: UAE (first place by all product groups), Saudi Arabia (second place by all product groups) and Israel (third place in terms of imports of machinery and transport equipment, industrial goods by different types of materials and different manufactured goods) (Tab. 1.4).

One of the key indicators of foreign trade performance is the trade balance. An analysis of the dynamics of exports and imports of the MENA countries and the trade balance in goods, respectively, showed that during 2000-2017 the aggregate trade balance was positive, but with a downward trend since 2012 (Fig. 1.7).

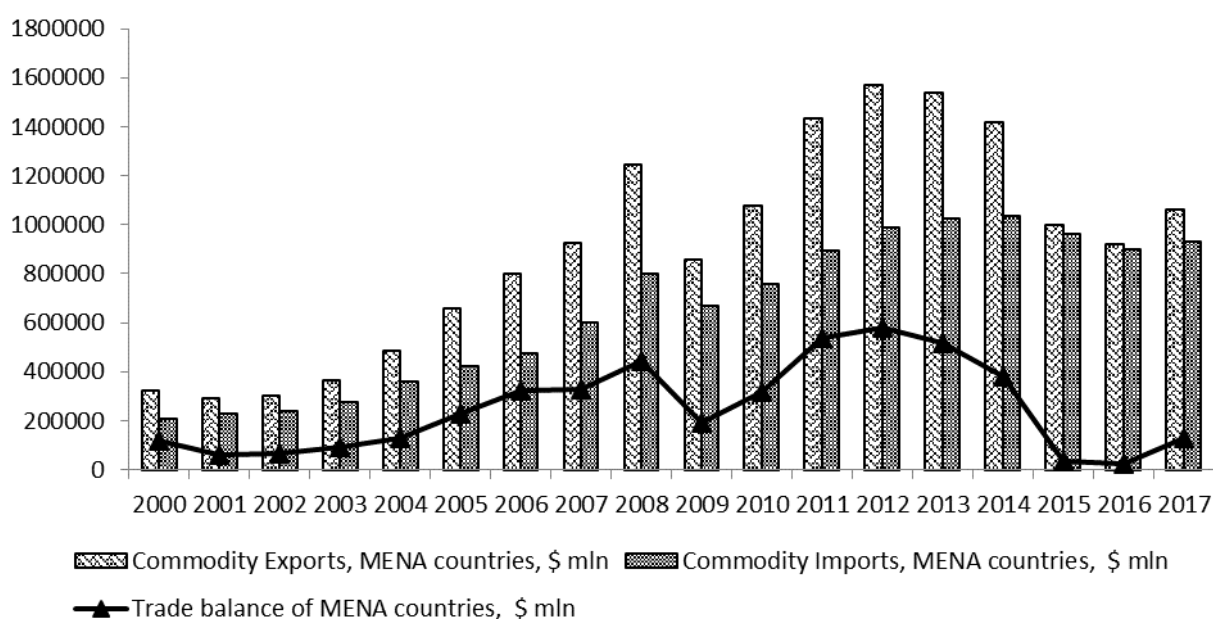


Fig. 1.7. Exports of goods, imports of goods, trade balance of the MENA countries in 2017.
Source: calculated according to the data: [3, 4].

It should be noted that the positive trade balance of the MENA countries is provided mainly by Saudi Arabia, UAE, Iran, Qatar and Kuwait, which have a significant one. As for other countries, they have a negative trade balance (Fig. 1.8).

Parameters of the export-import development of the MENA countries are incomplete without determination of the priorities of the external regional structure of exports and imports. The corresponding calculations are presented in Tab. 1.5.

According to the data, both exports and imports of the MENA countries are oriented towards the markets of the Triad countries (USA, EU, Japan) and towards Asian countries (India, China and South Korea). According to our estimates, intra-regional exports in recent years are 8-10%, and imports – 7-9%. This indicates the potential for deepening trade and economic ties between the MENA countries.

In international trade, services as a subject of trade take increasingly strong positions. There is a steady upward trend in world trade in both exports and imports of services. According to UNCTAD, global exports and imports of services have more than tripled over the 18 years (from 2000 to 2017) (exports – from \$ 1.5 to \$ 5.1 trillion, imports – from \$ 1.3 to \$ 4.3 trillion) dollars). The share of services in the aggregate volume of international trade is increasing. Thus, the share of services in world exports increased by almost 4% (from 18.7% to 22.4%), and in world imports increased by almost 3% (from 16.3% to 19.2%).

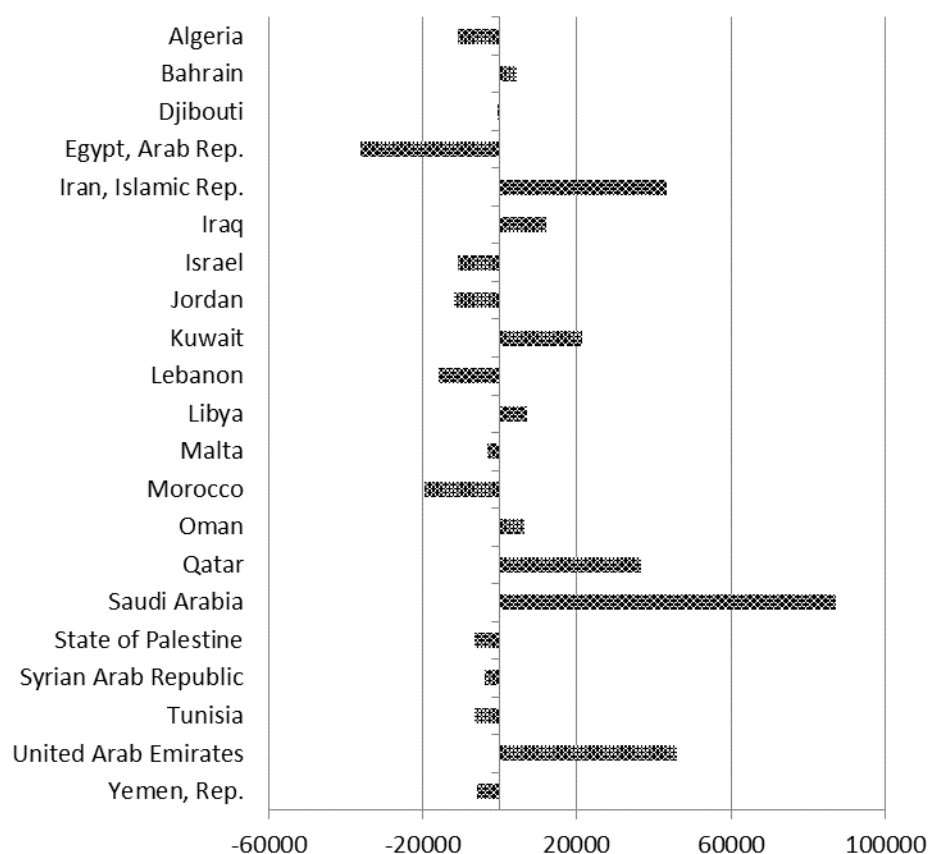


Fig. 1.8. Trade balance of MENA countries in 2017, \$ mln.

Source: calculated according to the data: [3, 4].

In foreign trade of MENA countries, upward trends in trade by services have been more pronounced. According to estimates from 2000 to 2017, total regional exports of services increased more than 5 times (from \$ 50 to \$ 265 bln.) and imports of services increased more than 4 times (from \$ 76.5 bln. to \$ 360 bln.). Note that in 2014, regional imports of services reached almost \$ 400 bln. The share of regional exports of services over 18 years slowly increased from 3% in 2000 to 5% in 2017, and regional imports of services over the same period increased from 5% to 7%, respectively (Fig. 1.9).

Table 1.5

Directions of goods flows in and out of the MENA region, 2017

TOP-10 countries of export destination	Exports (mln.USD)	Share in aggregate regional exports (%)	TOP-10 importers	Imports (mln.USD)	Share in aggregate regional imports (%)
USA	116372,3	11	EU(28)	234415,6	25,2
China	111954,7	10,6	China	134482,4	14,5
India	94480,2	8,9	USA	78060,72	8,4
Japan	90807,6	8,6	UAE	49466,93	5,3
EU(28)	69454,6	6,5	India	25967,1	2,8
South Korea	46960,7	4,4	Japan	18656,63	2
Iran	27785,6	2,6	Turkey	12515,04	1,3
Iraq	24303,3	2,3	Saudi Arabia	10071,25	1,1
UAE	21236,4	2	South Korea	9100,489	1
Saudi Arabia	15261,1	1,4	Egypt	824,469	0,1
Others	441989,5	41,7	Others	355726,4	38,3

Source: calculated according to the data: [3, 4].

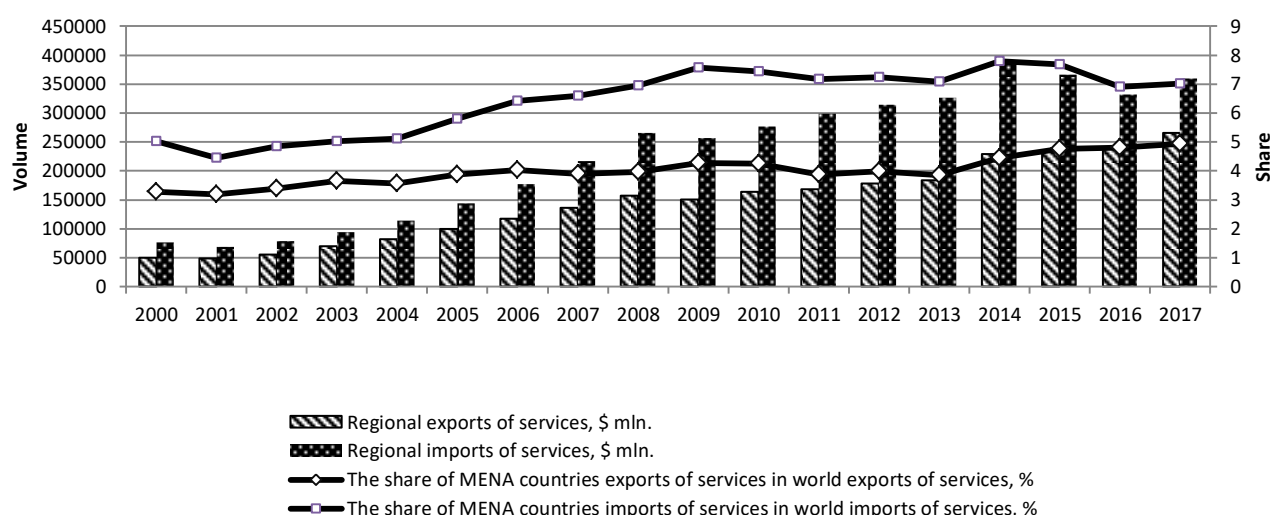


Fig. 1.9. Dynamics of regional exports and imports of services and their shares in the corresponding world volumes over the period 2000-2017.

Source: calculated according to the data: [3, 4].

Table 1.4

Top-10 MENA importers by product category (2017)

Machinery and transport equipment		Industrial goods by type of material (industrial raw materials)		Food		Manufactured goods		Chemicals and related products	
Country	Share in aggregate imports	Country	Share in aggregate imports	Country	Share in aggregate exports	Country	Share in aggregate exports	Country	Share in aggregate exports
UAE	29,72	UAE	26,25	UAE	16,86	UAE	39,23	UAE	52,03
Saudi Arabia	17,58	Saudi Arabia	13,67	Saudi Arabia	16,68	Saudi Arabia	13,04	Saudi Arabia	13,09
Israel	7,37	Israel	10,07	Iraq	10,45	Israel	8,41	Egypt	8,73
Iran	6,09	Egypt	7,0	Egypt	8,92	Iraq	7,02	Israel	7,2
Algeria	5,14	Iraq	6,59	Algeria	7,32	Kuwait	4,91	Iran	4,3
Egypt	4,72	Algeria	5,82	Iran	6,37	Qatar	3,96	Algeria	3,52
Morocco	4,65	Iran	5,36	Israel	4,66	Iran	3,8	Morocco	2,28
Qatar	4,41	Morocco	5,30	Kuwait	4,01	Egypt	3,15	Iraq	1,84
Iraq	4,37	Kuwait	3,36	Morocco	3,98	Morocco	2,59	Lebanon	1,83
Kuwait	4,11	Oman	3,06	Lebanon	3,2	Oman	2,56	Kuwait	1,18
Aggregate regional imports (mln.USD)	320231,3		158704,6		125653,9		97717		90160,2
Share of TOP-10 in aggregate imports	88,16		86,48		82,45		88,68		85,87

Source: calculated according to the data: [3, 4].

The positions of services in the foreign trade of the MENA countries are also strengthening. Thus, the share of services in the aggregate exports of goods and services of the MENA countries over the period 2000-2017 increased from 13.4% in 2000 to 20% in 2017. The most significant increase took place since 2013 caused by increase in exports of services by 30% over the period 2013-2017 and a significant reduction in the cost of exports of goods over this period, on the other hand (Fig. 1.10).

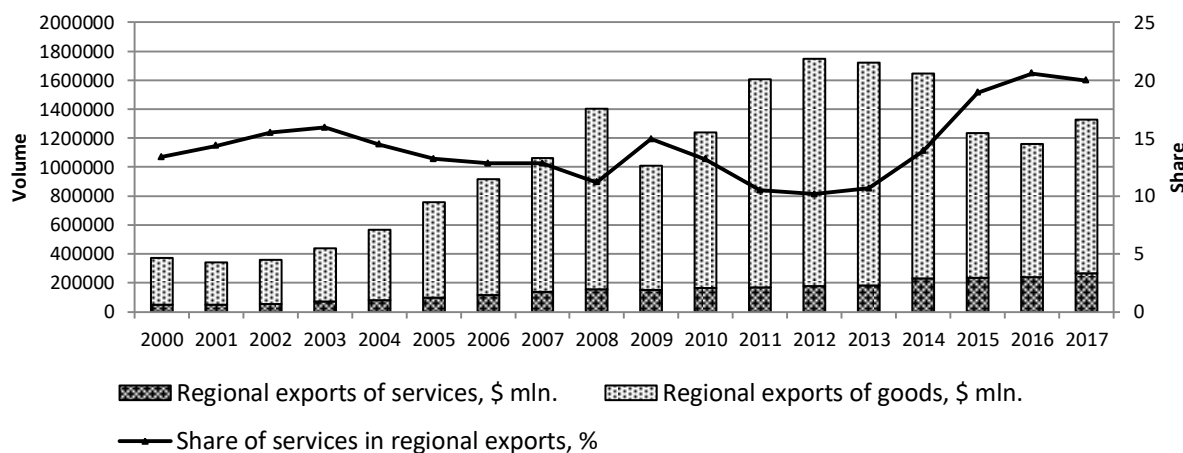


Fig. 1.10. Dynamics of aggregate regional exports of MENA countries (exports of goods and services, share of services in aggregate regional exports).

Source: calculated according to the data: [3, 4].

Over 2000-2017, annual aggregate regional imports of services exceeded exports of services by an average of 35% and created a negative trade balance (Fig. 1.11). While in the early 2000s (2000-2004), the trade balance in services was close to -20 bln. dollars, then in 2005 it increased more than twice and reached -43.6 billion dollars. In the following years (2005-2008), there was a significant increase up to 35% in the negative annual trade balance in services. The maximum excess of imports of services over exports was recorded in 2014, amounting to \$ -161.2 bln. After 2014 exports of services increased and there was fall in imports; on the contrary, the trade balance for services decreased almost twice in 2017 compared to 2014 to the level of -86.8 bln. dollars.

As of 2017, 9 MENA countries have a positive balance of trade in services, namely: Israel, Morocco, Malta, Bahrain, Egypt, Jordan, Lebanon, Tunisia and Djibouti, the rest - negative (Fig. 1.12).

The analysis showed that the negative trade balance of the regional trade balance in services is generated mainly due to the oil exporting countries. These countries (Saudi Arabia, Kuwait, Qatar, Iraq, Iran, Algeria, etc.) import much more services than export. Saudi Arabia (-61.1 bln.) is ahead of the next country (Kuwait) by nearly \$ 40 bln. It is the regional leader in terms of trade balance

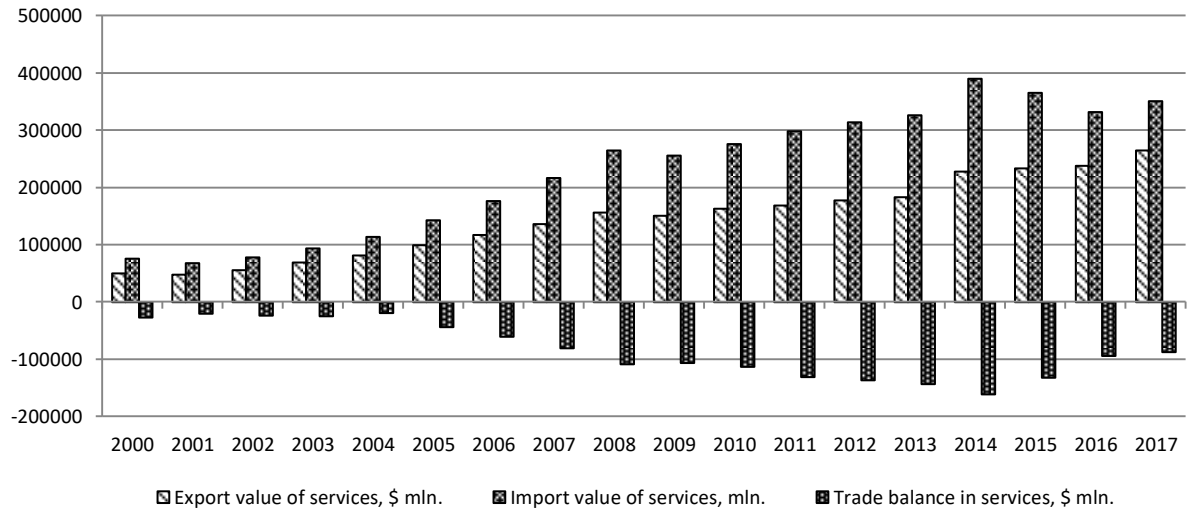


Fig. 1.11. Dynamics of regional exports and imports of services and services trade balance (2000-2017).

Source: calculated according to the data: [3, 4].

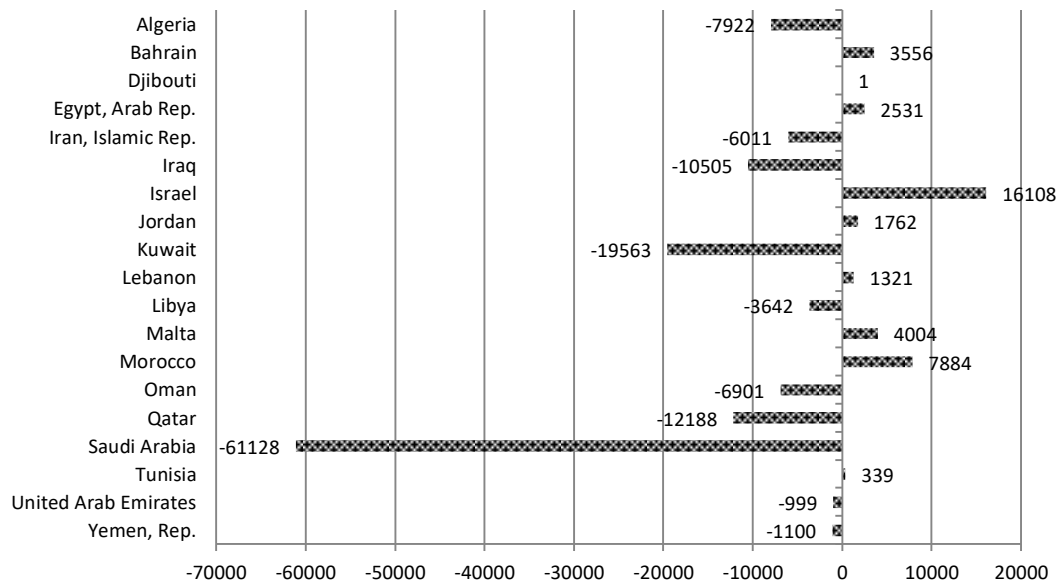


Fig. 1.12. Services trade balance of MENA countries in 2017, million, USD.

Source: calculated according to the data: [3, 4].

Share of services in total regional imports of goods and services over the period 2000-2017 varied in the vicinity of average of 18.4%. Sustainable growth in the share of imports of services in the aggregate imports of the MENA countries has been recorded since 2013 at 1.5% -2% annually. In 2017, the share of imports in total regional imports of MENA countries reached its maximum value (22.2%) over the whole period 2000-2017 (Fig. 1.13).

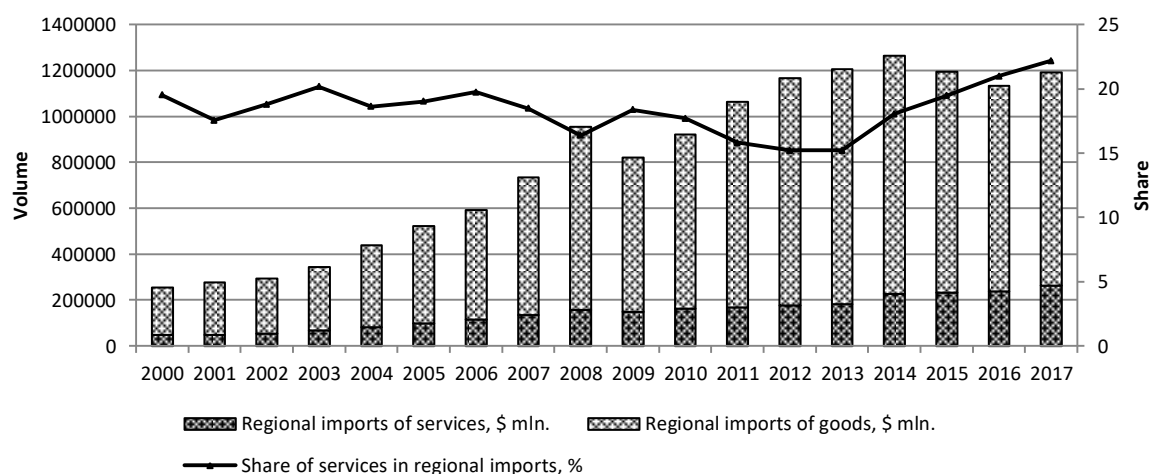


Fig. 1.13. Dynamics of aggregate imports of the MENA countries (imports of goods, imports of services, share of services in aggregate regional imports).

Source: calculated according to the data: [3, 4].

All MENA countries are involved in international trade in services, but the scope of these activities varies significantly across countries. More than 50% of MENA region exports origin from the three countries: The United Arab Emirates, Israel and Egypt, and 50% of imports of service come from Saudi Arabia, the United Arab Emirates and Qatar. The top 10 MENA exporters and importers of services account for almost 90% of both exports and imports of services in the region (Tab. 1.6).

Table 1.6

Top-10 MENA exporters and importers of services, 2017.

Services Ex- porting coun- tries	Share in regional exports of ser- vices(%)	Share in world ex- ports of ser- vices (%)	Services Importing countries	Share in regional imports of ser- vices (%)	Share in world im- ports of ser- vices (%)
UAE	26,31	1,3	Saudi Arabia	22,36	1,51
Israel	16,89	0,83	UAE	20,09	1,36
Egypt	7,04	0,35	Qatar	8,46	0,57
Qatar	6,63	0,33	Israel	8,13	0,55
Saudi Arabia	6,6	0,33	Kuwait	7,74	0,52
Morocco	6,27	0,31	Iraq	4,6	0,31
Lebanon	5,72	0,28	Egypt	4,58	0,31
Malta	5,18	0,26	Lebanon	3,93	0,27
Bahrain	4,29	0,21	Oman	3,11	0,21
Iran	3,73	0,18	Algeria	3,08	0,21

Source: calculated according to the data: [3, 5].

Studies have shown that in the structure of aggregate exports of MENA countries that traditionally dominate in the oil product exports, the share of services generally does not exceed 20%, which is significantly lower than in countries with more differentiated product range of exports.

Thus, 84.5% of Malta's exports in 2017 came from services. In Lebanon and Djibouti, exports of services also exceeded merchandise exports (Fig. 1.14).

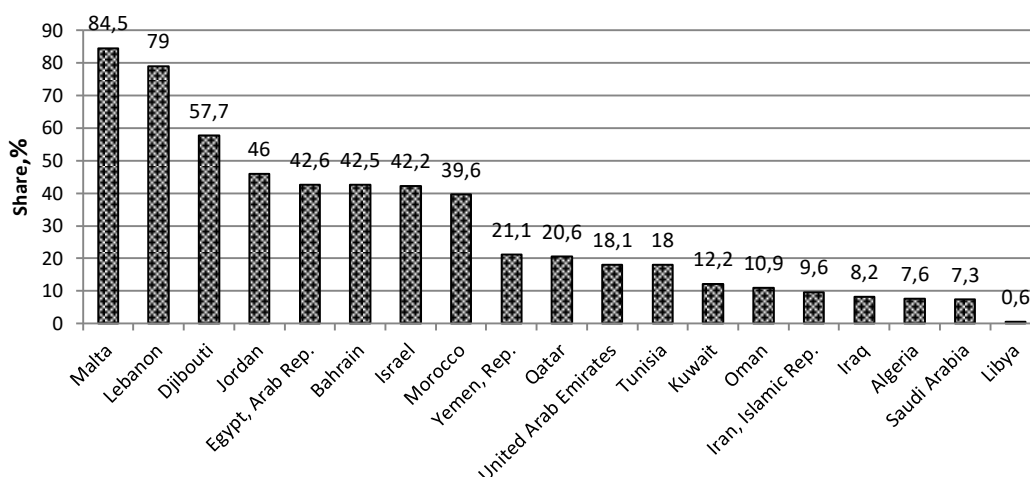


Fig. 1.14. Share of services in aggregate exports of goods and services of MENA countries in 2017.

Source: calculated according to the data: [3, 4].

In the structure of imports of MENA countries, with the exception of Malta, merchandise imports prevailed in 2017. However, in Qatar, Kuwait, Bahrain and Lebanon, the share of imports of services in aggregate imports was at a rather high level (over 40%). In the countries exporting oil products, the share of imports of services in the aggregate imports averaged 25% (Fig. 1.15).

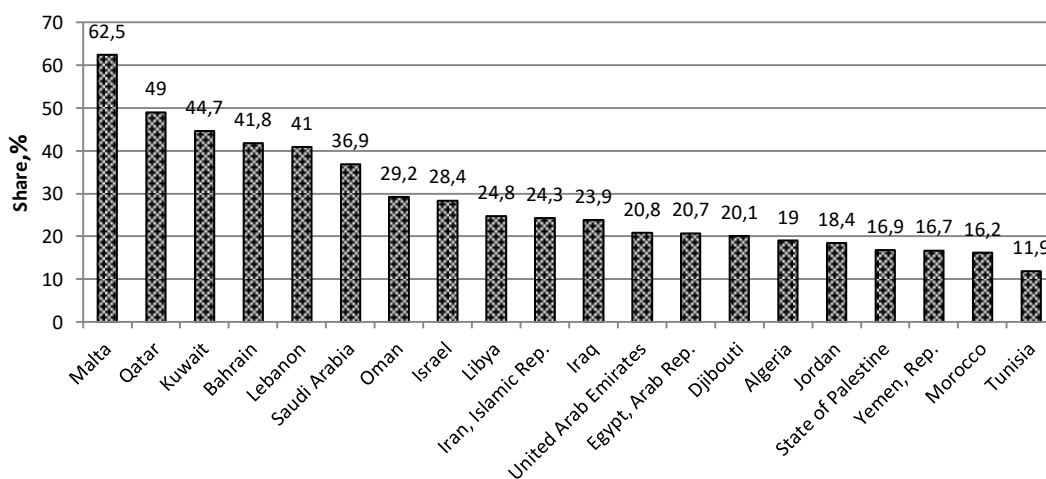


Fig. 1.15. Share of services in aggregate imports of goods and services of MENA countries in 2017.

Source: calculated according to the data: [3, 4].

Since 2000, aggregate international trade in commercial services of MENA countries has grown on average by 10% annually. Certain countries and types of services experienced higher growth rates at some times, while others developed at a slower pace.

Tourism services (almost 34% of total regional services exports), transportation services (27%), other commercial services (almost 38%) play key role in aggregate regional exports of services (Fig. 1.16).

The UAE plays a leading role in international trade in services among the MENA countries. They are listed in the top 15 leading exporters and importers of travel, transportation and other commercial services in the world. Israel ranked in the TOP-15 of the leading exporters of other commercial services in the world, and Saudi Arabia is in the TOP-15 of the leading importers of commercial services in the world.

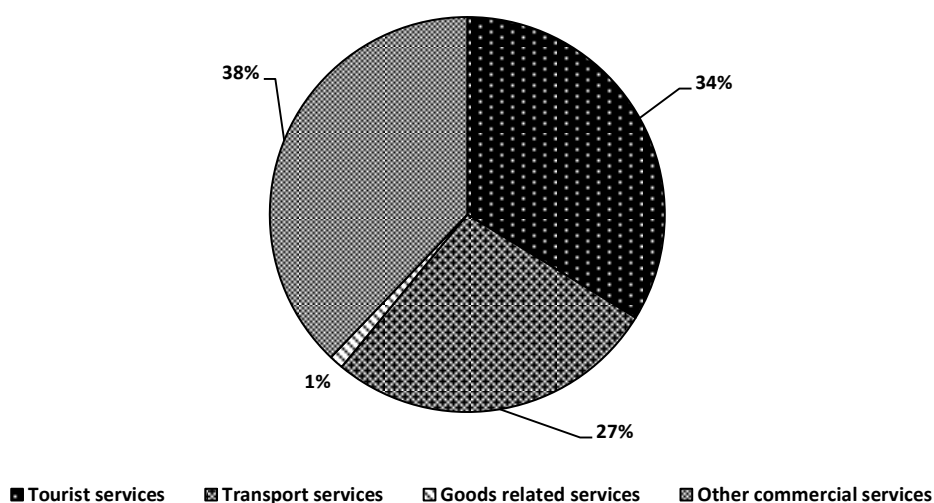


Fig. 1.16. Structure of aggregate regional exports of services of MENA countries, 2017.
Source: calculated according to the data: [6].

Goods-related services are only exported to a limited extent by five countries in the region (Morocco, Israel, Malta, Bahrain and Lebanon). Morocco is in TOP-15 of exporters in the world in this service category.

The range of commercial services that are traded on the world market is quite wide. With exception of tourism and transportation, it includes the following services: IT, financial, insurance, construction, business services (professional and management consulting, research and development, trade, marketing, etc.).

MENA countries actively export these types of services. The largest share (28% and 27% respectively) in the structure of other commercial services is accounted for business services and IT services (Fig. 1.17).

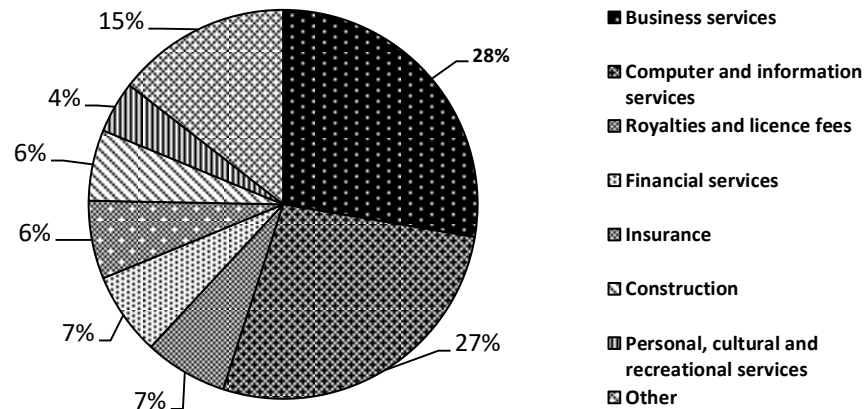


Fig. 1.17. Structure of aggregate regional exports of other commercial services of MENA countries, 2017.

Source: calculated according to the data: [6].

The leading exporters of business services among MENA countries are Israel, which accounts for almost 60% of aggregate regional exports of business services, and Malta, which accounts for more than 11% of aggregate regional exports of business services. The leading exporters of IT services among MENA countries are Israel, the UAE and Kuwait. They account for almost 80% of the total regional exports of these services. Besides, Israel and the UAE are among the TOP-10 exporters of IT services in the world.

Services related to the transfer of intellectual property rights (royalties) are exported by Israel and the UAE, which are not only key exporters of this type of services in the MENA region, but also in the TOP-10 of leading exporters in the world in this category of services.

Malta and Lebanon provide over 80% of total regional exports of financial services. The Kingdom of Bahrain exports almost 80% of total regional exports of insurance services and is in the TOP-10 of leading exporters and importers in the world by this type of services.

The UAE, Iran and Morocco are leading exporters of construction services in the MENA region. Their share in total regional exports of this type of services is up to 80%. Besides, the UAE is in the TOP-10 of leading exporters of construction services in the world. Malta accounts for almost 90% of total regional exports of personal, cultural and recreational services. Qatar and Jordan provide a small amount of exports of these services. The leading exporting MENA countries by type of services are listed in Tab. 1.7.

The aggregate regional imports of services (as well as exports of services) is dominated by two service categories - tourism (28%) and transport (26%) (Fig. 1.18). Other commercial services are represented by a wide range of products and account for almost 46% of total regional imports of

services. Goods-related services have a small share (0.3%) in imports of services of the MENA countries. Israel is the main importer of these services.

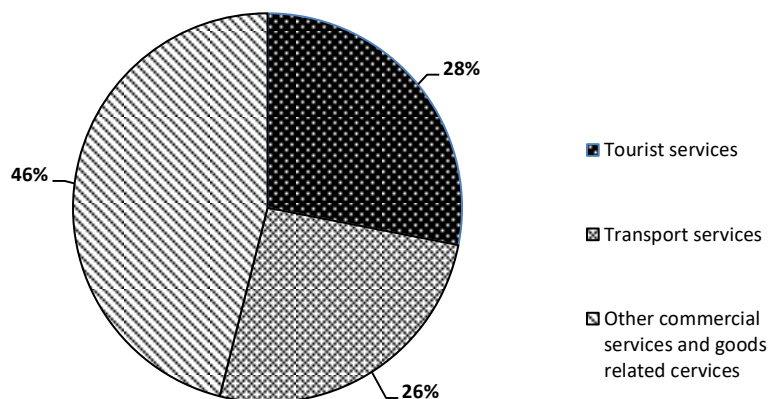


Fig. 1.18. Structure of aggregate regional imports of services of MENA countries, 2017.
Source: calculated according to the data: [6].

Table 1.7

Leading exporting MENA countries by type of service.

Tourist services		Transport services		Other business- services		IT services		Financial services	
Country	Share in aggregate exports of tourist services	Country	Share in aggregate exports of transport services	Country	Share in aggregate exports of other business- services	Country	Share in aggregate exports of IT services	Country	Share in aggregate exports of financial services
UAE	23,57	UAE	38,7	Israel	59,9	Israel	42,96	Malta	44,71
Saudi Arabia									
Qatar	13,56	Qatar	14,2	Malta	11,57	UAE	23,65	Lebanon	36,34
Egypt	8,47	Egypt	12,29	Lebanon	7,83	Kuwait	13,36	Saudi Arabia	9,78
Morocco	8,38	Saudi Arabia	5,86	Morocco	6,44	Morocco	5,45	Kuwait	4,38
Lebanon	8,14	Israel	5,70	Algeria	4,88	Egypt	2,52	Algeria	3,77
Israel	7,44	Iran	5,23	Bahrain	3,55	Bahrain	2,28	Jordan	1,01
Qatar	6,68	Morocco	4,28	Oman	1,70	Lebanon	2,27		
Jordan	5,11	Kuwait	3,05	Egypt	1,47	Qatar	2,24		
Bahrain	4,44	Oman	2,01	Iran	1,38	Iran	1,59		
Iran	4,17	Jordan	1,83	Jordan	0,92	Saudi Arabia	1,28		
Total Share of TOP-10 MENA countries in aggregate exports of tourist services	89,97	Total Share of TOP-10 MENA countries in aggregate exports of transport services	93,1	Total Share of TOP-10 MENA countries in aggregate exports of other business- services	99,65	Total Share of TOP-10 MENA countries in regional exports of IT services	97,6	Total Share of TOP-10 MENA countries in regional exports of financial services	100

Source: calculated according to the data: [6].

MENA countries are predominantly developing ones. The development of their economies require a variety of services, especially financial, IT, professional and management consulting, engineering and others.

The UAE and Saudi Arabia are at the top among the MENA countries by import categories of services mentioned above, and are in the TOP-10 of world importers of services (Tab. 1.8). Israel imports a wide range of a business services, including professional and management consulting, research and development, technical services and more. In terms of imports of financial services, Lebanon is among the world's leading importing countries. Insurance services are actively imported by the Kingdom of Bahrain.

Table 1.8

Leading importing MENA countries by type of service (2017).

Tourist services		Transport services		Other business- services and goods-related services	
Country	Share in aggregate regional imports of tourist services (%)	Country	Share in aggregate regional imports of transport services (%)	Country	Share in aggregate regional imports of other business- services (%)
UAE	18,30	Saudi Arabia	17,76	UAE	33,85
Saudi Arabia	18,01	UAE	16,61	Saudi Arabia	13,45
Kuwait	12,54	Qatar	12,60	Israel	9,06
Iran	10,26	Israel	8,47	Kuwait	6,64
Qatar	10,00	Egypt	8,36	Qatar	5,93
Israel	7,82	Kuwait	5,94	Malta	5,54
Lebanon	5,63	Morocco	4,62	Algeria	4,34
Iraq	5,11	Algeria	4,43	Lebanon	4,17
Egypt	2,25	Oman	4,12	Egypt	4,05
Oman	2,22	Iraq	3,20	Bahrain	3,00
Share of MENA countries in aggregate regional imports of tourist services (%)	92,13	Share of MENA countries in aggregate regional imports of transport services (%)	86,1	Share of MENA countries in aggregate regional imports of other business-services (%)	90,05

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Key positions in exports of goods of MENA countries in 2017

Country	Goods	Share in exports of country (%)
Algeria	Mineral fuels and lubricants (oil, gas, electricity). Product Diversification Index: 0.79. Product Concentration Index: 0.48. Total number of products: 108.	96,11
Bahrain	Industrial goods by type of raw materials (non-ferrous metals, metal structures and parts, pipes, paper, cardboard, fabrics, woodworking, glass, etc.). Manufactured goods (women's and men's clothing, textiles, furniture, etc.). Machinery and transport equipment (heating and cooling equipment, engines, construction machines and equipment, automatic data processing machines, etc.). Chemicals (soap, cleaning products, perfumes, cosmetics, plastic pipes, fertilizers, etc.). Product Diversification Index: 0.699. Product Concentration Index: 0.335. Total number of products: 224.	23,3 6,3 5,5 2,8
Djibouti	Food (coffee, sugar, vegetables, fruits and nuts, fresh and chilled fish, wheat and other cereals, flour and flour products, etc.). Non-food raw materials (fuel and charcoal, etc.). Chemicals (pharmaceuticals and medicines, plastics, soaps, perfumes, etc.). Product Diversification Index: 0.63. Product Concentration Index: 0.188. Total number of products: 103.	46,35 13,1 3,2
Egypt	Industrial goods by type of raw materials (non-ferrous metals, flat and non-alloy steel, floor coverings, lime, cement, paper, cardboard, textile yarn, etc.). Food (fruits and nuts, vegetables, sugar, honey, cheese, tobacco, etc.). Chemicals (fertilizers, essential oils, perfume and flavor materials, polymers, plastics, etc.). Manufactured goods (men's, women's and children's clothing, textiles, furniture, plastic products, etc.). Machinery and transport equipment (electricity distribution equipment, television receivers, household equipment, heating and cooling equipment, etc.). Product Diversification Index: 0.582. Product Concentration Index: 0.142. Total number of products: 240.	17,2 17 15,8 8,9 7,9
Iran	Mineral fuels and lubricants (coal, oil, gas, electricity). Product Diversification Index: 0.716. Product Concentration Index: -0.489. Total number of products: 242.	60,91
Iraq	Mineral fuels and lubricants (oil and gas). Product Diversification Index: 0.894. Product Concentration Index: 0.94. Total number of products: 142.	96,51
Israel	Industrial goods by type of raw materials (pearls, precious and semi-precious stones, tools, special yarn and special textiles, etc.). Machinery and transport equipment (aviation and spacecraft equipment, engines, agricultural machinery, printing equipment, data processing equipment and accessories, telecommunication equipment, etc.).	29,7 26,5

	Chemicals (pharmaceuticals and medicines, fertilizers, etc.). Product Diversification Index: 0.561. Product Concentration Index: 0.24. Total number of products: 220.	26
Jordan	Chemicals (medicines, fertilizers, inorganic chemical materials, oxides, soap, etc.). Manufactured goods (women's and men's clothing, jewelry, etc.). Product Diversification Index: 0.655. Product Concentration Index: 0.165. Total number of products: 213.	31,8 25,2
Kuwait	Mineral fuels and lubricants (oil and gas). Product Diversification Index: 0.8. Product Concentration Index: 0.638. Total number of products: 219.	82,37
Lebanon	Food (fruits, nuts, vegetables, sugar, etc.). Manufactured goods (plastic products, jewelry, women's and men's clothing, etc.). Industrial goods by type of raw materials (paper, cardboard, pearls, precious and semiprecious stones, non-ferrous metals, etc.). Product Diversification Index: 0.672. Product Concentration Index: 0.193. Total number of products: 211.	34,88 14,9 11,7
Libya	Mineral fuels and lubricants (oil, gas). Product Diversification Index: 0.83. Commodity Concentration Index: 0.725. Total number of products: 135.	88,67
Malta	Machinery and transport equipment (parts for electric machines, aircraft and spacecraft, etc.). Manufactured goods (baby carts, toys, sports goods, printed products, tools, etc.). Product Diversification Index: 0.609. Product Concentration Index: 0.242. Total number of products: 204.	38,6 16,2
Morocco	Machinery and transport equipment (electricity distribution equipment, cars and trucks, aviation and spacecraft equipment, electrical equipment, etc.). Food (vegetables, fruits, fish and crustaceans, etc.). Industrial goods by type of raw materials (metal parts, silver, platinum, lime, cement, etc.). Product Diversification Index: 0.684. Product Concentration Index: 0.176. Total number of products: 230.	31,9 21,5 21,5
Oman	Mineral fuels and lubricants (oil, gas). Chemicals (carboxylic acids, anhydrides, fertilizers, polyesters, epoxy resins, etc.). Product Diversification Index: 0.703. Product Concentration Index: 0.396. Total number of products: 230.	59,52 13
Qatar	Mineral fuels and lubricants (oil and gas). Product diversification Index: 0.827. Product Concentration Index: 0.5. Total number of products: 212.	85,61
Saudi Arabia	Mineral fuels and lubricants (coal, oil, gas). Chemicals (polymers, plastics, alcohols, phenols, halogenate, inorganic	71,24 19

	chemical elements, etc.). Product Diversification Index: 0.767. Product Concentration Index: 0.583. Total number of products: 250.	
State of Palestine	Industrial goods by type of raw materials (lime, cement, woodworking, aluminum, etc.). Manufactured goods (furniture, shoes, plastic products, etc.). Product Diversification Index: 0.673. Product Concentration Index: 0.181. Total number of products - 156.	32,9 22,2
Syria	Food (vegetables, soft drinks, fruits, nuts, spices, etc.). Product Diversification Index: 0.718. Product Concentration Index: 0.376. Total number of products: 167.	70,08
Tunisia	Machinery and transport equipment (electricity distribution equipment, vehicle parts, aviation and spacecraft equipment, etc.). Manufactured goods (clothing, women's and men's clothing, shoes, plastic products, etc.). Product Diversification Index: 0.525. Product Concentration Index: 0.141. Total number of products: 183.	38,5 27,1
UAE	Mineral fuels and lubricants (coal, oil, gas, electricity). Machinery and transport equipment (telecommunication equipment, engines, construction machinery, etc.). Product Diversification Index: 0.536. Product Concentration Index: 0.237. Total number of products: 259.	35,64 16,4
Yemen	Mineral fuels and lubricants (coal, oil, gas). Non-monetary gold. Product Diversification Index: 0.747. Product Concentration Index: 0.352. Total number of products: 127.	34,8 23,3

Key positions in imports of goods of MENA countries in 2017

Country	Goods	Share in imports of country (%)
Algeria	Machinery and transport equipment (cars, machinery, heating and cooling equipment, etc.).	35,7
	Industrial goods by type of raw materials (pipes, iron, steel, constructions of iron, steel, aluminum, etc.).	20,1
	Food (wheat, milk and dairy products, sugar and honey, etc.).	20
	Chemicals (medicines, polymers, plastics, etc.).	13
	Product Diversification Index: 0.385. Product Concentration Index: 0.06. Total number of products: 234.	
Bahrain	Machinery and transport equipment (cars, ships and boats, telecommunications equipment, etc.).	34,2
	Mineral fuels and lubricants (petroleum and petroleum products).	20,1
	Food (fruits and nuts, vegetables, rice, sugar, honey, chocolate, etc.).	12
	Manufactured goods (jewelry, furniture and accessories, clothing, shoes, etc.).	11,9
	Product Diversification Index: 0.393. Product Concentration Index: 0.159. Total number of products: 234.	
Djibouti	Machinery and transport equipment (special trucks, cars, construction equipment, etc.).	29
	Industrial goods by type of raw materials (rolling, non-precious metals, constructions and details of iron, steel, aluminum, etc.).	19,8
	Food (milk and dairy products, sugar and honey, rice, wheat, etc.).	19,3
	Manufactured goods (plastic products, shoes, furniture, clothing, etc.).	13,8
	Chemicals (pharmaceuticals and medicines, plastics, soaps, perfumes, etc.).	11,8
Product Diversification Index: 0.486. Product Concentration Index: 0.084. Total number of products: 208.		
Egypt	Machinery and transport equipment (telecommunication equipment, cars, pumps and compressors, etc.).	23,3
	Industrial goods by type of raw material (ingots and forms of iron and steel, textile yarn, paper and cardboard, pipes, etc.).	17,1
	Food (wheat, corn, sugar and honey, animal feed, vegetables, etc.).	17,3
	Mineral fuels and lubricants (oil, petroleum products, gas, etc.).	16,8
	Product Diversification Index: 0.368. Product Concentration Index: 0.075. Total number of products: 248.	
Iran	Machinery and transport equipment (cars, telecommunication equipment, heating and cooling equipment, industrial equipment, etc.).	39,5
	Industrial goods by type of raw materials (paper and cardboard, pipes, synthetic textiles, precious metals, etc.).	17,3
	Food (cereals, animal feed, fruits, nuts, vegetables, sugar and honey, etc.).	16,2
	Chemicals (medicines, plastics, perfume and cosmetics, fertilizers, etc.).	12,2
	Product Diversification Index: 0.364. Product Concentration Index: 0.06. Total number of products: 245.	

Iraq	<p>Machinery and transport equipment (cars, power distribution equipment, special trucks, heating and cooling equipment, etc.). 27,5</p> <p>Food (meat and dairy products, fruits, nuts, cereals, flour, sugar and honey, etc.). 25,8</p> <p>Industrial goods by type of raw materials (paper, cardboard, artificial fabrics, rolled metal, pipes, etc.). 20,6</p> <p>Manufactured goods (plastic products, furniture, precious metal jewelry, clothing, shoes, etc.). 13,9</p> <p>Product Diversification Index: 0.461. Product Concentration Index: 0.047. Total number of products: 250.</p>	
Israel	<p>Machinery and transport equipment (cars, Machinery equipment for various industries, telecommunications equipment, data processing equipment, etc.). 36</p> <p>Industrial goods by type of raw materials (pearls, precious and semiprecious stones, iron and steel products, aluminum, etc.). 24,4</p> <p>Manufactured goods (measuring instruments, furniture, clothing, shoes, etc.). 13,1</p> <p>Chemicals (medicines, varnishes and paints, perfumes and cosmetics, etc.). 12,3</p> <p>Product Diversification Index: 0.258. Product Concentration Index: 0.106. Total number of products: 251.</p>	
Jordan	<p>Machinery and transport equipment (cars, telecommunication equipment, engines, heating and cooling equipment, etc.). 27,8</p> <p>Food (fruits, nuts, sugar and honey, cereals, meat and dairy products, etc.). 18,7</p> <p>Mineral fuels and lubricants (oil, petroleum products, gas, etc.). 17</p> <p>Industrial goods by type of raw materials (textiles, paper, cardboard, precious metals, rolled metal, etc.). 14,6</p> <p>Product Diversification Index: 0.344. Product Concentration Index: 0.089. Total number of products: 239.</p>	
Kuwait	<p>Machinery and transport equipment (cars, telecommunication equipment, heating and cooling equipment, construction machines and equipment, pumps, etc.). 39,3</p> <p>Industrial goods by type of raw materials (pipes, metal structures and parts, construction materials, paper and cardboard, etc.). 15,9</p> <p>Food (live animals, meat and dairy products, fruits, nuts, vegetables, spices, etc.). 15</p> <p>Manufactured goods (jewelry made of precious metals, furniture products, clothing, shoes, measuring instruments, etc.). 14,7</p> <p>Product Diversification Index: 0.388. Product Concentration Index: 0.082. Total number of products: 221.</p>	
Lebanon	<p>Food (vegetables, fruits, nuts, wheat, live animals, meat and dairy products, etc.). 20,3</p> <p>Machinery and transport equipment (cars, telecommunication equipment, industrial equipment, heating and cooling equipment, etc.). 19,3</p> <p>Chemicals (medicines, perfumes and cosmetics, polymers and plastics, etc.). 19,3</p> <p>Industrial goods by type of raw materials (metal products, building materials, glass products, precious metals, etc.). 12,8</p> <p>Product Diversification Index: 0.455. Product Concentration Index: 0.158. Total number of products: 243.</p>	

Libya	Machinery and transport equipment (cars and trucks, aviation and related equipment, telecommunication equipment, construction equipment, heating and cooling equipment, etc.).	29,8
	Food (cereals, live animals, meat and dairy products, sugar, honey, vegetable fats, etc.).	22,1
	Industrial goods by type of raw materials (metal structures and parts, various metal products, construction materials, paper and cardboard, etc.).	15,9
	Mineral fuels and lubricants (oil, petroleum products, gas, etc.).	12,7
	Product Diversification Index: 0.45. Product Concentration Index: 0.103. Total number of products: 232.	
Malta	Machinery and transport equipment (ships and boats, aviation and related equipment, telecommunications equipment, electrical parts, etc.).	45,5
	Mineral fuels and lubricants (oil, petroleum products, electricity, etc.).	28,1
	Food (fresh and chilled fish, fruits, nuts, alcoholic beverages, animal feed, etc.).	7,6
	Manufactured goods (furniture products, plastic products, clothing, shoes, measuring instruments, etc.).	6,6
	Product Diversification Index: 0.447. Product Concentration Index: 0.285. Total number of products: 232.	
Morocco	Machinery and transport equipment (cars, vehicle parts, power distribution equipment, industrial equipment, etc.).	33,4
	Industrial goods by type of raw materials (artificial fabrics, non-ferrous metals, paper and cardboard, articles of precious metals, metal appliances, etc.).	18,9
	Mineral fuels and lubricants (oil, petroleum products, gas, etc.).	16
	Food (cereals, sugar and honey, animal feed, tea, fruits, nuts, vegetables, etc.).	11,2
	Product Diversification Index: 0.373. Product Concentration Index: 0.09. Product Concentration Index: 0,285 Total number of products: 248.	
Oman	Machinery and transport equipment (cars, aviation and related equipment, heating and cooling equipment, telecommunication equipment, engines, etc.).	34,9
	Industrial goods by type of raw materials (metal structures and parts, non-ferrous metals, pipes, building materials, etc.).	18,7
	Food (meat and dairy products, cereals, fruits, nuts, vegetables, etc.).	12,8
	Manufactured goods (jewelry made of precious metals, measuring instruments, furniture products, plastic products, etc.).	9,9
	Product diversification Index: 0.3745. Product Concentration Index: 0.078. Total number of products: 248.	
Qatar	Machinery and transport equipment (cars, aviation and related equipment, electricity distribution equipment, telecommunication equipment, heating and cooling equipment, information processing equipment, etc.).	47,5
	Industrial goods by type of raw materials (pipes, construction materials, metal products, rubber products, etc.).	15,1
	Manufactured goods (furniture, jewelry of precious metals, measuring instruments, plastic products, etc.).	13,3
	Food (vegetables, fruits, nuts, meat and dairy products, cereals, etc.).	10
	Product Diversification Index: 0.407. Product Concentration Index: 0.087. Total number of products: 253.	

Saudi Arabia	<p>Machinery and transport equipment (cars and trucks, telecommunications equipment, aviation and related equipment, heating and cooling equipment, etc.). 41,8</p> <p>Industrial goods by type of raw materials (pipes, rolling, non-ferrous metals, rubber tires, metal structures and parts, etc.). 16,1</p> <p>Food (cereals, meat and dairy products, fruits, nuts, vegetables, etc.). 15,6</p> <p>Chemicals (medicines, perfumes and cosmetics, plastics, etc.). 10,4</p> <p>Product Diversification Index: 0.309. Product Concentration Index: 0.076. Total number of products: 248.</p>	
State of Palestine	<p>Food (live animals, fruits, nuts, animal feed, soft drinks, etc.). 27,8</p> <p>Mineral fuels and lubricants (oil, petroleum products, gas, etc.). 24,4</p> <p>Industrial goods by type of raw materials (building materials, metal containers, metal products, etc.). 16,7</p> <p>Machinery and transport equipment (cars, telecommunications equipment, heating and cooling equipment, data processing equipment, etc.). 15,1</p> <p>Product Diversification Index: 0.544. Product Concentration Index: 0.131. Total number of products: 224.</p>	
Syria	<p>Industrial goods by type of raw materials (rolling, metal products, textile yarn, building materials, etc.). 24,4</p> <p>Machinery and transport equipment (cars and trucks, telecommunication equipment, heating and cooling equipment, etc.). 22,6</p> <p>Food (cereals, sugar and honey, meat and dairy products, fruits, nuts, vegetables, etc.). 19,5</p> <p>Mineral fuels and lubricants (oil, petroleum products, gas, electricity, etc.). 13,0</p> <p>Product Diversification Index: 0.478. Product Concentration Index: 0.099. Total number of products: 241.</p>	
Tunisia	<p>Machinery and transport equipment (equipment for the power industry, cars and trucks, telecommunication equipment, pumps, etc.). 32,0</p> <p>Industrial goods by type of raw materials (non-ferrous metals, metal products, cotton and synthetic textile, paper, cardboard, etc.). 21,1</p> <p>Mineral fuels and lubricants (oil, petroleum products, gas, etc.). 13,0</p> <p>Food (cereals, sugar and honey, animal feed, meat and dairy products, etc.). 10</p> <p>Product Diversification Index: 0.384. Product Concentration Index: 0.073. Total number of products: 248.</p>	
UAE	<p>Machinery and transport equipment (telecommunication equipment, cars, engines, data processing equipment, heating and cooling equipment, etc.). 35,8</p> <p>Industrial goods by type of raw materials (pearls, precious and semiprecious stones, pipes, artificial fabrics, metal products, non-ferrous metals, precious metal products, etc.). 15,7</p> <p>Manufactured goods (jewelry made of precious metals, clothing, shoes, furniture products, etc.). 14,7</p> <p>Non-monetary gold. 10,8</p> <p>Product Diversification Index: 0.346. Product Concentration Index: 0.124. Total number of products: 257.</p>	
Yemen	<p>Food (wheat, rice, sugar and honey, animal feed, meat and dairy products, etc.). 40</p> <p>Industrial goods by type of raw materials (iron and steel products, artificial fabrics, lime, cement, precious metals, etc.). 17,7</p> <p>Machinery and transport equipment (cars, electrical equipment, heating and cooling equipment, etc.). 14,1</p> <p>Chemicals (medicines, soaps, perfumes, etc.). 8,8</p> <p>Product Diversification Index: 0.54. Product Concentration Index: 0.107. Total number of products: 234.</p>	

CHAPTER 2.

THE POTENTIAL OF FOREIGN DIRECT INVESTMENTS INTO UKRAINE'S ECONOMY FROM MENA REGION

2.1. Importance of Foreign Direct Investments for Ukraine's Sustainable Economic Growth

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Investments are a complex and meaningful notion that integrates various economic processes that influence production, distribution, exchange and consumption, i.e. they are a fundamental base of social economic recreation. There is a direct dependence between the rates of economic growth, availability of investment resources in economy and the rates of savings.

Insufficient and low-quality level of savings in Ukraine gives rise to a vicious circle. Lack of savings leads to: → lack of investments → non-conformity of capital assets quality → low rates of production and low quality of products → low profits → lack of savings → irrational proportion in distribution between consumption and savings → national institutional structure of savings distribution.

Theoretical questions regarding the nature of relations between investments and competitiveness and the place of investments in the context of competitive policy of the state, namely with the consideration of market and transformation processes in the economy, have a relatively high degree of scientific development. In this domain, macro models by J. Keynes, W. Friedman, S. Fisher, Harrod-Domar, R. Solow, Cobb-Douglas etc. can be distinguished, where investment activity is one of the most important macro parameters of modeling the economic development.

The research highlights the interrelations between investments and economic growth, design of economic and mathematical model of dependence between GDP and investments into capital assets and calculation of balance of investment funds for the economy of Ukraine.

The statistical base of indices for the development of Ukrainian economy confirms this hypothesis. It is clear from the calculations of the dynamics of growth rate (*percentage to previous year*) for real Gross domestic product in Ukraine, 2002-2018 (Tab. 2.1), that the greatest sustainable rates were during so-called “recovery growth” after collapse of planned economy in early 90-s – at an average level of about 23-25% per year. In turn, the worst dynamics in the same period was noted

in 2009 when it dropped just after Global financial crisis (2008) and after severe political and social crisis in 2013 when rates reached even negative figures.

Table 2.1.

Dynamics of Gross Domestic Product (GDP) of Ukraine, 2002 – 2018

Year	GDPn, nominal, million UAH	GDP deflation index, %	GDPr, real, million UAH	GDPn nominal, % to previous year	GDP, nominal, million USD	Increase rate of GDPr, % to previous year $\frac{P_1 - P_0}{P_0} \times 100$
2002	225 810	105,1 (1.051)	214 853	105,2	42 393	
2003	267 344	108,2 (1.082)	247541	109,6	50 133	15,21
2004	345 113	115,1 (1.151)	299 838	112,1	64 883	21,13
2005	441 452	124,5 (1.245)	354 580	102,7	86 142	18,26
2006	544 153	114,8 (1.148)	474 001	107,3	107 753	33,68
2007	720 731	122,7 (1.227)	587 393	107,9	142 719	23,92
2008	948 056	128,6 (1.286)	737 213	102,3	179 992	25,51
2009	913 345	113,7 (1.137)	804 503	84,9	117 228	9,13
2010	1 082 569	109,1 (1.091)	992 272	102,3	136 419	23,34
2011	1 316 600	104,6 (1.046)	1 258 699	105,5	163 160	26,85
2012	1 408 889	99,8 (0.998)	1 304 064	100,2	175 781	3,60
2013	1 454 931	100,5 (1.005)	1 410 609	99,9	183 310	8,17
2014	1 566 728	124,9 (1.249)	1 365 123	93,5	131 805	-3,23
2015	1 979 458	143,3 (1.433)	1 430 290	90,2	90 615	4,77
2016	2 383 182	112,4 (1.124)	2 034 430	102,5	93 270	42,24
2017	2 982 920	113,7 (1.137)	2 445 587	102,5	112 154	20,21
2018	3 558 706	109,8 (1.098)	3 083 409	103,4	130 832	26,08

Source: calculated according to the data: [1, 2, 3]

Next table represents changes of gross savings in Ukraine in 2002-2018, which comprises increase of non-financial assets and financial assets, which in turn consists of: a) deposits and savings in marketable securities and b) savings (deposits) in foreign currencies.

If we analyze the changes in gross savings in Ukraine in 2002-2018 (Tab. 2.2), then we can see that the highest share of real gross savings in GDP, i.e. with consideration of inflations, was noted during decade after “recovery growth” had started and till the political and social crisis in 2013 – at the level of above 8% at average per year. Also, this year the share of gross savings in GDP was

the highest during the whole period – 31.8%. After the savings rates dropped, the most rapid decline occurred in 2018 – 0,5% share in GDP – from UAH 148.366 million in 2010 to UAH 11.202 million in 2018, in absolute figures (13,5 times decrease).

Table 2.2

Change of Gross Savings in Ukraine, 2002-2018 (in actual prices).

Year	Gross savings, nominal (GSn), increase million UAH	GDP deflation index, %	Gross savings, real (GSr), million UAH	Share of GSr in GDP(r), %	Increase rate of GSr, % to previous year $\frac{P_1 - P_0}{P_0} \times 100$
2002	14 967	(1.051)	14 241	6,62	
2003	12 014	(1.082)	11 104	4,49	-22,02
2004	15 494	(1.151)	13 461	4,49	21,23
2005	45 651	(1.245)	36 668	10,34	172,40
2006	44 203	(1.148)	38 504	8,12	5,00
2007	47 779	(1.227)	38 940	6,63	1,12
2008	52 011	(1.286)	40 444	5,49	3,86
2009	80 377	(1.137)	70 692	8,79	74,79
2010	161 867	(1.091)	148 366	14,96	109,87
2011	123 123	(1.046)	117 708	9,35	-20,66
2012	147 280	(0.998)	147 575	11,32	25,37
2013	116 266	(1.005)	115 688	8,20	-21,61
2014	30 780	(1.249)	24 644	1,81	-369,43
2015	31 073	(1.433)	21 684	1,52	12,01
2016	12 591	(1.124)	11 202	0,06	-48,34
2017	30 638	(1.137)	26 946	1,10	140,55
2018	16 771	(1.098)	15 274	0,50	-43,31

Source: calculated according to the data: [1, 4].

Finally, the last link of the interrelated system is investments (Tab. 2.3). The statistical indices of change of investments into the capital assets in 2002-2018 also confirm the same trends that were noted in the previous empirical data. The greatest growth rate of investments into capital assets was noted in 2005, at the level of 172% to previous year – from UAH 13.461 million in 2004 to UAH 36.668 in 2005, in absolute figures.

The worst index of dynamics occurred in 2014 when it dropped by 369% compared to the previous year, from UAH 115.688 million to UAH 24.644 million, including deflation index.

Table 2.3

Change of Investments into Capital Assets in 2002-2018 (in actual prices).

Year	Investments into Capital Assets (CA _n), nominal, million UAH	GDP deflation index, %	Investments into capital assets (CA _r), real million UAH	Share of CA _r in GDP(r), %	Increase rate of CA _r , % to previous year $\frac{p_1 - p_0}{p_0} \times 100$
2002	37 178,0	(1.051)	35 374,0	16,46	
2003	51 011,0	(1.082)	47 232,0	19,08	33,52
2004	75 714,0	(1.151)	65 781,0	21,94	39,27
2005	93 096,0	(1.245)	74 776,0	21,08	13,67
2006	125 254,0	(1.148)	109 106,0	23,01	45,91
2007	188 486,0	(1.227)	153 615,0	26,15	40,79
2008	233 081,0	(1.286)	181 245,0	24,58	17,98
2009	151 177,0	(1.137)	132 961,0	16,53	-26,64
2010	180 575,5	(1.091)	165 514,0	16,68	24,48
2011	241 286,0	(1.046)	230 675,0	18,33	39,36
2012	273 256,0	(0.998)	273 812,6	20,99	18,70
2013	249 873,4	(1.005)	248 630,0	17,63	-9,19
2014	219 419,9	(1.249)	175 676,6	12,87	-29,34
2015	273 116,4	(1.433)	190 590,6	13,33	8,49
2016	359 216,1	(1.124)	319 587,3	15,71	67,68
2017	448 461,5	(1.137)	394 425,2	16,13	23,42
2018	578 726,4	(1.098)	535 269,9	17,36	34,95

Source: calculated according to the data: [5].

The empirical data of tables 1-3 enables modeling the dynamics of GDP according to the factors of savings and investments. The base for this is the method of regressive analysis.

Regression means a unilateral stochastic dependence of one random variable on the other or several other random variables. Thus, regression establishes conformity between random variables. Every value of x conforms to the set of values of y and vice versa, every value of y conforms to the set of values of x. Unilateral stochastic dependence is expressed with the help of a function, which unlike the strict mathematical dependence, is called the function of regression or simply regression.

The function of regression formally sets the conformity between variables, although they might not be in relationship of cause and effect. By the number of variables introduced into the regress equation, there are two types of regressions distinguished – simple (even) regression and mul-

tiple (multifactor) regressions. By the form of dependence, the models are divided into linear and nonlinear regressions.

Statistical indices of investment activity reflecting objective mutual cause and mutual dependence of its individual parts can be in the following types of connection: balancing, component and factor [6].

Factoring connections can be seen as functional or correlative. Functional connection in economy is rare, almost exceptional, that's why we're interested in the correlative analysis of connections between rates and dynamics of savings, investments into capital assets and rates of GDP in the economy of Ukraine [7].

In correlative connection, the change of effective feature of y is stipulated by the effect of factor feature of x not in whole but only in part, because the set of other factors ε can also cause effects:

$$y = \psi(x) + \varepsilon \quad (2.1)$$

In correlative connection, various values of effective feature are possible for the same value of factor feature. This can be explained by the availability of other factors that can be even in composition, direction and level of effect upon separate (individual) units of statistical aggregate. Thus, the characteristic feature of correlative connections is that they have manifestation not just in separate cases but in massive phenomena.

After the linear regressive model is built, it is necessary to assess the density of connection between effective and factor variables. To do this, one needs to calculate the coefficient of correlation R that characterizes the degree of density of linear dependence between random variables (x, y) .

Positive value of correlation coefficient shows the availability of direct connection between variables, and negative value shows reverse connection. If the correlation coefficient tends to ± 1 , then it shows the availability of strong connection between variables. At the same time, when it tends to zero, the connection between factors becomes weaker.

With the purpose of researching the effect of investments upon the economic growth of the country, let us perform regressive analysis of relations between the rates of investments into the capital assets and GDP rates in the country, as well as the relation between savings and investments into the capital assets. To perform the research, let us assume that the GDP rates are the function from the rates of investments, and the investment rates are affected by the level of savings. In general, these functions have the following form:

$$GDP = f(\text{Investments into capital assets}) = f(\text{Savings}) \quad (2.2)$$

In the first function, the effective factor (y) is the GDP rate (million UAH). The driving factor (x) is the rate of investments into the capital assets in the economy of Ukraine (million UAH). In the second function, the effective factor (y) is the rate of investments into the capital assets in the

economy of Ukraine (million UAH). The driving factor (x) is the rate of savings. Because of that, we have two linear one-factor regressions:

$$y = a_0 + a_1x_1 \tag{2.3}$$

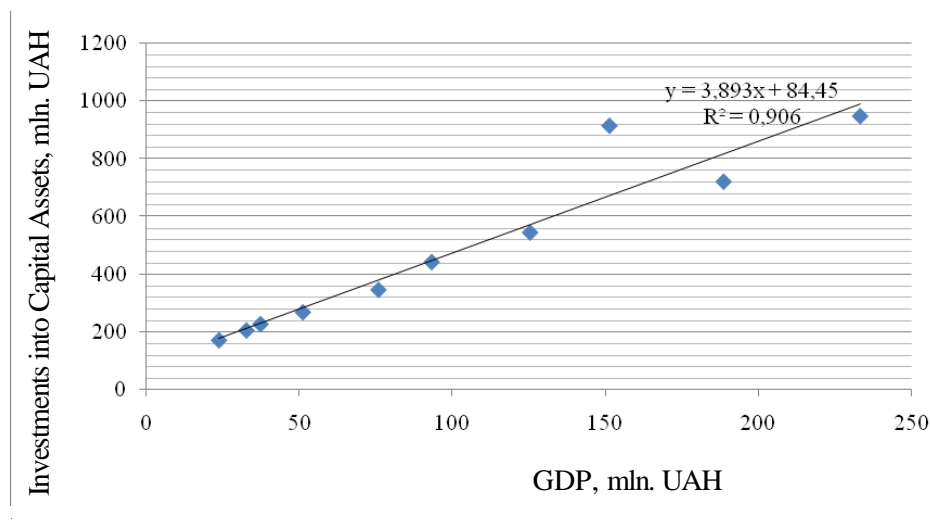


Fig. 2.1 Interdependence between GDP and Investments into Capital Assets.

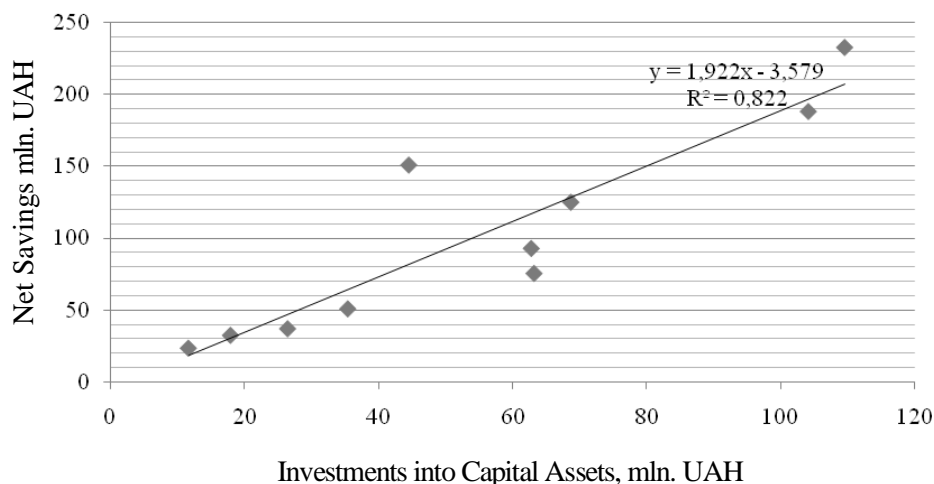


Fig. 2.2 Interdependence between Investments into Capital Assets and Net Savings.

The economical and mathematical models that characterize dependence of GDP rates of the country on the investments into the capital assets and dependence of the rates of investments into the capital assets on the rates of savings have been obtained because of calculations represented in mathematical equations in Table 2.4.

Table 2.4

Economical and Mathematical Model of Dependence of GDP Rates of the Country on the Rates of Investments into Capital Assets and Net Savings, 2002-2018.

Economical and mathematical model	Determination coefficient R^2, Correlation connection coefficient R
$y = 3,893*x + 84,45$	$R^2 = 0.906,$ $R = 0.952$
$y = 1,922*x - 3,579$	$R^2 = 0.822,$ $R = 0.906$

It should be noted that obtained models are adequate to experimental data. The statistical characteristics of these models are meaningful in conformity with the F-criterion of Fisher, have high value of coefficients R^2 and R , which enables us to make economic conclusions on the given basis.

The correlation coefficient $R = 0.9$ proves strong connection between the data calculated by the regression equations and empirical data. The given models prove that there is a direct interconnection between the rate of GDP and the rate of investments. In other words, the increase of investments has a positive effect upon the GDP rates.

According to the performed calculations the results of which are provided below in Table 2.5, the increase of GDP by 8% requires the increase of investments into the capital assets by 56%. In its turn, such rate can be ensured by the increase of net savings by 179%. If the target index of GDP growth is 12%, this will require the increase of investments into the capital assets by 60%, which in its turn can be ensured by the increase of net savings by 186%.

Table 2.5

Calculation of Dependence of GDP Rates of the Country on the Rates of Investments into Capital Assets and Net Savings.

Target GDP	Necessary investments into capital assets	Necessary net savings
GDP = 8%	Investments into CA = +56%	Net savings = +179%
GDP = 12%	Investments into CA = +60%	Net savings = +186,2%

Judging from the above-said, we can conclude that, in the given conditions, rapid economic growth at the expense of financing of only internal savings is not possible. That is why the incoming flow of foreign investments, especially direct investments, is not just desirable but necessary.

The peculiarity of the modern investment model of development of Ukraine is weak engagement of foreign capital in the economy of Ukraine. The trend of significant lagging in this sphere from other countries of Central and Eastern Europe (Tab. 2.6) continues. For instance, according to the calculations of the World Bank, inward stock of foreign direct investments (FDI) in 2016 into

Ukraine was USD 1.080 per capita, while in Estonia it made USD 14.600, in Hungary – USD 7.910, Kazakhstan – USD 7.270, Bulgaria – 5.940, Poland – USD 4.820, Romania – USD 3.710, Georgia – USD 3.550, Belarus – USD 2.000.

Table 2.6

Foreign Direct Investments: Inward stock, US\$ per capita, 2016

Country	Per capita	Country	Per capita
Finland	14 780	Poland	4 820
Estonia	14 660	Romania	3 710
France	10 420	Georgia	3 550
Germany	9 560	Serbia	3 440
Hungary	7 910	Belarus	2 000
Kazakhstan	7 270	Turkey	1 670
Bulgaria	5 940	Ukraine	1 080
Russia	2 640	Moldova	881

Source: calculated according to the data: [8].

The accumulated amount of direct foreign investments per capita places Ukraine in a complex economic situation. At this level, direct foreign investments are only a small share of the amount needed by Ukraine for restructuring and modernization of economy and for the transition to stable economic growth. Moreover, the privatization program as one of the potential sources of direct foreign investments has not been able to attract large amounts of investments yet, as the government had hoped.

According to the National Bank of Ukraine statistical data, in 2018 foreign investors invested USD 42 079 million of direct investments into Ukraine, which is 2,18 % less than previous year. At the same period outward FDI stock estimated to be about USD 7 430 million. Almost 85 % of the amount was into equity, other 15% – varies debt instruments. The data shows significant (fourfold) decrease of FDI inflows since 2014 – from USD 8 401 million in 2012 (last year before crisis) to USD 2 355 million in 2018 (Tab. 2.7).

Table 2.7

Foreign Direct Investments in Ukraine, 2002-2018.

Year	FDI flow, million USD		FDI stock, million USD		FDI stock inward, million USD	
	Inflow	Outflow	Inward	Outward	Equity and reinvestment	Debt in- struments
2002	693	-5	3 875	144	5 648	276
2003	1 424	13	4 801	166	7 152	414
2004	1 751	4	5 924	198	9 047	559
2005	7 808	275	7 566	468	16 375	834
2006	5 604	-133	9 606	344	21 182	1 943
2007	9 891	673	17 209	6 077	34 980	3 079
2008	10 913	1 010	23 125	7 005	42 748	4 249
2009	4 816	162	38 059	5 870	40 276	5 078
2010	6 495	736	46 997	6 548	46 979	5 893
2011	7 207	192	45 354	6 579	50 715	7 939
2012	8 401	1 206	52 872	7 712	54 831	10 290
2013	4 499	420	58 654	7 825	56 019	11 012
2014	410	111	65 121	7 584	40 961	8 874
2015	2 961	-51	67 031	7 443	34 799	8 218
2016	3 284	16	49 835	7 469	33 938	8 141
2017	2 601	8	43 017	7 473	34 381	8 869
2018	2 355	-5	42 079	7 430	35 720	8 618

Source: calculated according to the data: [9].

Investments were made from 125 countries of the world. The top ten of the main investors that cover almost 82% of the total amount of direct investments consists of the following countries: Cyprus – USD 8 919,7 million (21,2 %), Netherlands – USD 6 452,7 million (15,34 %), Great Britain – USD 2 047,9 million (4,87 %), Germany – USD 1 824,7 million (4,34 %), Switzerland – USD 1 532,2 million (3,64 %). Top 10 EU countries invested into Ukraine USD 24 705 million (more than 60 % of the total amount).

Distribution of foreign direct investments among branches of economy was following: industry – USD 10 688,8 (25,40 %) million, wholesale and retail trade – USD 4 970,4 (11,81 %) million, real estate – USD 3 822,6 (9,08 %) million, finance and insurance – USD 3 651,4 (8,68 %) million. Agriculture got only 2,33 % of foreign direct investments – USD 560,8 million (Tab. 2.8).

Table 2.8**Foreign Direct Investments into Ukraine (distribution), 2018.**

Country	FDI, million USD	%, from total amount	Branches of economy	FDI, million USD	%, from total amount
Cyprus	8 919,7	21,20	Industry	10 688,8	25,40
Netherlands	6 452,7	15,34	Wholesale and retail trade	4 970,4	11,81
Great Britain	2 047,9	4,87	Real estate	3 822,6	9,08
Germany	1 824,7	4,34	Finance and Insurance	3 651,4	8,68
Switzerland	1 532,2	3,64	Informational and telecom	2 190,9	5,21
Virgin Isles	1 320,7	3,14	Scientific and technical	2 147,4	5,10
Austria	1 018,8	2,42	Services	1 521,1	3,61
Russia	797,1	1,89	Transportation and logistics	979,6	2,33
France	753,6	1,79	Constriction	926,1	2,20
Poland	612,8	1,46	Agriculture	560,8	2,33
Hungary	544,8	1,30			
USA	523,5	1,25			
Belize	518,3	1,23			

Source: calculated according to the data: [9].

It is expedient to pay attention to the following aspect. Among the main investor countries there are offshore zones: Cyprus, British Virgin Islands (Jersey, Guernsey and Maine islands), Belize partially the Netherlands, Austria and Hungary. The statistics captures a certain trend – the largest investors for Ukraine are the offshore zones. Funds from domestic shadow entrepreneurs come from these countries but they are already protected by the status of foreign investments.

Such situation proves that, despite all efforts of all governments, the investment climate does not get any better yet. If the domestic business treats the opportunities of investing in the territory of the country on behalf of resident companies with distrust and withdraws money to offshore jurisdictions, so what can be said about the foreign investors for whom the domestic business environment is absolutely not common or comfortable?

On the basis of above-given statistical data and also with the help of linear and regressive model of interrelations of GDP rates of the country with certain rates of investments into capital assets and net savings, built in the previous clause of this section, let us calculate the balance of investment funds including accruals of foreign investments for the respective years (Tab. 2.9).

Table 2.9**Balance of Investment Funds in the Economy of Ukraine, According to Data of 2018.**

Target growth of GDP	GDP = +8 %	GDP = +12 %
Necessary investments into capital assets	+56 %	+60 %
Investments into capital assets in 2018 (table 3)	UAH 578 726 million, or USD 22 259 million (conditional exchange rate \$1.00\26.00 UAH)	
Level of necessary growth rate of investments into capital assets, million USD	USD 12 465 million	USD 13 355 million
Direct foreign investments into Ukraine in 2018, million USD, (table 7)	USD 2 355 million	
Deficit of investments into capital assets, million USD	USD – 10 110 million	USD – 11 000 million

According to the calculations, at target annual growth of GDP by 8% it is necessary to increase investments into capital assets by 56%. At growth of GDP by 12%, the investments into capital assets need to be increased by 60%. Investments into capital assets made UAH 578 726 million or USD 22 259 million (according to the results of 2018 (recalculation according to conditional exchange rate \$1.00\26.00 UAH). Thus, investments into capital assets have to grow by USD 12 465million and by USD 13 355 million respectively. At the same time, the rate of direct foreign investments in Ukraine in 2018 was only USD 2 355 million, i.e. there is a deficit of investment funds for USD 10 110 million at target annual GDP growth by 8%, and for USD 11 000 million at target annual GDP growth by 12%.

Therefore, the development of any economy, first, requires capital expenditures, which is the primary factor of economic growth. Accumulation of financial resources within the country occurs in the form of savings of domestic household bodies, preservation of companies and the state. In addition, deficit of internal funds shall be replenished by exit of a company or the state to the foreign market of capitals.

International investment flows exist in the form of direct and portfolio investments. *Direct investments* are deposits from nonresidents to the authorized fund of a resident company that ensure ownership of nonresidents in the purchased property, property complexes or shares, bonds and other securities, making no less than 10 % of the value of the authorized fund of the resident company, as well as investments received as a result of entering into concession agreements on joint investment activity.

Direct investments stipulate long-term economic relations that reflect a long-term interest of foreign investor in the significant influence on control of resident company with the purpose of obtaining profit or achieving social effect.

Foreign direct investments lead to the establishment or renewal of the main funds, organization of production process, influencing the increase of labor productivity and technical level of companies. By investing its capital in this or that country, a foreign company brings in new technologies, new ways of production organization, thus ensuring direct exit to the global market.

Portfolio investments include investments into shares of foreign companies, which do not grant the right of their control, as well as into bonds and other securities of both private and governmental issuers. Investments of that kind are mostly performed by private investors, but the government also often performs operations with securities. Such investments do not grant any real control of investor over the object of investment, i.e. the share in the capital shall be lower than the level established for direct investments (according to the standards of the International Monetary Fund – 10%).

International portfolio investments, unlike direct investments, are liquid, movable and sensitive to the situation at the financial markets. A portfolio investor does not care what sphere or company to invest in, because the criteria of investments are only the level of profits and perspectives of risk reduction. In case of deterioration of the situation at the markets and increase of risk, a portfolio investor can withdraw its investments much faster than a direct investor.

The international portfolio investments market is much smaller than the internal market of such investments. Institutional and individual investors still prefer national securities. However, it should be noted that there is a trend of slow but gradual growth in the number of operations with foreign securities in the majority of industrially developed countries.

Foreign portfolio investments lead to a flow of capitals into the markets of financial assets that causes positive effect upon their liquidity, increases the rates of trade and value of assets being traded. The negative aspects of foreign portfolio investments include risks of overloading the markets and creating financial bubbles, which increases general volatility of the financial system of the country.

It is known that almost all the episodes of net inflow of portfolio capital were accompanied by the active growth of the majority of financial assets at the stock market, which was not substantiated, by real economic condition of those issuers and the data of fundamental analysis. Table 2.10 contains historical data on the episodes of net inflow of foreign capital in 1980-2009, before the beginning of the global financial crisis of 2008, which affected the flow of trans-boundary financial flows greatly.

Table 2.10

Episodes of Net Inflow of Capital to Countries.

Country	Period	Cumulative amount (% of GDP)	Country	Period	Cumulative amount (% of GDP)
Australia	1988-1990	16.8	Malaysia	1989-1996	79.1
Australia	1995-1999	24.8	Mexico	1990-1994	26.3
Albania	1997	4.3	New Zealand	1995-1997	19.9
Argentina	1992-1994	11.6	New Zealand	2004-2009	31.4
Argentina	1997-1999	11.0	Pakistan	1991-1996	18.1
Brazil	1994-1996	11.3	SAR	2004-2009	12.4
Brazil	2000-2001	7.0	Paraguay	1994-1997	10.1
Venezuela	1991-1993	10.8	Peru	1992-1997	39.6
Venezuela	1997-1998	6.3	Poland	1995-2000	35.0
Vietnam	1999	10.1	Russia	2006-2008	4.1
Vietnam	2003-2009	38.4	Romania	1996-1998	14.2
Hong Kong	1997	7.5	Singapore	1990-1991	16.2
Egypt	1997-1998	8.2	Slovakia	1996-1998	31.4
India	2002-2009	18.3	Slovakia	2002	21.1
Indonesia	1990-1996	26.3	Slovakia	2005	14.2
Ireland	1996-2000	29.6	Slovenia	2001-2002	14.7
Ireland	2003-2008	77.1	Thailand	1988-1996	88.8
Cyprus	1999-2000	15.5	Thailand	2005-2009	12.2
Cyprus	2002-2009	23.2	Turkey	1995-2000	15.3
Columbia	1993-1996	20.2	Turkey	2003-2009	25.7
Columbia	2004-2005	6.0	Hungary	1991-2000	75.3
Costa Rica	1987-1992	16.0	Ukraine	2005	7.5
Korea	1990-1996	18.9	Uruguay	2002-2009	12.0
Latvia	1994-1995	19.3	Philippines	1987-1997	59.6
Latvia	2001-2009	84.7	Croatia	1997-1999	29.9
Lithuania	1997-1998	21.0	Croatia	2002-2009	59.0
Lithuania	2005-2009	20.5	Chile	1988-1997	70.5

Source: calculated according to the data: [10].

As the above-given data say, many developing countries come across the rapid inflow of financial investments from time to time. As a rule, such condition is not stable or permanent. Eventually the inflow is replaced by outflow, which leads to rapid drop of value of assets at the stock mar-

ket and great demand for foreign currency at the currency market. Such condition is typical for many countries, including Ukraine. According to Table 8, in 2005, the inflow of capital to Ukraine made record-breaking 7.5% of the GDP of the country, which at that time was UAH 441 452 million, or USD 88 290 million (according to the average exchange rate of UAH 5.00\USD 1.00).

7.5% of GDP in 2005 is equal to about USD 6.6 billion. The major share of these funds was directed to the domestic stock market. It is understandable that the arrival of such amount to a relatively small market with a low free float and low liquidity caused rapid increase of all financial assets. For example, the FSTS index, according to the results of 2005, grew by 147.5%. With the beginning of the global financial crisis of 2007, foreign capital was gradually withdrawn from the country. This led to such negative phenomena as the crisis of stock market (drop of FSTS index by more than 120%) and foreign currency crisis of 2008 (reduction of NBU reserves and devaluation of UAH by more than 50 % within several months). Thus, massive inflow of foreign capital can cause negative consequences in the economy, on condition that it has a short-term and speculative purpose. The mechanism of deployment of such consequences has several stages.

First, financial markets are overloaded, in other words, there is an irrational growth of value of all financial assets circulating at the stock market. The growth of value is called irrational when it is caused by only an inflow of liquidity costs to the market and not related to the increase of productivity and profitability of the company. From that moment, one can say for sure that the bubble is being blown, and all bubbles are bound to explode eventually.

When this happens, the reverse process starts – foreign portfolio capital leaves the country in masses, causing a row of negative consequences that finally result in a financial crisis. Besides, a stable inflow of foreign portfolio capital from the moment of appearance of a stock market bubble and until the moment it explodes usually causes revaluation of national currency, which affects the condition of export branches. They lose their price competitiveness, and then suffer from recession – reduction of production and employment rates.

Additional challenges related to the inflow of capital are set for the Central Bank of the country. It is required to arrange special measures to reduce excessive financial liquidity and prevent market overload. In other words, the size of the financial bubble and consequences of its explosion depend on the efficiency of these measures.

The economic nature of foreign direct investments is less contradictory. Their engagement and attraction provides direct and indirect benefits and advantages for the economy of the country, which meets national interests.

First, foreign direct investments are an additional source of accumulation, which multiplies resources for restoration and expansion of capital assets, implementation of investment projects and

programs that ensure recovery and rise of the economy, saturation of the internal market of the country with competitive goods and services.

Second, foreign direct investments bring in not only capitals but also modern technologies that ensure production of competitive goods, according to two main parameters: by level of novelty and quality of produced goods and services, and by reduction of costs of their production.

Third, foreign direct investments into specific objects are usually accompanied by personnel training, requalification at work and foreign probation. This helps to form a generation of workers who use new technologies effectively, along with market mechanisms, international contracts, and are able to withstand and win in the severe competition struggle.

Fourth, foreign direct investments prompt to learning the experience of market economy functioning and the rules of its game. Bringing economic conditions of capital functioning closer to the common accepted conditions in the world will facilitate the inflow of foreign capital, make the investor assured in return of invested funds with sufficient profit (without which the investor won't have any risk) and at the same time accelerate the process of formation of a favorable investment climate in the country for both foreign and domestic investors. Because of that, the market economy is supported by its own restoration base that facilitates the establishment of efficient owners.

Fifth, the flow of direct foreign investments accelerates the process of entry of the Ukrainian economy into global economy, development of effective integration processes, facilitating skillful use of advantages of international distribution and cooperation of labor, globalization, development of effective niches in the global economy and global market.

The above-named arguments prove that the growing flow of foreign direct investments can be assessed as a progressive trend of global nature as a necessary condition for growth and rise of the Ukrainian economy. The role of foreign capital shall be growing objectively; it needs to be engaged in all the spheres of economic activity for the development of innovative processes.

In 1990, the future winner of the Nobel Prize, Robert Lucas, asked the question, «Why does not the capital flow from rich countries to poor ones?» Then he offered a possible answer: the matter is that the stimulation for investing into developing countries is low due to the absence of human resources, risk of expropriation of investors and monopoly.

True, if the level of protection of the investor rights is too low, the capital will leave the country even if its economy requires investments pretty badly. That is why financial liberalization can be very dangerous for the developing countries. In a country with inefficient corrupted government and bad corporate governance, elimination of barriers will only lead to loss of national capital and reduction of investments. This means that respect of the ownership rights, competitive environment, developed financial markets and efficient state governance are much more important for the

investment flows than the availability of natural resources, cheap workforce and privileged taxation modes.

The unfavorable business climate is one of the main factors that affect the rate of incoming investments. Due to the unfavorable investment image, the country is less attractive for international capital during the post-crisis period. The rates of development of the economy of Ukraine directly depend on the rate of foreign investments for implementation of investment projects for the development of domestic high-tech production and growth of high-tech export share. This needs formation and implementation of effective investment policy aimed at supporting the scientific, technical and innovative activity to accelerate capitalization of economic activity bodies and modernization of production without negative macroeconomic consequences.

At the current stage of economy development, Ukraine has to create a favorable investment environment to engage large amounts of financial resources, both internal and external. Foreign investments are not only the source of funds necessary for modernization and development of the Ukrainian economy. They facilitate engagement of new production technologies and market behavior technologies. The important thing is where they come from and to what spheres they are forwarded. Especially important is to engage investments from highly developed countries of the world characterized by the proper level of market culture.

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2.2 Investigation of the preconditions for intensification of direct foreign investment into the economy of Ukraine by the Middle East countries

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Today's realities reflect strong interconnection between countries, i.e. the economic growth of any state of the world depends to a large extent on the degree of its involvement in the world economy and the degree of its international relations. Stable economic growth of any country requires creating and maintaining favorable conditions for business and for engaging the country in international economic activity, in turn it will enhance its competitive advantages and increase foreign direct investment and the economic system adjustment to negative external factors. A necessary condition for sustainable economic development and quality of economic growth is intensive investment activity, which is reflected not only by an increase in invested assets, but also through their industry specialization and effective application in key economic areas.

Modern global trend of international investment activity is determined by the reduction of the global capital movement (Fig. 2.3). The significant decline in the activity of foreign investors was primarily caused by the global financial crisis, which caused the massive loss of assets of the participants of the investment process and the investors' disillusionment with the ability to effectively manage their financial resources.

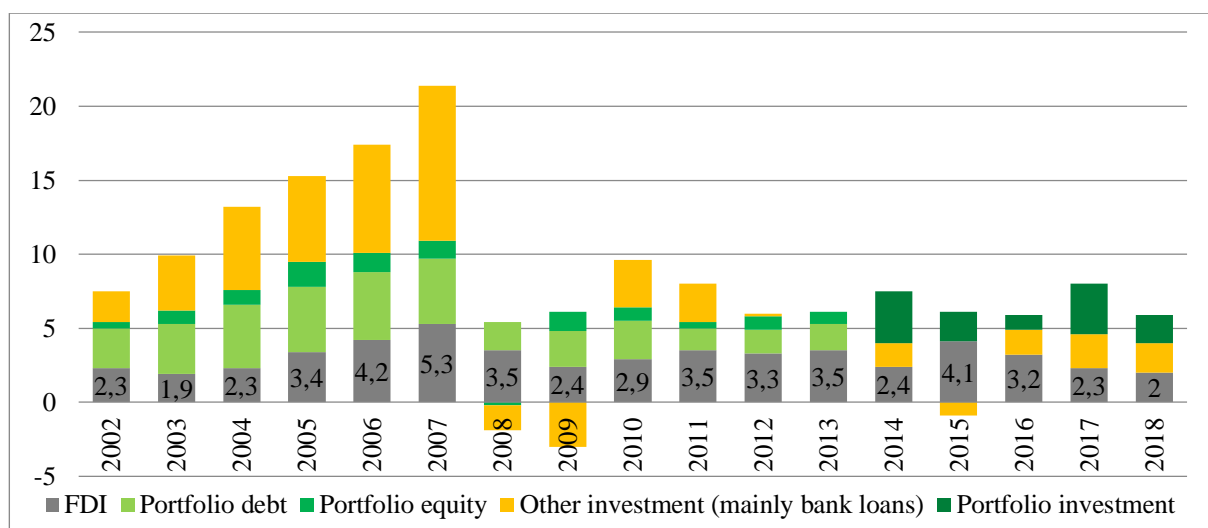


Fig 2.3 Global capital flows, (% GDP)

Source: calculated according to the data: [7], [8]

Investigating FDI globally, FDI has been the most stable component of the balance of payments over the last 15 years, and the most resilient to economic and financial crises. Debt-related

flows, especially bank loans, have been the most volatile external source of finance, both globally and for developing economies specifically. Portfolio equity remains a relatively small proportion of total external finance and tends to be more volatile because it is invested in liquid financial assets rather than fixed capital [7, p. 11].

According to UNCTAD, Global Foreign Direct Investment (FDI) flows continued to fall by 13 per cent in 2018, to \$ 1.3 trillion from a revised \$ 1.43 trillion in 2017 and by 23 per cent in 2017, to \$ 1.43 trillion from a revised \$ 1.87 trillion in 2016. Despite the fact that FDI instruments show a decrease in volume, they show greater reliability and relatively stable profit for foreign investors in comparison to other instruments.

For the third consecutive year, the most attractive for international investment is the transition economies including Ukraine, according to the UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT. Inward FDI rates of return for 2018 is 12.4%, which is higher than the world average, which is 6.8%, for developing economies it is 7.8%, for developed economies it 6.0%. Note that the average rate of return has only increased for countries with transition economies, in the last three years it has increased by 3.4% and exceeds twice the indicator in developed countries.

Further analysis of global trends of international investment activity shows that there is a significant increase of the global total value of announced greenfield projects. First of all, this increase is caused by a double increase in the volume of operations in the primary sector and by 2018 it is 60% in comparison to 2017. The top 10 industries in terms of value of FDI greenfield projects by 2018 include: construction; electricity, gas and water; coke and refined petroleum products; business services; motor vehicles and other transport equipment; chemicals and chemical products; electrical and electronic equipment; hotels and restaurants; transport, storage and communications; mining, quarrying and petroleum.

By joining the international investment process, the countries of the Middle East and North Africa (hereinafter MENA) form a favorable investment climate for both FDI inflows and external investment activities.

Outward FDI from West Asia countries reaches a historic high of \$ 49 billion in 2018, with such MENA countries¹ as Saudi Arabia, the United Arab Emirates and Turkey largely responsible for the increase. FDI from Saudi Arabia almost tripled to \$ 21 billion, mainly in technology, finance and infrastructure activities. Turkish companies are increasingly investing in Africa [8].

¹ MENA countries include: Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Yemen, UAE, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia, Syria, Tunisia.

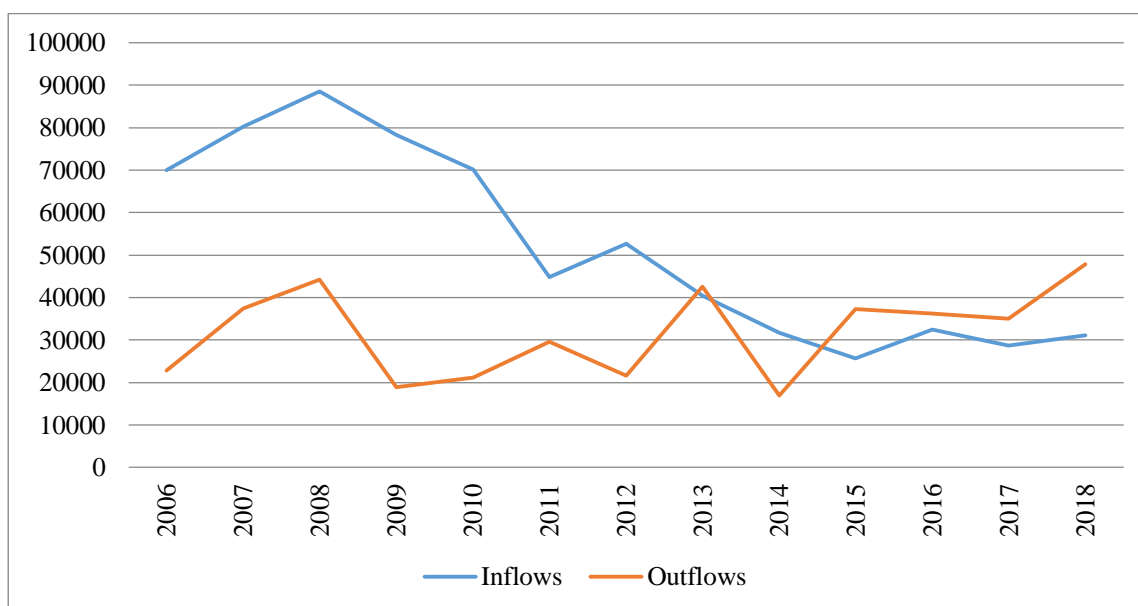


Fig 2.4 FDI inflows into and outflows from the Middle East and North Africa (USDmn)
 Source: calculated according to the data: [8], [6, p.16]

Development of investment potential and the reduction of investment risks create a favorable environment for improving the economic competitiveness for countries, including Ukraine and its regions. It could provide qualitative changes in the structure of the national economy, updating of main assets, increase of technological level of production processes, improvement of working conditions and creation of more jobs, development of necessary infrastructure, etc.

With independence in 1991, Ukraine embarked on a path of independent economic development and thus acquired the status of a subject of world economic relations. Historically, Ukraine's investment climate has been characterized by constant volatility in the business environment and a significant difference between official statistics and actual conditions. Nevertheless, Ukraine's investment potential is considerable. And, as Managing Director of Dragon Capital Investment Banking, Brian Best notes that Ukraine has advantages to attract investment from the global market. Ukraine is a country with a diversified and economically balanced economy that has a highly skilled workforce. In fact, Ukraine has most of the necessary ingredients to become a major manufacturing hub for both Europe (and in our opinion for the MENA countries - authors' notice): low production costs, skilled human resources, engineering skills, geographical location and infrastructure, which is gradually improving. Moreover, in the IT and agriculture sectors, Ukraine is able to become a world leader in innovation and productivity. This is especially true in areas where IT and agriculture are combined, for example, in the forward-looking field of AgTech. Ukraine is a jewel that was hidden under a layer of dirt of its own past, but a little good PR company can help to rediscover it [4].

Since 2008, the European Business Association – a non-governmental organization established at the initiative of the European Commission and bringing together more than 900 European, international and domestic companies operating in Ukraine – has been forming an index of investment

attractiveness of Ukraine, which presents an integral indicator based on the characterization of the investment climate as a set of political, economic, legislative, regulatory and other factors that ultimately determine the degree of risk of investment and ability of their effective application in economy [16].

The main purpose of the Association's activity is to establish relations of European business with representatives of the authorities in Ukraine in order to cooperate with purpose to create favorable conditions for business activity and for attracting direct foreign investment in the economy of the country [10].

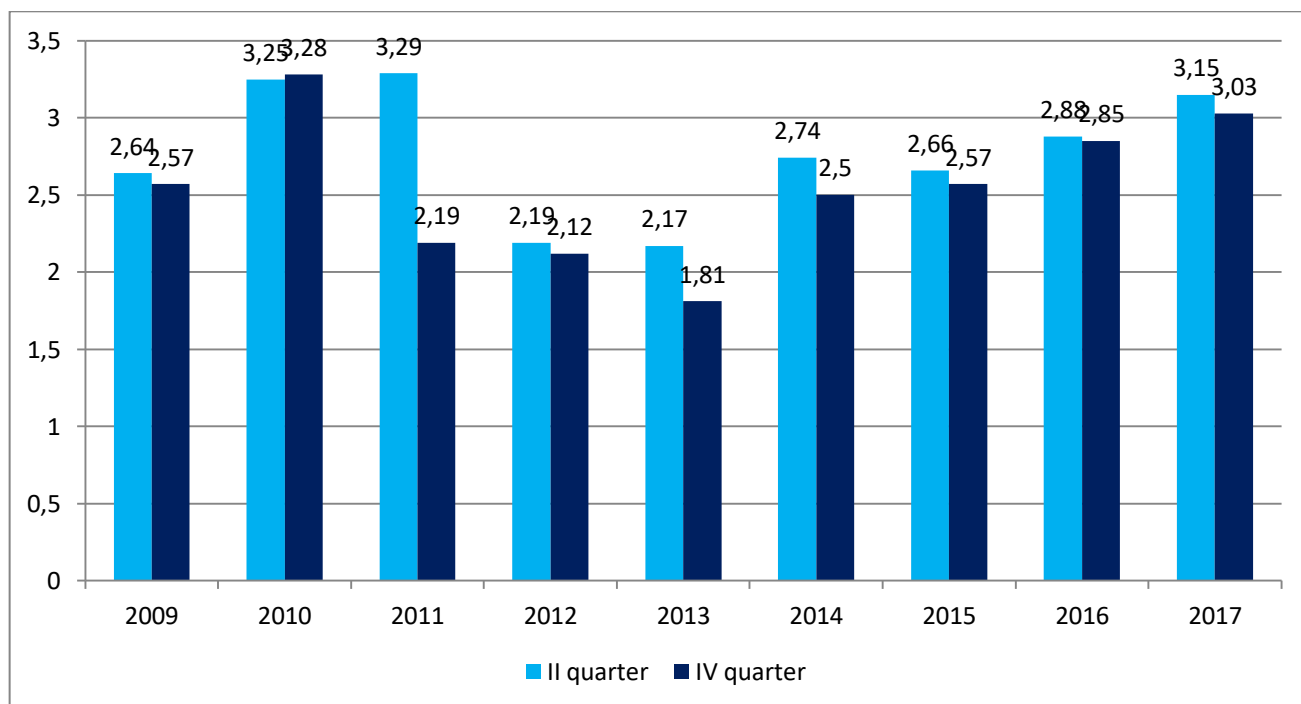


Fig 2.5 Investment attractiveness index of Ukraine

Source: calculated according to the data: [10], [11]

It is shown in Fig. 2.5 that in the whole history of measuring the index of investment attractiveness, namely since 2009, it has never reached a positive zone - above 4 points. The highest level of investment attractiveness index was observed in the first quarter of 2011: 3.29, the lowest level in fourth quarter of 2013: -1.81.

In the second quarter of 2017, Ukraine's investment attractiveness index reached its maximum value over the past six years - 3.15 points using a 5-point scale ranging from very poor to very good. In 2016 the index had the value 2.88 and 2.85 points in June and December, respectively. The index exceeded 3 points the last time at the end of 2011. But in the fourth quarter of 2017, the index of investment attractiveness of Ukraine decreased to 3.03.

The European Business Association conducted a survey among executives of 142 major international and Ukrainian companies. Among the urgent problems that needed special attention from the authorities, the business named three unchanged issues: the fight against corruption – 36%, judi-

cial reform – 20%, land reform – 11%. Respondents noted the slow pace of reforms, high rates of business lending, military operation in the East, bureaucracy, smuggling and the shadow economy among the negative factors [10].

In assessing the country's investment climate, its positions in various global rankings are taken into account. For example, the World Bank annually forms a Doing Business Index, which displays the regulatory climate in the country, or legislation implementation to improve the conditions for doing business (without assessing the quality of infrastructure, qualification of employees, level of corruption, macroeconomic policy, exchange rate fluctuations) [3].

According to the forecasts of the Ministry of Economic Development and Trade, Ukraine should have risen up to 10 positions in 2017 in the “Doing Business” ranking. According to the Doing Business ranking among 190 countries, Ukraine is ranked in 81st position in 2016 and in 80th position in 2017, so far improving its result by one position. Positive developments were noted by experts only by 2 of the 10 major components of the study – Minority Investor Protection and Ensuring of the Contract Execution [2]. The problem areas (Fig. 2.6) in 2017 in Ukraine were “Solving of the Insolvency Problem” – 150 position, “Obtaining construction permit” – 140 position and connection to the energy supply systems – 130 position.

According to “Doing Business 2018”, Ukraine is ranked 76th. The result is improved by 4 positions, compared to last year. Ukraine has shown an increase by 4 components of rating: 1) by the component “Obtaining construction permits”: Ukraine has risen from 140th position to 35th position. +105 positions is the largest component growth among all countries. This is due to the fact that Kyiv City Council has reduced the amount of equity in the development of infrastructure for non-residential buildings from 10 to 2% and reduced the cost of technical inspection services in construction; 2) Ukraine has risen from 84th to 43th position by the Tax Payment component. +41 point is a result of the reduction and unification of the Single Social Security tax. These changes occurred in 2015, but because of the features of the rating methodology, they have been taken into account only now; 3) Ukraine has risen by 2 points by the component “Connection to the electric grid” - due to the decrease

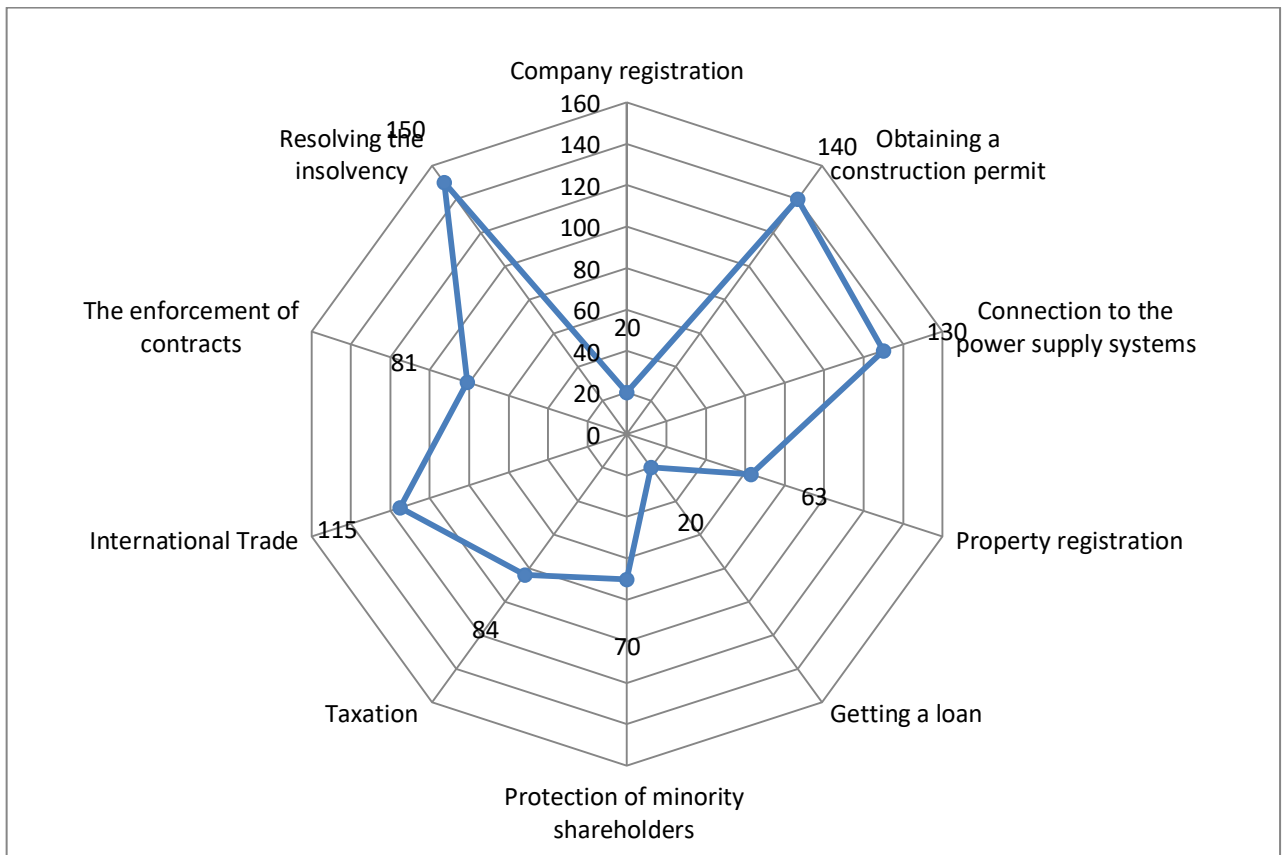


Fig. 2.6. Ukraine ranking by 10 components of "Doing Business 2017" [2]

in the cost of connection of electrical installations to the Kyivenergo networks; 4) 1 point by the Insolvency Regulation component (due to technical adjustments of indicators) [23].

The next rating that is important to investors is the Global Competitiveness Index, which is being developed by the World Economic Forum. In 2018, Ukraine ranked 81st out of 137 countries in the world, having risen by 4 positions compared to 2017 - 85th position [5]. Table 2.11 shows Ukraine's position in the Global Competitiveness Index, where it is possible to discover the change of Ukraine's position in the ranking from 2010 to 2018, which ranged from a minimum 73th position to a maximum 89th position.

Table 2.11

Dynamics of changes of Ukraine's position in the Global Competitiveness Index

Year	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
All countries	139	142	144	148	144	140	138	137
position	89	82	73	84	76	79	85	81

According to the information provided in the Global Competitiveness Report, Ukraine has downgraded its position by 4 of the 12 key indicators (see Tab. 2.12). Main lost (-13 points) is by the Labor Market Efficiency component. The tendency to worsen this indicator was also observed in last year's research studies, with the last year's positions by this indicator decreased by 17 points.

Also, Ukraine has suffered losses in assessing the innovative component of the Index – (-9 points), infrastructure (-3 points) and by the component that characterizes higher education and professional training (-2 points) [17].

Table 2.12

Global Competitiveness Index of Ukraine in 2015-2018 years [17]

Index	2015-2016	2016-2017	2017-2018	
	position			Index value ²
	79	85	81	4,1
Basic requirements	101	102	96	4,2
Institutions	130	129	118	3,2
Infrastructure	69	75	78	3,9
Macroeconomic environment	134	128	121	3,5
Health care and primary education	45	54	53	6,0
Boost of productivity	65	74	70	4,1
Higher education and professional training	34	33	35	5,1
Product market efficiency	106	108	101	4,0
Labor market efficiency	56	73	86	4,0
Financial market development	121	130	120	3,1
Technological readiness	86	85	81	3,8
The size of the market	45	47	47	4,5
Innovation and improvement factors	72	73	77	3,5
Business compliance with modern requirements	91	98	90	3,7
Innovation	54	52	61	3,4

Thus, in recent years, there has been, albeit a slow, improvement in the investment climate, characterized by a set of indicators such as the “Doing Business Index”, “The Global Competitiveness Index”, and the European Business Association’s “Investment Attractiveness Index” (Fig. 2.7). Analysis of the data is presented in Fig. 2.8.

² The index value is ranged from 1 to 7 with increasing toward better parameters

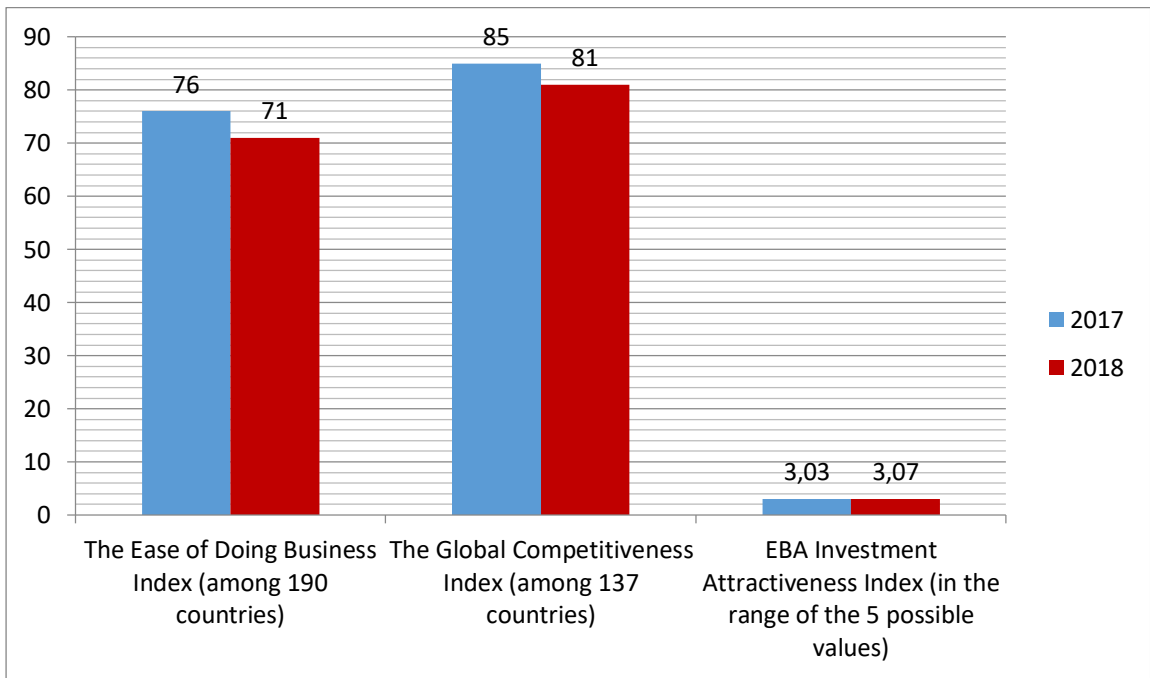


Fig. 2.7 Investment climate indicators in Ukraine

Source: calculated according to the data: [4; 5; 9; 11]

It can be noted that in 2013, the largest number of foreign TNC's subsidiary companies was recorded in Ukraine – 49562. In recent years, the number of TNC has been in the range up to 40,000 (40175 in 2016, 40636 in 2017).

According to the data presented in Fig. 6, one can notice the downward trend in the number of foreign TNCs in Ukraine in 2014. As it is shown in Fig. 2.8, domestic FDI declined by half in the same year, from \$5.5 billion in 2013 to \$2.5 billion in 2014.

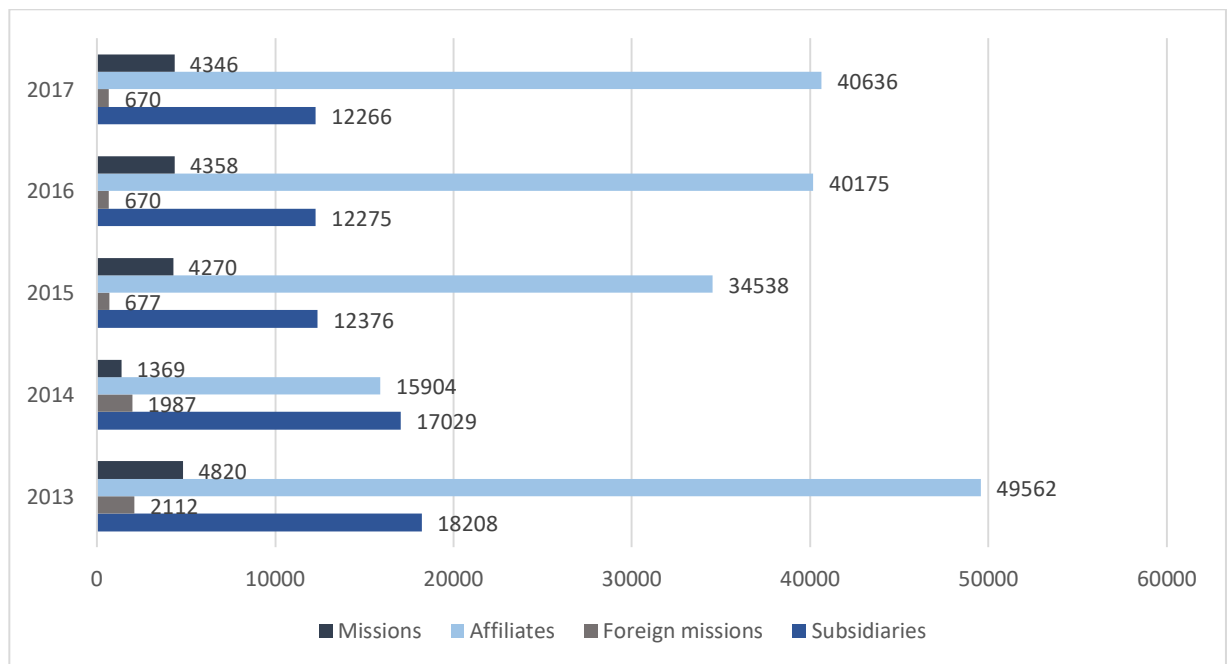


Fig. 2.8 Legal forms of foreign TNC in Ukraine in 2013-2017 [13]

The main factor that caused a sharp decline in investment in Ukraine in 2014 is the political instability of that year (change of government, Revolution of Dignity, Maidan).

According to the State Statistics Service of Ukraine, in December of 2018, \$32291.9 million of direct investment (equity) was invested in the economy of Ukraine by foreign investors from 88 countries of the world (Fig. 2.9). The volume of attracted direct foreign investment (equity) in the economy of Ukraine by 01.07.2019 amounted to \$26462 million, which is 2% more than at the beginning of 2019 [18].

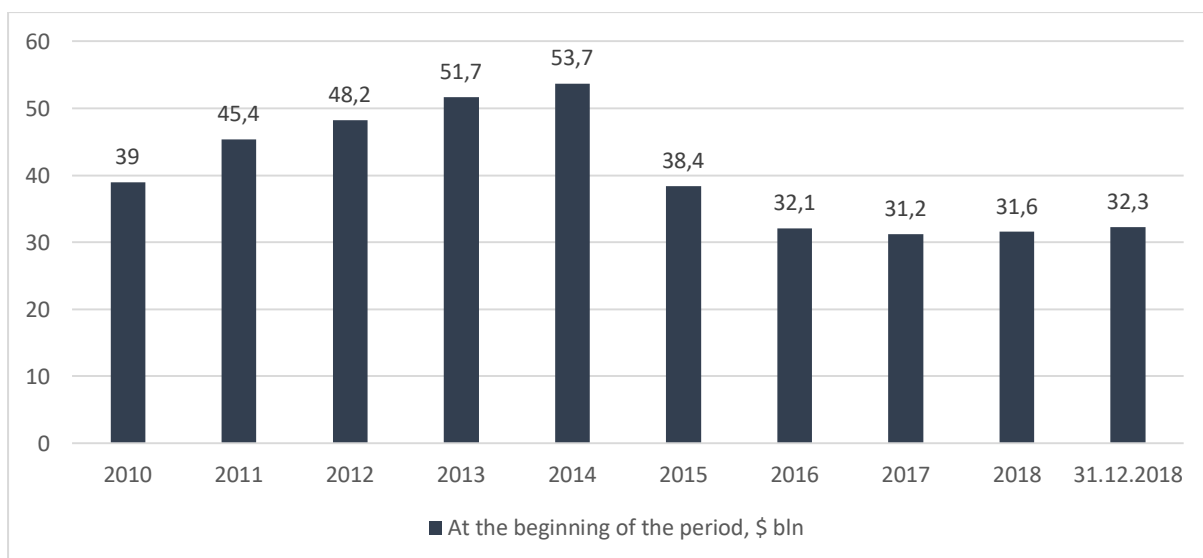


Fig. 2.9 Volume of FDI in Ukraine's Economy from 2010 to 2018 [18]

Domestic FDI flows into the Ukrainian economy came from Cyprus – \$ 8,879.5 million (27.5%), the Netherlands – \$ 7,060.9 million (21.9%), and the United Kingdom – \$ 1955.9 million (6, 06%), Germany (5.2%), Virgin Islands (4.06%) and Switzerland (4.8%), the Russian Federation (3.12%, which is almost 8% less than in the previous year). In the period from January to December of 2018, Ukrainian enterprises attracted capital investments worth UAH 526.3 billion, which is 16.4% more than in the corresponding period of the previous year. Unfortunately, only 0.3% of capital investments came from foreign investors, and a considerable part of them – 71.3% was from the own funds of Ukrainian enterprises and organizations [19].

Cyprus, the Netherlands, the United Kingdom, Germany, Switzerland, the Virgin Islands, Russia and Austria remain the largest investors in the Ukrainian economy for 10 years. However, there are also negative trends in the flow of direct investment in Ukraine from the countries of the world. Looking at the overall decline in recent years, it is necessary to note a significant fall (more than twice) by such countries as France, the USA and Sweden. But there is a growing trend across countries, e.g. Belize, Luxembourg, Panama and Turkey, indicating additional inflows from offshore zones.

Table 2.13

Dynamics of FDI Flows in Ukraine during 2011-2018 [18]

Country / Year	FDI values ³ , mln USD							
	2011	2012	2013	2014	2015	2016	2017	2018
Total	45 370,0	48 197,6	51 705,3	53 704,0	38356,8	32122,5	31230,3	31606,4
Cyprus	9 620,5	12 700,8	15 907,7	17 725,6	11 971,6	9 894,8	8 785,5	8 932,7
Netherlands	11 389,8	9 323,8	8 727,6	9 007,5	6 887,3	6 090,3	6 028,4	6 395,0
United Kingdom	2 229,9	2 536,4	2 496,9	2 768,2	2 146,2	1 785,2	1 947,0	1 944,4
Germany	5 001,2	5 329,8	4 496,3	2 908,4	2 110,6	1 604,9	1 564,2	1 682,9
Switzerland	852,7	939,3	1 097,6	1 351,0	1 391,7	1 391,0	1 436,9	1 515,9
Virgin Islands	1 384,9	1 580,2	1 888,2	2 275,9	1 988,3	1 715,0	1 682,3	1 358,4
Austria	1 798,9	2 317,5	2 476,9	2 314,0	1 351,5	1 152,6	1 099,9	1 038,8
Russian Federation	2 692,7	2 876,1	3 040,5	3 525,9	1 620,5	343,8	813,6	797,2
France	2 105,4	1 993,1	1 510,3	1 520,5	1 341,9	1 299,1	615,6	723,4
Poland	913,0	834,3	897,2	819,8	708,0	679,4	509,1	571,3
Belize	132,4	151,7	809,2	1 026,6	652,5	535,1	604,2	532,3
USA	1 107,6	966,6	976,5	934,7	789,1	717,2	585,2	517,4
Luxembourg	435,4	488,9	559,5	555,8	398,8	363,9	660,1	515,8
Hungary	697,6	678,5	684,3	685,9	466,4	333,7	498,1	511,1
Sweden	1 108,9	1 141,9	1 084,4	439,3	363,7	334,0	328,8	351,2
Panama	199,4	288,3	383,7	610,5	394,8	316,9	291,7	337,7
Turkey	148,6	164,0	186,9	212,1	199,3	192,7	280,6	319,0
Italy	352,7	349,2	401,7	584,6	207,8	216,4	196,7	201,6

According to the data (Fig. 2.10), the most attractive sectors of the Ukrainian economy for FDI in 2018 are manufacturing and metallurgical industry, food, finance and insurance, and trade sectors.

Some corporations such as Volkswagen, CocaCola, Sony, Panasonic have entered the Ukrainian market with prime investments, while the majority of TNC operating on the Ukrainian market sign merger and acquisition agreements. This tendency is explained by the fact that mergers

³ The data is presented as a growing result from the beginning of investing by 2018

and acquisitions are less risky and more profitable forms of investment activity than initial investments that require attracting newly formed capital from both own and borrowed financial resources.

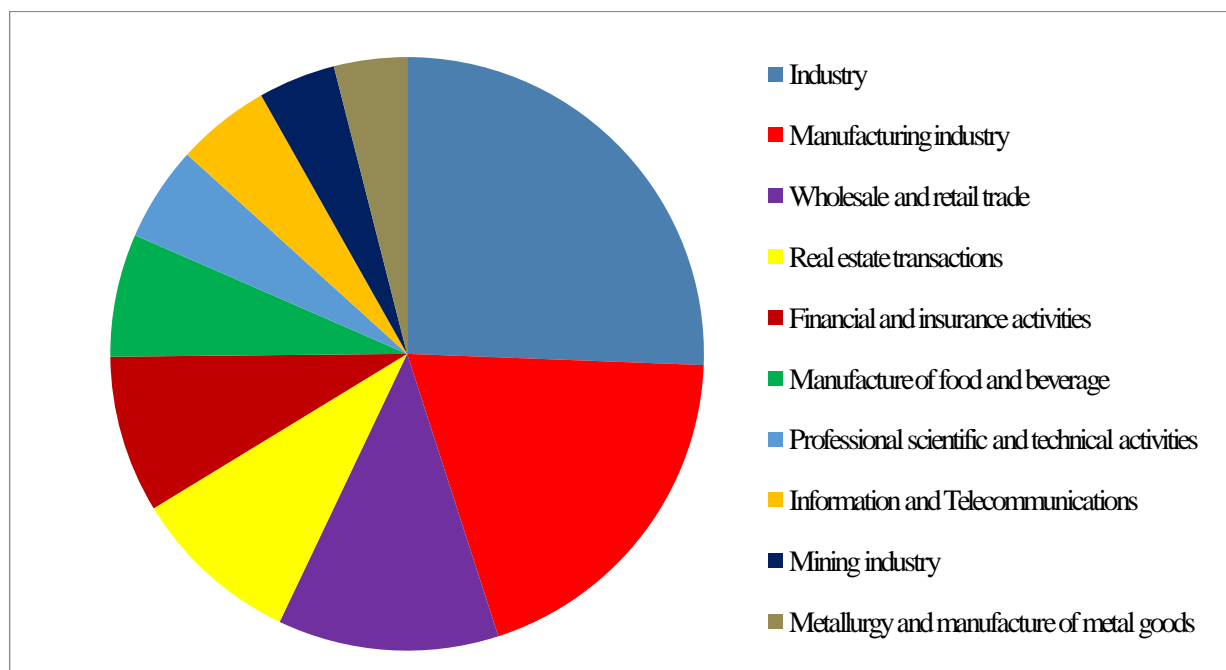


Fig. 2.10 FDI by type of economic activity in Ukraine in 2018, mln. USD [18].

In 2017 and 2018, the M&A market in Ukraine continued to grow, with rate more than 10%. The number of mergers and acquisitions increased by 19% in 2018 compared to 2017, reaching 80 deals. At the same time, the total value of the investments amounted to \$1.8 billion, which is by 78% higher than in the same period of last year.

At the same time, it should be noted that in 2018, local investors were even more active than foreign ones on the M&A market of Ukraine, accounting for about two-thirds of the total value and total number of transactions. International investors have also shown confidence in the medium and long-term prospects of Ukraine leading to increase of the number of transactions of acquisition of Ukrainian assets by foreign investors increased by 47% [4]. It should be noted that in 2018, the M&A players in Ukraine disclosed the value in less than 50% of the transactions for the acquisition of Ukrainian assets by foreign investors, which does not exceed 2013-2015. Such a low level of transparency is unexpected, given that 76 % (19) of all transactions were made by European investors with generally higher transparency. Excluding Europe, the amounts of the deals were announced for 83% of the agreements on the acquisition of Ukrainian assets by foreign investors from other countries of the world. Approximately half of all such transactions are asset purchase agreements in the agricultural sectors (6 agreements), real estate (5 agreements), banking and insurance (3 agreements) and consumer markets (3 agreements).

Approximately half of the agreements on the acquisition of Ukrainian assets by foreign investors were made by companies that had not previously been active in Ukraine. The most attractive sectors for such investors were the real estate and construction sector (3 agreements) and the transport and infrastructure sector (2 agreements) [4].

The Middle East (US \$ 242 million) and Europe (US \$ 179 million) account for 83% of the total value of Ukrainian assets acquired by foreign investors in 2018, 76% of which (\$322 million) have been invested in agriculture; the largest deals in the sector were the acquisition of the assets of Mriya Agro Holding by the Arab company SALIC and the acquisition of a 6.22% minority stake in Kernel, a Ukrainian agro-holding listed on the Warsaw Stock Exchange, by the Swiss private bank Julius Baer by \$73 million. The latter fact demonstrates an increase in the level of foreign investors' confidence in transparency and management principles in Ukrainian enterprises [4].

More often Ukraine is a host country for foreign TNC, rather than it is a parent country. At the same time, there are a small number of companies in Ukraine that meet the criteria of TNC: System Capital Management (SCM), Group DF, Interpipe, Metinvest, DTEK, Nemiroff and Roshen. There are a large number of powerful national companies in Ukraine that are competitive on the domestic market, but because of indicators or sales, or net profit, or the number of employees, or the absence of foreign companies, they cannot obtain TNC status. For example, such companies in Ukraine are the largest Ukrainian bank, Privatbank, Myronivsky Khiboproduct and Kyivstar, which are giants in the national market and are estimated by experts to be close to acquiring TNC status. According to the rating of the "200 largest companies of Ukraine in 2016", their total income was 2.3 trillion UAH (85 billion USD), which is almost equal to the nominal GDP of the country in 2016 – 2.4 trillion UAH. In terms of revenues, the bulk share of companies is concentrated in the energy sector (UAH 886 billion), the metallurgical and mining industry (UAH 416 billion) and the agro-industrial complex (UAH 352 billion) [20].

Ukraine's current economic environment requires an active policy to attract direct foreign investment. However, the current economic and political situation in the country complicates any investment activity and has a negative impact on the possible attraction of both foreign and domestic investors. The investment process in Ukraine is characterized by a lack of stability and a significant dependence of capital investments on various endogenous and exogenous factors, and unlike the one in stable market economies, it is quite unpredictable.

Barriers to investment, e.g. corruption, lack of effective judicial reform, disputes over property rights and investor protection, excessive tax burden, are typical issues that are constantly discussed but not resolved in Ukraine. These issues are particularly sensitive to foreign investors, leading to a negligible share of their business financing sources over many years. Such obstacles do not

allow Ukrainian enterprises to attract the proper amount of investment for expansion of their activity, modernization of its assets and introduction of new technologies.

The main negative factors for doing business in Ukraine were identified (in descending order) as following: inflation, corruption, political instability, high tax rates, complexity of tax legislation, instability of governments, difficult access to finances, inefficient state bureaucracy, regulation of the currency market, lack of skilled labor market, poor workforce ethics, lack of innovation capacity, restrictive labor market regulation, inadequate infrastructure quality, high crime rate, poor quality of health system [17].

The main reasons for the low rate of investment in the Ukrainian economy by foreign investors during 2016-2017 are marked by Ukrainian Institute of the Future as following: high tax pressure – the total amount of taxes was 51.9%, while in OECD countries – 40, 9%; taxes serve a purely fiscal function, not a stimulating one, since they are the main source of replenishment of state and local budgets; high currency risks and tax restrictions that hold back both domestic and external FDI; ineffective system of protection of private property rights and the moratorium on land alienation [22; 1].

Taking into account mentioned above problems of formation of investment climate in Ukraine, one should note medium and long-term goals that will contribute to increase of investment attractiveness of the Ukrainian economy (Tab. 2.14).

Table 2.14.

Strategic targets for improving Ukraine's investment climate [15].

Short-term goals (up to 1 year)
Immediate legislative changes regarding simplification of investment activities.
Bringing national legislation in line with international law to enhance foreign investment.
Formation of political and macroeconomic stability.
Introduction of tax and customs exemptions, subsidies for large investors.
Immediate legislative changes regarding simplification of investment activities.
Medium-term goals (1 – 5 years)
Creating a favorable investment climate to increase foreign investment
Overcoming bureaucratic obstacles and corruption during investment activities and transparency of tender policy.
Improving the information support for the investment infrastructure. Formation of an effective mechanism for managing the country's investment climate.
Long-term goals (over 5 years)
Sustainable growth of the national economy to generate broad investment opportunities. Increasing economic indicators of Ukraine's investment climate on the world market.

Thus, the data in Table 2.14 reaffirm the priority and importance of changes in national legislation, the formation of macroeconomic and political stability and creation of favorable conditions for investment activity, thereby attracting external investors to make contributions to the economy of

Ukraine, and then - to improve information support for investment infrastructure, to overcome bureaucracy and corruption, and create an effective mechanism for managing the investment climate and maintaining a sustainable economic development of Ukraine as a whole.

One of the crucial steps in improving the investment attractiveness of Ukraine in 2017 was the signing of an agreement between Ukraine and the OECD – “International Investment and Transnational Corporations Declaration”. The press service of the Ministry of Economic Development and Trade said: “Accession of Ukraine to the Declaration and membership of the OECD Investment Committee will help attract direct foreign investment in Ukraine, as it indicates about Ukraine’s implementation of international standards for investment activities; improves the competitive environment and influence innovation implementation and diffusion; promotes the implementation of the principles and standards of corporate social justice in accordance with the OECD Guidelines for Responsible Business; eliminates restrictions in sectors where foreign investment is prohibited and provides national regime for transnational corporations (TNC) in accordance with the system of development of international standards in the regulating the relations of TNC with host countries [21].

According to the information provided by the Ministry of Economic Development and Trade, a number of positive steps were taken to improve the investment climate of Ukraine during 2017, including the following: 1) the national regime of investment activity is applied to the foreign investors in Ukraine, i.e the same field level rules are applied to foreign investors as well as to domestic ones. Foreign investments in Ukraine are not subject to nationalization. 2) to enhance foreign investment protection, the Law of Ukraine dated March 16, 2000 № 1547 ratified the 1965 Washington Convention On The Settlement Of Investment Disputes Between States And Nationals Of Other States; signed and ratified by the Verkhovna Rada of Ukraine intergovernmental agreements on promotion and mutual protection of investments with more than 70 countries of the world. 3) in order to simplify the procedure for attracting foreign investments and to prevent corruption during their state registration, the Law of Ukraine No. 1390-VIII “On Amendments to Some Legislative Acts of Ukraine on the Abolition of the Obligation of State Registration of Foreign Investments” was adopted on 31 May 2016. 4) measures are being taken in the direction of development of investment infrastructure, namely: there is further implementation of the Law of Ukraine “On Industrial Parks”, which provides state support for the installation of industrial parks. 5) work is being done to provide methodological and informational support to the subjects of industrial parks, to assist them in obtaining state support in accordance with the legislation, and to attract investments for their arrangement and operation. As of September 25, 2017, 27 industrial parks are included in the Register. 6) Government of Ukraine by its resolution No. 740 dating October 19, 2016, established the Office for Attraction and Support of Investment and approved regulation of its activity. Presidential Decree No. 365/2016 of August 29, 2016 approved the provision on the National Investment

Council. The main tasks of the Council are following : to develop proposals for stimulating and developing investment activity in Ukraine, developing an attractive investment image of Ukraine, including best international practices; assistance in forming of the main directions of the state policy on improving the investment climate in Ukraine; elaboration of proposals on strategic directions of development of investment potential of Ukraine, stimulation of foreign and national investments in development of economy of the state; study of initiatives and potential proposals for investment projects, as well as practices of interaction of investment entities with government institutions; analysis and generalization of problems that impede investment in the economy of Ukraine, preparation of proposals for their solutions, in particular on measures to supply investor protection; participation in the drafting of legislative acts on investment activity [12].

Adoption of the legislative acts mentioned above, implementation of international conventions by Ukraine , development of investment infrastructure, ratification of international agreements are examples of introducing positive changes to increase the investment attractiveness of Ukraine, but they only partially affect the investment climate. During the roundtables, sessions during World Economic Forum in Kiev, numerous investment forums and discussions on Green and White Paper projects on the problems of attracting foreign investments to Ukraine, a number of proposals were presented, among which are the following: 1) an environment suitable for a market economy that requires the state to complete two major steps: enter into interstate agreements that provide incentives to protect investments and avoid double taxation; exchange information on the rules and laws that govern investment, and establish stable legislation and other conditions; expand cooperation with the International Monetary Fund, the World Bank and the EBRD on financial assistance to Ukraine and take the necessary steps to gain full membership of the World Trade Organization. 2) transparent decision-making by executive authorities. The Institute for transparent government procedures for decision-making on Investment Projects funded by state and local budgets and vital to people investment projects should include: decision-making on public discussion on draft regulations on business development, creating public councils and business councils led by government institutions, consulting with businesses, NGO, academics and other professionals to evaluate quality of existing regulatory acts; participation in international events to promote Ukraine's investment potential, demonstration of first priority investment projects through international media and the Internet, holding exhibitions and similar events with higher frequency. 3) improving the investment climate for privatization. Privatization policy should be aimed at: replacing the budget model of privatization with the investment and innovation model and privatization of large companies and monopolies on the basis of individual plans by selling controlling stakes to industrial investors; re-equipment of enterprises technically and technologically, using part of the revenue from privatization. 4) providing incentives for long-term lending. Problems related to the operating of the banking

system need to be addressed: increasing the concentration of banking capital, expanding long-term lending to the real economy, and attracting personal deposits. 5) the development of the stock market. The main tasks of the domestic stock market development are: introduction of a tax policy that will promote the development of the stock market; creation of conditions for raising stock market capitalization and liquidity. expanding cooperation with the OECD, The International Organization of Securities Commissions and other international organizations to implement international disclosure standards; simplification of the procedure for settlement of securities concluded with non-residents; improving the accounting and reporting system for stock market participants; concentration of trade in organized markets, whose activities meet international standards. 6) investment attraction in science, technology and innovation. In order to provide incentives for attracting domestic and foreign investors to science, technology and innovation, the government should provide: a system of discounted refinancing of commercial banks if they provide loans with reduced interest rates for the implementation of investment projects related to the development and installation of high-tech equipment and other innovative products; expanding the practice of providing commercial loans secured by commercial property with reduced interest rates. creation of mutual funds for the implementation of large-scale investment projects; lending to innovative enterprises through leasing, factoring and other operations; infrastructure for the development of innovation processes and the full cycle of innovation, from concept to the production and sale of high-tech products and technologies; the organization of a single center in Ukraine where the efforts of government, science and business can be combined to develop high-tech products.

One of the ways for improving the investment climate in Ukraine is, according to Brian Best, “for the most part, a good reputation for a business or profession depends on the ability to be successful, regardless of certain political relationships”. The vast majority of Ukraine's “old economy” was built on such relationships, which tarnished the reputation of a wide range of businesses and businessmen. To date, foreign investors want to see that a business can compete because of its virtues, and its success does not depend on political connections or a specific legislative loop. The best way to build a solid reputation is to implement best practices of corporate governance as early as possible. Quality Board of Directors and experienced board members can greatly enhance the value of a business and its owners, thereby enhancing their reputation” [4].

In order to improve the national and regional investment climate and investment efficiency, the following measures should be gradually implemented: improvement of the effectiveness of regional governance by applying modern management approaches; coordination the activities of local governments, enterprises, institutions and organizations in the regions to enhance the comprehensive economic development and spreading information on the regional investment climate and its image; intensification of the implementation of public-private partnership programs, widening of the range

of participants (involving foreign organizations and enterprises, notably EU countries); providing organizational support to business entities to enhance their participation in international and national development programs and grants. informing foreign investors about investment opportunities in attractive regional industries and promotion of the development of national investors in the European market, using the opportunities created under the DCFTA (The Deep and Comprehensive Free Trade Area) – EU-Ukraine Free Trade Agreement; fostering cooperation between schools and investors on staff training; assessing the risks of regional investment activity and determining the ratings of regions in terms of existing levels of risk and investment attractiveness; monitoring investment projects that have been successful (and unsuccessful) in a particular region in order to prevent or minimize risks for future investors; expand the list of countries in the list of partners whose funds need to be raised for the development of the country, among them special attention should be paid to the MENA countries.

So far, total FDI outflows from MENA countries are \$49 billion in 2018, a record high over all years (see Fig. 2.11).

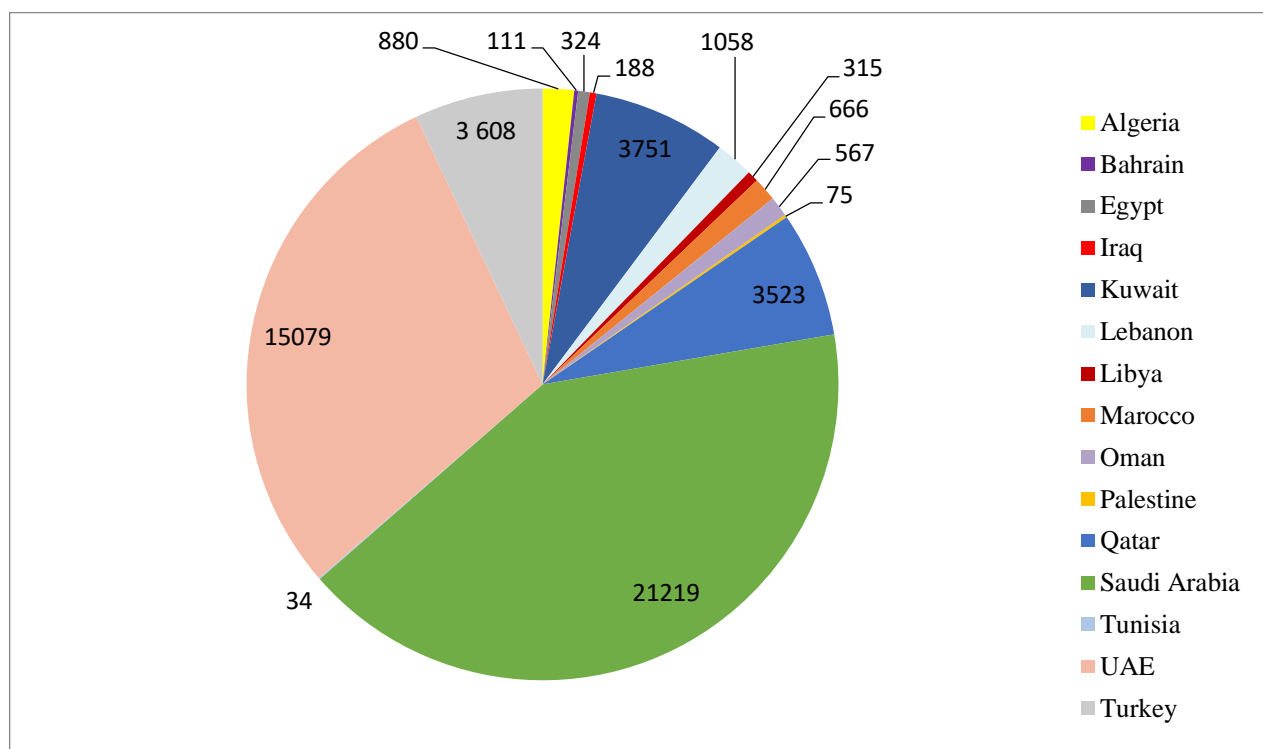


Fig. 2.11 FDI outflows from MENA, 2018 (Millions of dollars)

Source: calculated according to the data [8].

The activity of investors with significant financial resources from given region presents potential prospects for foreign investments to Ukraine. For MENA countries, Ukraine is also a potential partner, given the non-diversified geographical pattern of FDI outflows, which is mainly targeted at countries among them.

To date, direct foreign investment in the economy of Ukraine from the MENA countries is approximately \$87 million, which is only 0.23% of the total FDI accumulated at this time.

The importance of developing relations between Ukraine and the Middle East is determined by the role and place of this region in the system of modern international political, economic and security coordinates. The interest of Ukraine in the development of trade and economic cooperation with the MENA countries is caused by their relative geographical proximity, significant demand for Ukrainian products (especially metallurgy and agriculture, as well as chemical industry and machine building), the possibility of diversification of sources of supply of energy resources. To date, Ukrainian agricultural exports to the Middle East consists of grain deliveries (35-40% of Ukraine's total exports to the region); fats and oils of animal or vegetable origin (15-20%); seeds and fruits of oil plants (5-10%); various food products (3-4%).

Developing large-scale cooperation with African countries is an important area of Ukraine's foreign policy. The importance of the African continent for Ukraine is determined by both political and economic interests. In economic terms, this part of the world is a significant market for the sale of industrial, agricultural, military goods and services, an important source of industrial and agricultural raw materials, as well as a strategic international communication hub. In recent years, the African continent, whose population has already exceeded 1 billion individuals, demonstrates a stable dynamic of economic growth, which has a positive impact on the development of bilateral relations of African countries with Ukraine [4].

To date, Ukraine is entering the list of countries with unfavorable investment climate, albeit slowly, but there is an improvement of investment climate, but foreign investors, in particular from MENA countries, can reap the additional benefits of lowering prices such as real estate and receive an additional risk revenue.

Thus, the main proposals for improving the investment attractiveness of Ukraine were defined as following: the formation of a legislative environment suitable for a market economy, transparency of decisions of executive authorities, improving the investment climate of privatization, providing incentives for long-term lending, stock market development, attracting investment in science, innovation. Proposals and measures mentioned above should stimulate investment in Ukraine and its regions. Increasing the investment attractiveness of the national economy, in turn, will contribute to the formation of sustainable economic growth in the future.

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CHAPTER 3

THE STUDY OF THE MENA'S COUNTRIES AND UKRAINE'S PARTICIPATION IN THE INTERNATIONAL DIVISION OF LABOR MARKETS

3.1. The role of the Middle East and North Africa in the international division of labor markets.

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The course of globalization is going at an ever increasing speed, spreading to new areas and regions of the world. This process has both positive and negative trends. Today, only a qualitative approach can reveal the correlation between the available human resources, labor requirements and the possible consequences of demographic changes for economic growth, entrepreneurship and professional training.

The composition of the regional labor market, the ratio between accumulation and consumption funds, the distribution and development of productive forces, the structure of employment, etc., largely depend on the demographic structure of the population. It has a significant impact on the economic potential of the region, on the formation and usage of budget funds, as well as on the balance of payments of population. Changes in demographic development and in the age and gender structure of the population cause corresponding quantitative and qualitative changes in the economic structure of the region, the structure of national income, the economic burden of the working-age population as they are impact factors of the regional labor market. They influence the volume and technical and economic characteristics of jobs; the level, quality and structure of the educational services market. The general principles of renewal of labor resources are the same for all countries, but the conditions of their renewal are influenced by certain factors that can be grouped into the following groups: natural-geographical, demographic, socio-economic, and historical ethno-cultural.

At the same time, the modern production process imposes certain requirements not only on the quantitative reproduction of labor but also on its qualitative characteristics, which also sooner or later affects demographic indicators. That is why the complex study of the relationship between the demographic processes taking place in modern society and its economic development becomes especially relevant. These new requirements affect the developing countries, where already in the middle of the last century there was a disagreement on the course of socio-economic and demographic processes, the most. The high mortality rate in these countries has been overcome by the

efforts of the entire world community by delivering better medical services, improving food production and storage, while the traditionally high birth rate corresponding to the level of socio-economic development of these countries has been preserved.

The Middle East and North Africa (MENA) is a diverse region that is affected by economic and political transformations but with a potential for greater and faster growth. It hugely benefits from a privileged geographical location. Considering the demographic situation in the MENA region, which is encompassing approximately 19 countries in the Middle East and North Africa, it accounts for approximately 6% of the world's population. The population of the MENA countries is currently 368.1 million people, of which 195.7 million live in North Africa, and 172.4 million people live in the countries of the Persian Gulf, and continues to grow (Fig. 3.1) [1].

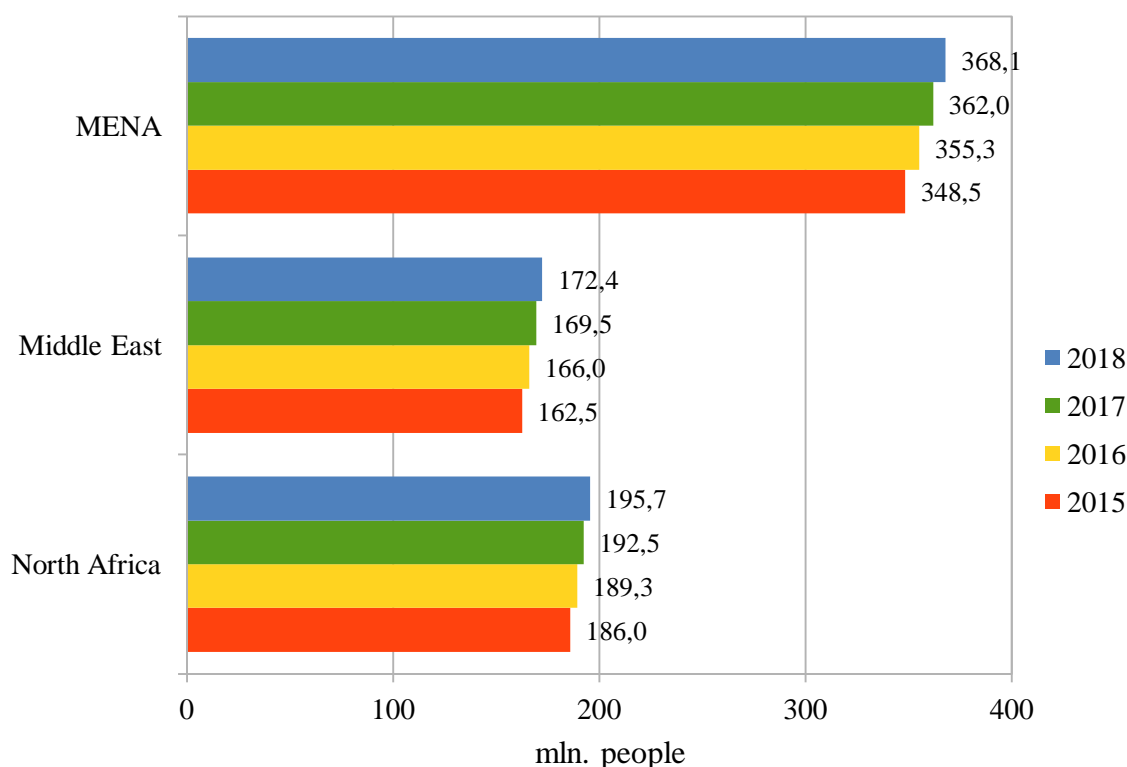


Fig. 3.1 MENA region population dynamics

Source: calculated according to the data [1].

It should be noted that the trend of population growth persists mainly due to natural growth (average annual population growth – 2.5%) [1, 2].

A number of factors play a significant role in specific features of the current trend of the population growth in this region. The preservation of high birth rates here is primarily due to a complex set of socio-economic, demographic, psychological and socio-cultural factors:

- Level of population welfare: a high birth rate is preserved in economically weak countries of the region;
- The discriminating position of women in society, poor involvement of women into social production structure, insufficient educational level of women;

- Significant influence of prevailing customs, traditions, religious tenets insisting on the need for a large family in the society.

In addition to the high birth rate which determines the characteristics of the demographic situation in the region, the evolution of demographic processes in the region is significantly affected by the change in the death rate, which is now less than half of what it was just half a century ago.

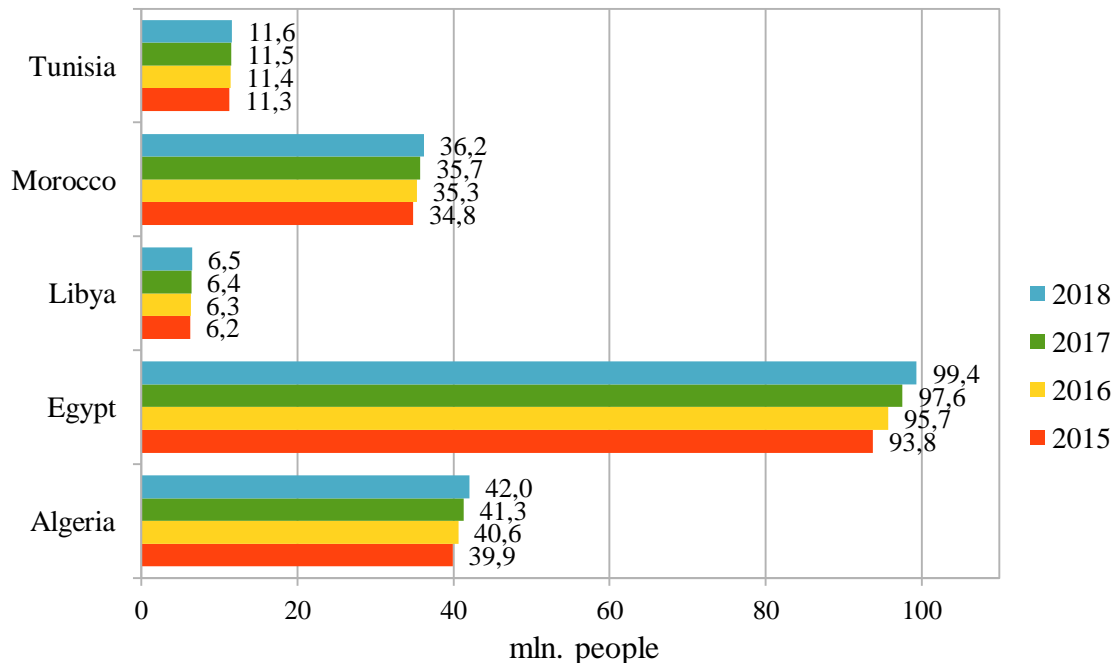


Fig. 3.2 North Africa population dynamics

Source: calculated according to the data [1, 2].

It is worth to point out that of the North African countries Egypt is the most populous one with more than 100 million inhabitants (it exceeds the population of Algeria, Morocco and Tunisia combined). Therefore, the demographic situation in Egypt in the coming years will significantly affect the dynamics of the demographic indicators of the entire North African region (Fig. 3.2) [1, 2].

The population size is directly affected by the population growth factors, which have significantly changed with the influx of petrodollars into the Middle East region. The countries of the Persian Gulf can be divided into two groups of countries: countries with a high birth rate, where it is higher than Central Asian mean value - above 23% (Iraq, Oman, Saudi Arabia, Yemen) and countries approaching the developed countries natural growth and birth rates: Kuwait, Qatar, the United Arab Emirates, Bahrain and Iran with a birth rate of less than 15% [1, 2].

A distinctive feature of the demographic structure of the population of Arab countries is the predominance of the share of young people: 60% of the population is younger than 25 years old, and 20% of the population has not reached 15 years of age. At the same time, the average age of the inhabitants of the Arab states does not exceed 25 years. When compared with similar indicators for

other regions and the world as a whole, it can be argued that this is the youngest sub region in the world [5].

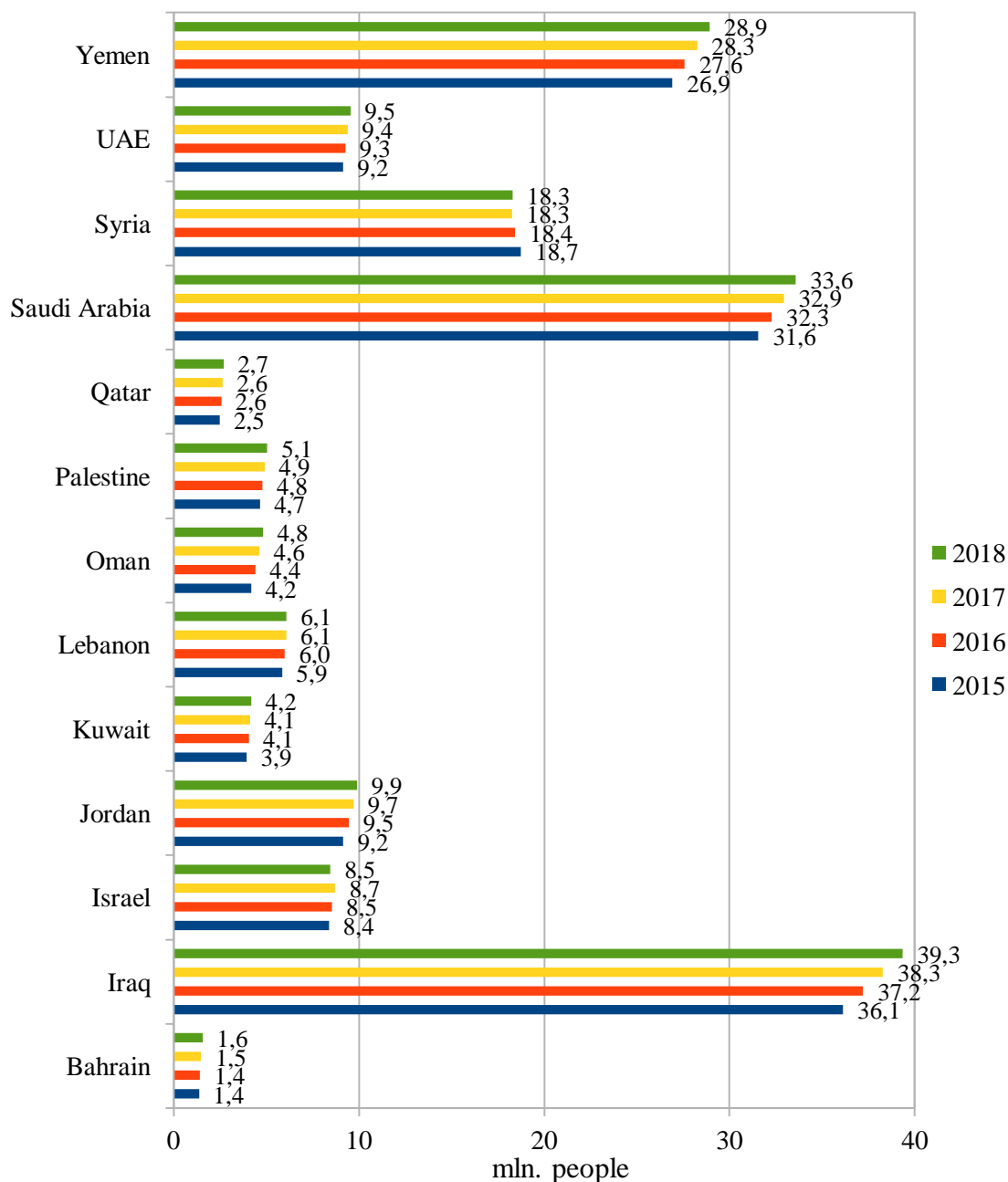


Fig. 3.3 Middle Asia population dynamics

Source: calculated according to the data [1, 2].

The three richest countries of the Persian Gulf are the UAE, Kuwait and Qatar, where the inflow of petrodollars made a decisive impact on the development of their national economies and social sphere: today they are among the top ten "socially prosperous" countries (Fig. 3.3). Social policy is well organized in these countries. The legislation provides for social benefits for all occasions (unemployment benefits; sickness benefits; loss of the breadwinner; children; the unemployed

wife; payment for holidays, including maternity leave and interest-free loans for housing, for the wedding).

By itself, significant demographic growth is not an unfavorable factor for national development, although in the conditions of lagging economic growth, it can and does cause negative consequences, making it difficult to solve such pressing problems as employment, food security, education, health care, etc. One of the demographic indicators that have a restrictive impact on the formation of labor resources is, in particular, the age structure of the population (Fig.3.4).

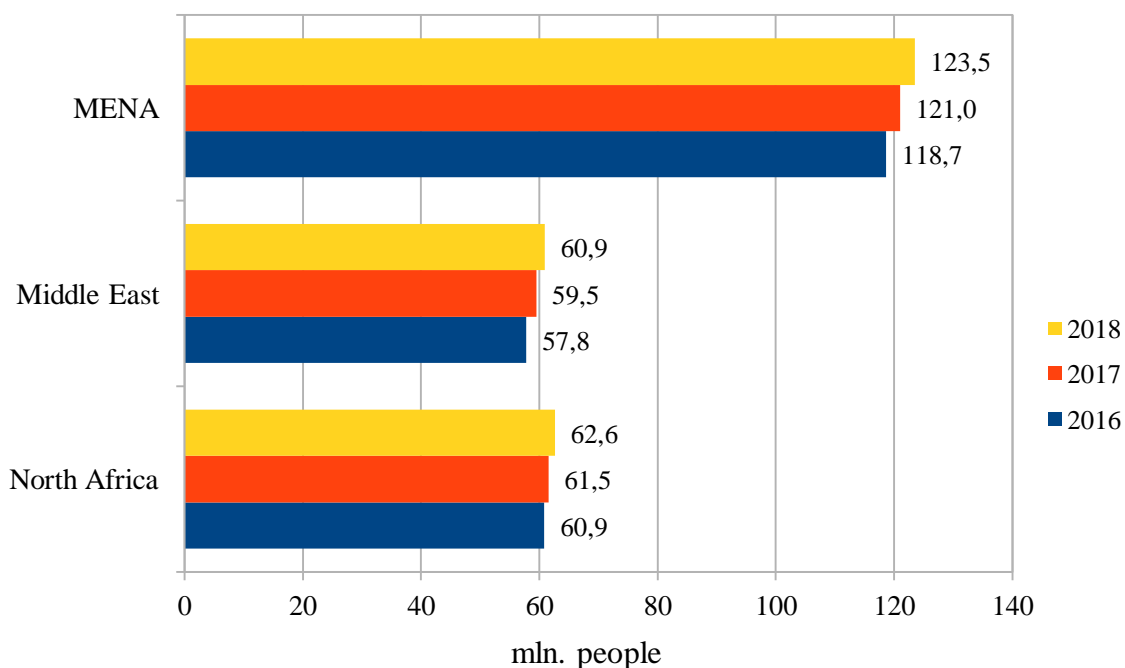


Fig.3.4 MENA region labor force dynamics

Source: calculated according to the data [12].

The experience of developed countries shows that the labor market is one of the most important components of the general economic market mechanism. The labor market covers a wide range of socio-economic relations with specific characteristics within a particular territory, where the process of reproduction of the population, labor resources and labor is localized. That is, the labor market depends on regional characteristics, the diversity of forms of ownership, socio-demographic and professional structure of personnel, the level of scientific, technical and the socio-economic development of a particular region.

Let’s take a closer look at the analysis of the labor market in MENA countries with its main characteristics (employment, unemployment and underemployment, Table 3.1) [7]. Various indicators are used to assess employment opportunities in international statistics, the most common of which are the proportion of people employed in the total population and the unemployment rate.

The advantage of the first indicator is that it contains information on the proportion of people of working age employed in the production of goods and services in the composition of the entire population, as well as on the distribution of employment by age and sex. This indicator covers all categories of workers, so its use is able to reflect the dynamics of the share of people employed in the economy and changes in the age and sex structure [13].

Table 3.1

The key indicators of a labor market

Indicator name	Years			Change, %	
	2016	2017	2018	2016/17	2017/18
Population 15 to 64 years (in thousands)	282254,3	287067	292046	1,70	1,73
Labor force (in thousands)	118671,41	120996,72	123513,39	1,96	2,08
Employed persons (in thousands)	107 583,44	109 696,42	112 023,23	1,96	2,12
Unemployed (in thousands)	11087,97	11300,29	11490,17	1,91	1,68
Labor force participation rate (%):	48,03	47,98	47,96	-0,05	-0,02
Men					
Women	77,10	77,16	77,24	0,06	0,08
Youth	20,39	20,29	20,27	-0,1	-0,02
	29,48	29,35	29,15	-0,13	-0,2
Unemployment rate (%):	9,95	9,88	9,82	-0,07	-0,06
Men					
Women	7,9	7,9	7,8	0	-0,1
Youth	17,87	17,69	17,7	-0,18	0,01
	26,2	26	26,1	-0,2	0,1

Source: calculated according to the data: [7]

However, the disadvantage of this indicator is that it does not provide information on the actual hours worked: in most cases, work for more than one hour per day is considered employment. At the same time, there are quite significant differences in the nature of work depending on the category of employment. Working for eight hours in a large enterprise with hundreds of employees differs significantly from sporadic, frivolous work that is characteristic of many types of informal activity and self-employment. Agricultural work, depending on the season and weather conditions, is also characterized by its own rhythm. All this suggests that the analysis of quantitative indicators in such a multifactor sphere as the employment of the population must be complemented by qualitative characteristics.

These features of the demographic structure have the most direct impact on the reproduction of the labor force. The growth of the population of young ages is the main source of replenishment

of labor resources. The annual growth rate of the working-age population (15-64 years) in the MENA region from 2015 to 2018 amounted to 1,7%. The highest rate was registered in Bahrain – 5,7%. This is not surprising since the labor resources are still replenished largely due to the influx of foreign workers. The growth rates of the economically active part of the population of Saudi Arabia (2,4%) and Jordan (2,8%) and Yemen (3%) turned out to be high as well, which can be attributed to both the rapid rejuvenation of the population and, in part, the return of migrants from the zone of military conflicts in the Persian Gulf [6, 7].

The labor force growth rates in Morocco, Lebanon, Egypt and Tunisia were in the range of 2,3-2,5%. Such a low growth rate is due to several reasons. First, in some countries (for example, Tunisia and Morocco) statistics do not take into account a rather large group of the population, mainly women, who work at home in the handicraft industry or as family workers in agriculture. When conducting surveys, they consider themselves to be housewives, i.e. not belonging to the economically active population. Secondly, the development of higher and secondary education has narrowed the boundaries of the economic activity of young people. Third, the emigration of both skilled and unskilled labor causes undoubted damage to the national labor resources. Among migrants leaving the country people aged 20-40 years constitute a dominant group [7].

An important element of the characteristics of the economically active population is the structure of employment. According to international statistics in 2015-2018 among the male population of Arab countries in the Middle East and North Africa, it looked as follows: 18,6% were engaged in agriculture, 22,4% in industry and industries close to it in terms of employment, and 59% in services. Unfortunately, for most Arab countries, due to the lack of similar data for previous years, the dynamics of sectoral employment cannot be traced. Information was available only on Syria and Egypt. It says that the employment structure of Syrian men did not undergo significant changes during 2015-2018 years: 23% of them are still engaged in agriculture, the share of people employed in the industry increased by 1 percentage point and amounted to 29%, and employment in the tertiary sector fell by 1 percentage point to 48%. The shifts in the sectoral employment structure of the Egyptians were deeper. The “open door” policy pursued since the 1970s has led to an outpacing growth in employment in the services sector, from 41% in 1990-92 years to 49% in 2003-2006 years, a slight decrease in the indicator under consideration in industry from 25% to 23% and a sharp decline in agriculture from 35% to 28% [10].

Employment growth in the services sector is primarily associated with the tourist boom that began more than 25 years ago. Foreigners and rich Arabs rented land areas from the Egyptian government for small sums and built there hotels using the principle of maximum service in one place. The Egyptian government constantly encourages its citizens abroad to repatriate capital. They offered uniquely high rates on deposits in local banks. At the same time, the safety of deposits is guar-

anteed at the highest level. Even greater benefits are granted to those who invest their foreign savings in private business, open a company or enterprise in the country. Tax breaks and subsidies for such entrepreneurs are guaranteed. In addition, today the country is positioning itself as a secular state, suitable for both leisure and business.

A careful analysis of the structure of the employed population by industry makes it possible to classify those 10 countries in the Arab world that are fully represented by international statistics. The relatively low level of development of the productive forces and agrarian character in 2015-2018 years was characteristic of the economy of Morocco, where 40% of the employed population worked in agriculture, 21% in industry and 39% in services. The second group included Egypt, Algeria and Syria, with figures for agriculture at the level of 23-28%, industry - 23-29%, and services in 48-53%. The third group consisted of Iraq and the Palestinian National Authority, where employment in crop and livestock production fell to 14% and 12%, and in the service sector rose to 66% and 59%, respectively. Finally, in Saudi Arabia and Jordan, agriculture concentrated only 4-5% of the employed population, with a clear development of the tertiary sector of 85% and 73%. According to this indicator, the last group of the Arab states is very close to the developed countries of Europe and America. In many ways, the concentration of the majority of the population in the services sector of the Kingdom of Saudi Arabia is a continuation of the policy pursued earlier, when for many years the state provided its citizens with “easy work”. Physical labor has never been in favor of residents of the countries of the Arabian Peninsula, and local people prefer to work in trade because of the opportunity to receive, if not too much, but relatively constant remuneration for their work [4].

A distinctive feature of the economically active population of Arab countries is that the bulk of it is made up of men. As for women, their share does not exceed 25% on average and is significantly differentiated by individual states. In general, developing countries are characterized by a weaker involvement of women in social labor activity as compared to developed countries. However, in none of the developing regions as a whole, there has been a decrease in the participation of women in the labor force. To a certain extent, this is due to the fact that the ongoing global changes in the structure of production reduce barriers for women to enter the labor market. There are still various obstacles to the participation of women in Arab countries in social production, associated both with religious traditions and the insufficiently high level of development of productive forces, securing a certain type of work for women, and wage discrimination. That is why only a third of able-bodied women in 2017 year were included in the category of economically active women. This figure was the lowest in the world [4].

Currently, employment among women in Arab countries is the lowest in the world. But even in the United Arab Emirates, where this figure is much higher - 52%, two-thirds of the unemployed are also women.

The sectoral employment structure of the female population provides an ambiguous picture. In Yemen, it reflects the still low level of development of the productive forces and the agrarian nature of the economy. According to international statistics in 2015-2018 years, about 88% of the inhabitants of this country worked in the primary sector. The concentration of women in crop and livestock production in Syria (58%), Morocco (57%), Egypt (39%) and in the Palestinian territories (34%) was quite high. As for the countries of the Persian Gulf, the main segment of the labor market is the tertiary sector. In 2015-2018 it encompassed in the Kingdom of Saudi Arabia 98%, Qatar 97%, UAE 86%, Oman 80% of the female employed population. This is due not only to active female immigration to this region. The local inhabitants of the Arabian Peninsula are also rapidly progressing. The number of women in the private sector is growing. Native people make up more than a third of local business representatives [10].

A serious obstacle to the employment of women, especially those who have acquired education and a profession, is the growing competition from male specialists. Nevertheless, among the professional and technical workers in Syria, women make up 40%, Egypt, Algeria, Oman, Morocco and Palestine 30-35%, in the UAE and Qatar reach a quarter of all employees, and in Yemen, their proportion drops to 15% [6].

It is noteworthy that in Arab countries the level of child employment is quite high. The necessary data on this topic was collected during sample surveys conducted in Egypt (2005), Iraq (2006), Morocco (1998-1999), Syria (2006) and Yemen (1999). Surveys have shown that such levels of child labor in Iraq were 14.7%, Morocco-13.2%. The minimum numbers of child labor were recorded in Egypt - 7.9% and Syria - 6.6%. In whatever sector of the economy child labor is used, it is almost always closely related to the unregulated informal economy, which is beyond the reach of official institutions, including labor inspection services. Between 80% and 95% of children in the above countries help in the household and are classified by the International Labor Organization (ILO) as unpaid family workers. Most of them help parents in farming. The proportion of children employed in agriculture in Yemen increases to 90%, while in Morocco it drops to 60%. As for the child labor market, its scale is small: the maximum value in Yemen (35% of employed adolescents from 7 to 14 years). Thus, despite the increasing efforts of governments, child labor is still widespread, and virtually all countries in the MENA region are to some extent affected by the problem of the child labor market. Highlighted points are in line with global trends. The problem of reducing the use and eradication of child labor has both moral and ethical and socio-economic aspects. Solving it requires expanding access to schooling, increasing family incomes by creating greater em-

employment opportunities and earning adult workers, and changing attitudes towards the work of children on the part of society as a whole, combined with compliance with laws regulating child labor.

There is a unique situation in the labor market of the MENA region. Despite a significant proportion of young people and extremely low employment of women, high unemployment and imports of labor (in some countries up to 90%) persist in the region [12, 13].

The problem of unemployment and underemployment is one of the most pressing and difficult in the socio-economic development of countries of this region. According to international statistics in 2015-2018 in MENA countries, the unemployment rate reached 12% of the economically active population, twice as high as the world indicator (6.4%).

Accelerated population growth in the region, the migration of surplus labor to the cities, the collapse of artisan trade — all of these factors led to an increase in the absolute and relative rates of unemployment at a rapid pace. The army of unemployed in Arab countries is significantly differentiated by educational level. The available data show that the majority of those who cannot find employment in their work have only primary education. As for the absolute scale of unemployment, in general in the countries of the Middle East and North Africa in the period 2015-2018 years, it amounted to 14 million people. As a result, there came a group of countries where unemployment was highest: Tunisia (15.5%), Jordan (15%), Algeria (12%), Egypt (11.4%) and Morocco (10%). More than 30% of the Palestinian labor force is out of work; youth unemployment remains above 40%. Less than half of all Palestinians over 15 are economically active, and two-thirds of young people are currently not in the labor force. At the same time, in the Gulf countries, the proportion of unemployed was minimal: in Saudi Arabia 5.9%, UAE 2.5%, Kuwait 2%. The smallest number of those who did not find employment was registered in Qatar - 28 thousand. But even the presence of such a relatively small army of unemployed is a matter of concern for the leadership of the Gulf monarchies. Unemployment can only be eliminated through state intervention in the economy to ensure maximum economic development through a policy of accelerated industrialization, radical agrarian reforms and the mobilization of the available labor resources of these countries. The report of the Arab Labor Organization points out that addressing unemployment in the entire region while maintaining current population growth rates will require the creation of 51 million new jobs by year 2020 [13, 14].

One of the most important components of the modern Arab labor market is population migration. The demand for foreign labor in the Gulf countries is due to factors such as a shortage of qualified specialists, restrictions on the employment of women which are depriving the countries of a significant part of the labor potential. In the countries of the Persian Gulf, the system of hiring labor immigrants is developed quite well. The main role in it is taken by “sponsors” or “guarantors” – citizens of immigration countries, so-called “kafala” (they are not necessarily employers) who re-

cruit workers in immigrant donor countries with the help of recruitment agencies. Without this sponsor, the labor immigrant cannot obtain either a residence permit or a visa. The sponsor makes a contract in which he bears material and legal responsibility for the immigrant, pays for flights, visa, work permit, etc. and health care. Foreign workers are predominantly employed in the private sector; Citizens mainly work in the public sector of the economy (in the sphere of finance, oil production, telecommunication technologies), where you can count on high income, social status, benefits. Work in the private sector is less prestigious. Thus, in this sector, a special niche is allocated for foreign workers.

The growing demand for labor from non-Muslim countries in Asia today is brought about also by security concerns. Due to concerns about the spread of extremism and terrorism, entrepreneurs in the Gulf countries are interested in the immigration of workers from non-Muslim countries, who are also paid lower wages. But nowhere does it serve as such an important factor in the transformation of social, economic and political life, as in the Arab monarchies of the Persian Gulf. Here, the share of foreigners, excluding illegal immigrants, in the total number of employed is more than 2/3. This is much more than in the EU countries which are also actively using foreign labor. But if the anxiety of the inhabitants of the "old world" is related to the fact that immigrants will be competitors in the labor market, in the Gulf zone the threat of serious cultural, demographic and ethnic changes becomes reality. Determining the exact number of immigrant workers in the region is not easy, because reliable statistics due to objective and subjective reasons is missing. Published data are usually just estimates (Tab. 3.2). They indicate that the number of foreign workers is constantly growing in this sub region. In 1975 it amounted to about 3 million people, in 1985 it exceeded 7 million people, and now, according to some data, it reaches 10-15 million people. However, the relative indicators are falling. This can be explained, on the one hand, with broader implementation of the programs of socio-migration control, and on the other, with the fact that new national cadres born in the 1990s reached the working age and are entering the labor market.

Table 3.2**The number of citizens and immigrants in the Gulf Cooperation Council countries (GCC)**

Country	Number of immigrants		Number of citizens	
	Total	labor force	Total	labor force
Bahrain	704137	409800	862856	512354
Kuwait	2866136	1960798	1330992	482 931
Oman	1844978	1739000	2984968	972530
Qatar	1687640	1 713 795	1007209	302 435
Saudi Arabia	10185945	10183104	23368398	4 072 265
UAE	8095126	5200000	1446489	1 620 923

* According to the UN, CIA World Factbook, 2018 and other sources

According to the latest available data, the number of foreigners in Kuwait reaches almost 3 million people, which about 70% of the population. And around 70% of arrivals are, still, immigrants from India, Pakistan, Bangladesh, and Sri Lanka. The share of immigrants from the Arab states accounts for 10%, Iran - 8%. A similar national structure of immigration with some variations is typical for other countries of the Persian Gulf.

The share of foreigners in the total number of people employed in all the countries of the Persian Gulf exceeds 50%. At the same time, in Kuwait, the rate reaches 80%, and in the UAE and Qatar 90%. In the UAE, citizens (ie, residents who receive privileges and guaranteed rights) are 18-25% of the population, Qatar 20%, Kuwait 35-36%. The rest work in the absence of clear labor laws and can be deported at any time. The uniqueness of foreign labor in Saudi Arabia is a large proportion of illegal immigrants. During the Hajj period, the number of foreigners for 1-1.5 months increases by 3-3.5 million people, some of which after the administration of all religious rites necessarily remain in the Kingdom as illegal workers. Estimates of the share of foreigners in the labor force of Oman vary from 55% to 70% [13].

The educational level of foreign workers has also undergone significant changes. The total number of workers with higher and secondary education approached the number of workers with knowledge at the elementary school level. Low-skilled foreign workers do the hardest work in the country and are used as road workers, cleaners, domestic workers, etc. Specialists with secondary technical and professional qualifications create the most well-to-do social stratum among foreign labor. They are hired as employees of state and private organizations, enterprises and banks, medical workers, etc. High-level foreign advisers are also highly paid professionals. The leading position of foreign labor in the Gulf States is taken by Western experts, primarily citizens of the United States and Great Britain. This is due to the traditional influence of Great Britain (there was a British protec-

torate over a significant part of Eastern Arabia), significant participation of American and British capital in the development of oil fields, traditional military-political ties of the monarchies of the Persian Gulf with leading NATO countries, widespread English in the scientific and technical sphere. At least 50 thousand American specialists and 30 thousand British, as well as about 25 thousand citizens of other Western countries, work in Saudi Arabia. According to some data, approximately 70,000 Western specialists are currently working in the UAE. A special group consists of military consultants, advisers and military personnel stationed at military bases. American military advisers serve in the armed forces of Kuwait, Qatar and Bahrain. British military consultants cooperate with the governments of Saudi Arabia, Kuwait and Oman, the French - with the authorities of the United Arab Emirates and Qatar. Mainly foreign top managers work in private companies. In Bahrain, the situation is different as compared to all the countries of the Persian Gulf. The emirate virtually ceased oil production and reduced a significant number of jobs in the oil sector. In addition, in Bahrain, the procedure for the naturalization of foreigners was easier. Much of the ex-immigrants in recent decades have become citizens, therefore, now they constitute 60% of all inhabitants of the country and 60-65% of all employed. Foreign labor remains an important factor in the social and economic development of the countries of the Persian Gulf. In the near future, this situation is unlikely to change significantly. The nationalization programs for employees suggest an increase in the share of local labor resources to 75% by year 2020. However, the implementation of this goal seems unlikely today. In the future, when the main stage of development of the infrastructure of the Gulf countries is completed and in conditions of the surplus of cheap labor, immigration restrictions will be required. It is not known how this will affect international relations with other countries, in whose economy expatriate remittances play an important role.

The analysis of the impact of economic growth rates and per capita income on the dynamics of population growth rates requires special attention. The contradictory, multidirectional tendencies of economic and demographic changes force us to look for new ways of combining economic, socio-demographic and structural characteristics. This is especially true for the MENA region, where economic reforms took place against the backdrop of a complex demographic situation, associated with accelerated rates of population and unskilled labor growth, a high proportion of below working age children, unfavorable indicators of universal and child mortality, etc. The structure of the economy of any country is reflected in the structure of GDP. Its variation is influenced by a huge number of factors, but primarily economic (for example, crises, global conjuncture, etc.) and political (revolutions, coups, etc.) that lead to the accelerated development of some industries and stagnation, degradation of other industries.

The basis of all Arab countries' economies is the extractive industry, that is, the very industry dominated by state property. The extractive industry directly affects both the economic dynamics of

these countries and the structure of their national economies in different years. And the oil and gas complex is the basis of the region's extractive industry.

Table 3.3

Some macroeconomic indicators of countries

Country	GDP		
	Billion US dollars	Growth rate,%	Per capita, USD
Bahrain	37,75	1,78	24051
Israel	369,69	3,31	41614
Jordan	42,29	1,94	4248
Iraq	225,91	0,63	5878
Yemen	26,91	-2,7	944
Qatar	192,01	1,43	69026
Kuwait	141,68	1,24	34243
Lebanon	56,64	0,2	8270
UAE	414,18	1,42	43005
Oman	79,29	2,13	16419
Palestine	14,62	0,9	3199
Saudi Arabia	782,48	2,21	23219
Syria	73,67	1,9	1700
Egypt	250,89	5,31	2549
Algeria	180,69	2,1	4279
Morocco	118,49	2,95	3237
Tunisia	39,86	2,5	3447
Libya	48,32	7,84	7235

Source: calculated according to the data: [3, 8]

As can be seen from table 3.3, the economic indicators of the state of the region are very diverse and significantly differ in the level of socio-economic development, which is characterized, in particular, by the indicator of GDP production and its dynamics, as well as income per capita. Analysis of the dynamics of the GDP of Arab countries in MENA shows that economic growth has continued in this group over the past years.

High and unidirectional GDP dynamics is observed in almost all countries of the sub region. The most significant GDP indicators among the countries of the region in 2018 were achieved in Saudi Arabia, UAE and Israel - respectively 782.48; 414.18 and 369.69 bln. US dollars. Together, these three countries account for more than half of sub regional GDP — 50.6%. GDP is also actively growing in Libya, Egypt, Israel and Morocco. One of the least developed and the poorest of Arab countries' economy is the economy of Yemen. By 2016 due to ongoing internal conflict, the economy of the country collapsed causing a catastrophic decline in population leaving standards. The rapid fall in internal food production and the growing dependency on imports became the main economic problem of Yemen. Most of the country's population of working age became entangled in armed conflicts and at the same time, foreign companies left the country. The capability of Yemen's

economy to rebound will largely depend on the end of civil war and foreign armed intervention [3, 8, 9].

This situation is largely due to the following reasons. The model of development of countries - exporters of oil, primarily Arabian ones, allowed them to significantly increase the efficiency of their national economy due to their involvement in the world economy primarily through oil exports, and then through connection to the global financial system (actively using "petrodollars"). During the period of favorable oil and gas market conditions, a market economy developed dynamically in these countries, efficient private enterprises appeared (mainly in the oil and gas sector), and highly capitalized stock markets emerged. Since most of the hydrocarbons of these Gulf countries are sold in Europe and Asia, their strategic importance in the coming decades will only grow. Due to the high incomes from hydrocarbon exports, government spending has increased significantly, contributing to an increase in GDP [11].

This growth in GDP has had a positive effect on per capita income, despite the high demographic indicators in the sub region. At the same time, based on the analysis of statistical data (see Table 3), it is possible to see a significant differentiation of the states of the MENA region in terms of GDP and GDP per capita, which means the emergence of states that have achieved significant success in economic development, almost equal to those of industrial developed countries, and those whose position is still below the world average.

All states of the MENA region according to the UN classification belong to the group of developing countries; their economies have largely similar characteristics in a number of areas. Over the past decades, significant political, economic and social changes have taken place in this region. On the one hand, they are caused by objective internal processes, on the other – by global changes: the emergence of an industrial, post-industrial, innovative and information society, the rapid development of big-scale trade-economic and political alliances, unions and groups, the globalization of economic, political and other processes.

Accelerated rates began to create new productive forces and form the corresponding social strata more or less capable of actively functioning within the framework of new opportunities. The Gulf countries almost simultaneously came to realize that revenues from the extractive industries are temporary in strategic terms, they should be transformed into economic diversification and development of their own high-tech industries that can become the basis of the economy with the reduction of the influx of petrodollars or, at least, reduction of dependence of the economy on the "oil factor". Massive urbanization that has begun, a revolution which is actually taking place in the power supply and in communications allowed the states of this region and above all the "oil monarchies" in the short historical time to modernize the basic components of countries' livelihoods and enter the world economic system as equal partners.

Traditional mechanisms and instruments of the Arab society, including the social system of the Gulf countries which are tested by centuries and based on Sharia law, became adapted to market mechanisms but preserved themselves. Local customs contributed to shaping the well-being of the population through Islamic traditions: paternalistic attitudes towards citizens, the use and distribution of income from the sale of natural resources among all members of the native population. Preservation of the traditional foundations of society against the background of the growing welfare of countries leads to a significant income of the average Arab family and in accordance with Islamic law allows the native population to maintain a relatively high standard of living and be demanding in choosing a job.

It should be noted that the sectoral component of GDP in the countries of the MENA region varies greatly [9, 14]. (Tab. 3.4).

Analysis of GDP by economic sectors allows us to distinguish four groups of countries:

- 1) Countries with a clear predominance of the industry in their structure of the economy - Kuwait, Oman, Libya;
- 2) Countries with a relatively high proportion of the agriculture - Syria;
- 3) Countries with a predominant of the service sector - Israel, Lebanon;
- 4) Countries in which industry and services dominate in approximately equal proportions - Iraq, Yemen, Qatar, AOE, Saudi Arabia, Algeria.

Table 3.4

Sectoral structure of the economy of MENA countries according to the data of 2016, %

Country	Agriculture	Industry	Construction	Trade	Trans-port	Services	GDP
Bahrain	0,34	31,8	8,0	7,1	7,5	45,2	100
Israel	1,3	15,1	5,8	12,2	13,4	52,3	100
Jordan	4,1	22,7	4,7	9,9	12,8	45,8	100
Iraq	4,1	33,8	6,0	10,9	10,2	35,0	100
Yemen	15,4	26,9	4,1	16,8	12,0	24,8	100
Qatar	0,18	38,8	11,4	10,8	4,8	34,5	100
Kuwait	0,44	56,8	2,0	4,3	5,2	31,3	100
Lebanon	2,9	7,5	3,7	20,6	6,9	58,5	100
UAE	0,8	29,9	10,2	15,2	10,7	33,1	100
Oman	1,3	52,1	6,2	8,0	4,9	27,6	100
Palestine	4,4	16,4	6,2	22,5	7,3	43,3	100
Saudi Arabia	2,7	36,4	6,7	11,5	6,7	36,1	100
Syria	20,5	26,8	3,4	22,5	9,5	17,3	100
Egypt	11,9	27,5	5,4	15,8	8,5	30,8	100
Algeria	12,7	24,3	11,8	15,4	10,7	25,1	100
Morocco	13,6	23,0	6,5	11,5	6,5	38,8	100
Tunisia	9,8	21,4	4,5	14,3	11,4	38,5	100
Libya	0,9	65,6	1,5	4,7	3,4	23,8	100

Source: calculated according to the data: [9, 14]

In countries that are less developed industrially and in those where the role of the oil factor is less significant, industrialization was based on the development of light industries — textiles, food, leather, footwear, woodworking, and others. Metalworking, manufacturing and hardware repairs are actively developing in Arab countries. Mechanical engineering (mainly assembly) is also represented in the region (drilling equipment production in Bahrain, electrical engineering in Syria and Algeria, car assembly plants in Kuwait, electrical equipment and machinery as well as vehicle production in Tunisia, etc.). Some states intend to switch to the export of capital-intensive and technically complex products - transport, agricultural and construction equipment. The pharmaceutical industry is also developing rapidly. The service sector occupies an important place in the GDP of the Arab states, which traditionally played the role of a “trade crossroad”, and tends to grow, mainly due to a decrease in the agricultural share of the GDP. The core services of the Arab countries are tourism and trade, transport and infrastructure, as well as the financial sector. The travel business plays a significant role in the structure of the service sector, especially for countries such as the United Arab Emirates, Egypt, Morocco and Tunisia. However, political instability, interethnic and religious conflicts to a certain extent reduce the interest of tourists in the region. Much attention is paid in the states of the region to the development of transport and energy infrastructure (ports, fleet, road and air transportation, pipelines) and telecommunications systems.

During the implementation of economic reform programs, North-African countries with more or less success managed to accelerate economic growth, reduce the balance of payments deficit, reduce inflation, expand the scale and diversify the structure of export, reduce foreign debt, and begin to modernize a number of industries.

The need to increase the share of industry in GDP is closely linked to the goal of accelerated industrialization and diversification of the economic structure that the countries of the region put forward in order to create an economic mechanism capable of functioning after the end of the “oil era”.

Population growth makes an energetic economic growth an urgent priority. Even in order to remain in place and maintain the existing standard of living, Arab countries would have to maintain the growth rate similar to the growth rate in countries - “economic tigers” of 9-10 percent for at least a decade. This is an extremely difficult task that the public sector cannot cope with alone. Economic growth must come from the private sector, and this requires economic reforms: deregulation, weakening state control, trade facilitation and strengthening of the rule of law [4].

At the same time, we consider sub regional economic integration as one of the most important factors of socioeconomic progress in the long term. In the context of expanding globalization and regionalization trends in the global economy, the development of regional economic integration will enable countries to avoid competition in the global market for goods, services and capital, to

expand the investment market, not to mention the fact that the “rich” states of the region are able to provide very substantial financial help to their "poor" partners.

The globalization of the world economy brings about fundamentally different economic ties and production relations which are closely associated with changes in social and labor relations, in particular in the forms of employment.

In 1990, the United Nations Development Program (UNDP) published its first report assessing the social and economic progress of the countries of the world and defined thereby the concept of human development. Human Development Index (HDI) is a combined indicator which is characterizing human development in countries and regions of the world. It is annually calculated by the experts of the United Nations Development Program (UNDP) together with a group of independent international experts using in their work analytical tools along with the statistical data of national institutions and international organizations. The index is used in editions of the UNDP special series of reports on human development.

The Human Development Concept is one of the best-known intellectual products developed by UNDP.

The Human Development Index is an aggregate indicator that shows a development level of a person in a given country, therefore, sometimes it is used as a synonym for such concepts as “quality of life” or “standard of living”. The HDI measures the country's achievements in terms of health status, education and the actual income of its citizens, three main areas for which the indices are evaluated:

1. Life expectancy index: health and longevity, as measured by the average life expectancy at birth.
2. Education index: access to education, measured by the average expected duration of schooling for children of school age and the average duration of adult education.
3. Gross National Income Index: a decent standard of living, as measured by gross national income (GNI) per capita in US dollars at purchasing power parity (PPP).

These three measurements are standardized in the form of numerical values from 0 to 1, the geometric mean of which is a cumulative HDI indicator in the range from 0 to 1. Then, the countries are ranked based on this indicator. In these three areas, countries are divided into four groups. 1. Countries with a very high level of human development. 2. Countries with a high level of human development. 3. Countries with an average level of human development. 4. Countries with a low level of human development.

The greatest difficulties in calculating the Index are brought about by the need to obtain comparable indicators in the absence of the necessary social statistical data for many of the developing countries, and in some cases for the countries with transition economies. It should also be noted

that the part of the data provided by national statistical organizations is not always reliable, as some governments deliberately embellish the situation in their countries. Currently, the Index covers 190 UN member countries, as well as special administrative territories - Hong Kong (China), the Palestinian territories (Israel) and a number of others. However, due to the lack of reliable statistics, the rating table often lists fewer countries.

There has been noted a steady trend around the world that, as a rule, top countries in terms of GDP (the most significant aggregate indicator in the System of National Accounts) coincides with leading countries in terms of human development index.

The MENA region is one of the most contrasting regions in the world, it spreads through three different income group levels and has countries on par with high-income economies in Western Europe as well as those that struggle to be ahead of the worst-performing countries.

It can be seen that there is a close relationship between the level of economic development of the country and the level of development of human capital. This is mostly not due to the fact that developed countries have great opportunities to invest in education, healthcare, and improving working conditions, but, above all because high-quality human capital provides the best economic and social results. Of great importance for the development of human capital is also the favorable environment that the state has created for its citizens. It should be noted that modern changes in employment patterns in no small measure contribute to the growth of human capital, increasing the demand and creating opportunities for intellectual development and growth of workers' mobility. At the same time, it is impossible to unequivocally affirm the exclusively positive effect of modern changes in social and labor relations on the development of human capital. Other components of human capital, primarily health and social relations, are also at greater risk for non-standard forms of employment.

Table 3.5

Human development index (2017 year)

Country	Rating	HDI	HDI components					
			Life expectancy		Education		Gross National Income	
			Index	Rating	Index	Rating	Index	Rating
<i>Countries with a very high level of human development index</i>								
Israel	22	0,903	0,964	10	0,874	19	0,875	35
UAE	34	0,863	0,883	48	0,738	65	0,985	7
Qatar	37	0,856	0,897	39	0,698	85	1,0	1
Saudi Arabia	39	0,853	0,842	86	0,787	49	0,938	13
Bahrain	43	0,846	0,878	52	0,758	58	0,911	24
Oman	48	0,821	0,881	51	0,706	82	0,89	29
<i>Countries with a high level of human development index</i>								
Kuwait	56	0,803	0,843	83	0,62	118	0,991	5
Lebanon	80	0,757	0,919	35	0,637	110	0,74	83
Algeria	85	0,754	0,866	60	0,664	100	0,744	80
Jordan	95	0,735	0,838	89	0,711	78	0,667	111
Tunisia	95	0,735	0,861	67	0,659	106	0,7	102
<i>Countries with an average level of human development index</i>								
Libya	108	0,706	0,802	109	0,616	119	0,711	96
Egypt	115	0,696	0,795	113	0,604	121	0,701	101
Palestine	119	0,686	0,825	98	0,66	103	0,593	140
Iraq	120	0,685	0,77	126	0,534	136	0,783	67
Morocco	123	0,667	0,862	65	0,529	137	0,649	118
Syria	155	0,536	0,784	120	0,412	170	0,476	163
<i>Countries with a low level of human development index</i>								
Yemen	178	0,425	0,695	154	0,349	178	0,38	183

Source: calculated according to the data [15]

Analyzing the current countries standing we can see that out of the whole MENA region only Israel (22), United Arab Emirates (34), Qatar (37), Saudi Arabia (39), Bahrain (43) and Oman (48) made it to the top fifty of the list. Mostly due to the quality of their education systems three Gulf States fare a lot better than the rest of the region's Arab countries in terms of developing the human capital. However, taking into account their income levels these countries can attain much better standing diversifying work force skills and improving enrolment rates into vocational and tertiary education [15].

The North African nations Algeria (85), Tunisia (95) Morocco (123) and Egypt (113) find themselves in the lower end of the regional rankings, but well ahead of Yemen (178).

Saudi Arabia (39) is the region's largest economy, and Egypt (113) has the biggest population. While Egypt has one of the region's most diversified economies and labor markets, Saudi Arabia has a lot better chances to develop its future human capital by providing a better education quality and staff training. Nevertheless, both countries struggle with high unemployment rates among youth, have high employment gender gaps. Improving these problem points will allow both coun-

tries to improve their standing and boost their future human capital [15]. Thus Kuwait (56), who's GDP per capita is nearly eightfold higher, performs at a comparable level to Egypt, highlighting that economic factors alone cannot be adequate measures of a country's ability to successfully develop its human capital.

The average annual growth rates in North Africa and the Middle East region have almost halved.

The most disadvantaged countries with the lowest level of development are at the bottom of the rating. In these countries the lowest life expectancy stays at 40-50 years, very low literacy of the population, approximately 30% of the population only can read and write, and per capita income is less than \$ 1000 per person per year. The sharpest decline can be observed in Libya and Syria, where armed conflicts continue to this day. Despite partial progress in recent years, these countries are still suffering from poverty, educational restrictions, and low life expectancy due to diseases.

Table 3.6

Human development index dynamics

Country	2014 year	2015 year	2016 year	2017 year
<i>Countries with a very high level of human development index</i>				
Israel	0.888	0.894	0.899	0,903
UAE	0.827	0.835	0.84	0,863
Qatar	0.851	0.850	0.856	0,856
Saudi Arabia	0.836	0.837	0.847	0,853
Bahrain	0.815	0.824	0.824	0,846
Oman	0.783	0.793	0.796	0,821
<i>Countries with a high level of human development index</i>				
Kuwait	0.814	0.816	0.8	0,803
Lebanon	0.765	0.769	0.763	0,757
Algeria	0.717	0.736	0.745	0,754
Jordan	0.745	0.748	0.741	0,735
Tunisia	0.721	0.721	0.725	0,735
<i>Countries with an average level of human development index</i>				
Libya	0.784	0.724	0.716	0,706
Egypt	0.682	0.690	0.691	0,696
Palestine	0.686	0.677	0.684	0,686
Iraq	0.642	0.654	0.649	0,685
Morocco	0.617	0.628	0.647	0,667
Syria	0.658	0.594	0.536	0,536
<i>Countries with a low level of human development index</i>				
Yemen	0.500	0.498	0.482	0,425

*<http://hdr.undp.org/en/composite/HDI>

Taking into account HDI dynamics one can say that countries with high GDP per capita levels are taking leading positions in HDI rating among countries of the region. And only Syria, Libya and Yemen show HDI value drop which can be attributed to the internal situation in these countries.

In conclusion, we can say that the HDI continues to grow, but its growth rate is gradually decreasing. Effective economic policy of the MENA region countries and the end of internal conflicts should provide for social transformation acceleration, increased investment attraction, which would allow the region outsiders reach positions.

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3.2. The main tendencies and prospects of interaction of Ukraine with the countries of the Middle East and North Africa in the context of external circular migration of international workers.

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The internationalization of the world space creates objective conditions for the establishment of the global labour market and the constant movement of labour resources. In this context, the labour market is increasingly limited to the borders of a certain country. Global universalization of the networks of economic, socio-cultural and territorial interaction forms the space for the further development of migration relations. In particular, the creation of a single European market stimulated the lifting of restrictions on national labour markets.

Circular migration could create an opportunity for persons residing in MENA country to come to the Ukraine temporarily for work, study, training or a combination of these, on the condition that, at the end of the period for which they were granted entry, they must re-establish their main residence and their main activity in their country of origin [1; p. 9-10].

Circularity can be enhanced by giving migrants the possibility, once they have returned, to retain some form of privileged mobility to and from the Member States where they were formerly residing, for example in the form of simplified admission/re-entry procedures. This category covers a wide array of situations, spanning the whole spectrum of migrants, including:

- MENA country nationals wishing to work temporarily in the Ukraine, for example in seasonal employment;
- MENA country nationals wishing to study or train in Ukraine before returning to their country;
- MENA country nationals who, after having completed their studies, wish to be employed in the Ukraine (for example as trainees) to acquire professional experience which is difficult to obtain at home, before returning;
- MENA researchers wishing to carry out a research project in the Ukraine;
- MENA nationals, who wish to take part in intercultural people-to-people exchanges and other activities in the field of culture, active citizenship, education and youth (such as, for example, training courses, seminars, events, study visits);
- MENA country nationals who wish to carry out an unremunerated voluntary service pursuing objectives of general interest in the Ukraine.

Today, Ukraine's interest in developing economic and trade cooperation with countries of this region is growing due to their relative geographical proximity, substantial demand for Ukrainian products (first of all, steelmaking industry and agricultural products, and also, products of the chemical and mechanical engineering industries), the opportunity to diversify sources of energy, and substantial investment potential.

It is worth noting that Ukraine and countries of MENA region are closely related by a human factor: there are thousands of Ukrainian citizens living in the Middle East, and thousands of students from Middle Eastern countries studying at Ukrainian universities. The steps taken by Ukraine to liberalize visa regime for citizens of certain countries of the region and the abolition in 2011 of visa regime with Israel also help establish contacts. In addition, there are direct flights connecting Ukraine with Israel, Jordan, Lebanon and UAE.

Developing extensive cooperation with countries of Africa is an important area of Ukraine's foreign policy. The importance of the African continent for Ukraine stems from both political and economic interests.

In recent years, countries of MENA region saw a substantial increase of their weight in international relations. Today, African countries demonstrate their readiness for further political and economic integration within the continent and to create common supranational organizations as part of the African Union.

Regional integration trends are actively developing in Africa, such as, for example, creation of a free trade area between whole groups of countries, in particular, the East African Community (EAC), Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA). Countries of the Economic Community of West African States (ECOWAS) are actively developing as well.

From the economic viewpoint, countries of this part of the world represent a significant market for sales of industrial, agricultural and military products and services, an important source of industrial and agricultural raw materials and a strategic international communication hub, which in turn, creates preconditions for development of a global labor market.

An analysis of modern processes of foreign labour migration in Ukraine allows distinguishing the following trends that are inherent in them: intensifying educational migration, preserving trends of migration of able-bodied population and people of reproductive age along with highly skilled workers with quality education.

Ukrainian population demographics are going to change, which will have bearing upon the structure of the country's workforce. It is worth noting that in the nearest decades, countries of Europe (including Ukraine) will require additional sources of labor, and only economic migration could help stabilize this situation. According to forecasts, central and northern regions of Ukraine (the Chernihiv, Sumy, Kirovohrad and Luhansk Oblasts) will become migrant destinations by 2025. Estimates show that by 2025, labor shortage will become so overwhelming that Ukraine will begin to bring in migrants mostly from Africa and South-East Asia, integrating them into society and teaching them the Ukrainian language [2].

On the other hand, the migration potential of North African countries is only going to increase, and even in the most conservative scenario, will reach 3-4 million persons up (including 2 million-plus Egyptians) by 2020 (Tab. 3.7). In particular, the transformation of Egypt into an important supplier of workforce to European countries (including Ukraine) will become a new trend [3].

Table 3.7

Current and forecasted population in 2012-2050 (millions)

Country	2012	2020	2030	2050
Egypt	80,5	96,6	118,1	176,5
Algeria	34,6	39,91	44,9	57,08
Tunisia	10,6	11,6	12,8	15,5
Libya	6,5	8,1	10,05	15,4
Morocco	31,6	35,6	39,7	49,4

Source: calculated according to the data [3]

MENA's unemployment rate is the highest among the regions of the world, driven largely by high unemployment among youth (Tab. 3.8). A mismatch between skills and available jobs, in tandem with new entrants flooding the job market, makes the market extremely competitive and finding quality jobs at home more difficult [4].

Table 3.8

Desire to migrate by employment and subregion in MENA.

	Employed	Underemployed	Not in workforce
<i>Middle East and North Africa</i>			
15 to 29	25 %	31 %	14 %
30 to 65	14 %	23 %	6 %
<i>Arab Gulf states</i>			
15 to 29	8	9	11
30 to 65	8	15	3
<i>Other countries in Middle East and North Africa</i>			
15 to 29	26 %	32 %	15 %
30 to 65	15 %	24 %	7 %

Source: calculated according to the data [4]

Table 3.9

The Migrant Effect on Trade Across Countries of Middle East and North Africa (MENA)

Ranking	Countries	Number of migrants
11	Italy	6,000,000
12	India	5,000,000
13	Ukraine	5,000,000
14	Thailand	4,000,000
15	Pakistan	4,000,000
16	Kazakhstan	4,000,000
17	South Africa	3,000,000

Source: calculated according to the data [5]

Thanks to migration (first of all, from the Middle East) (Tab. 3.9), the population growth rate in European countries showed positive dynamics, and despite natural decline of native European population, it de-facto increased from 510 to 512 million. Secondly, almost 70% of the total increase of workforce in Europe in the last decade must be attributed to migrants, the bulk of whom came from the Middle East and Africa.

The working-age population in the three countries of the MENA region under discussion here is around 125 million and is set to increase because of the age structure and the still relatively high fertility rates. The mid-range variant of the UN prognosis predicts an increase to 146 million persons

of working age. In other words, the working-age population in these three MENA countries will increase by 1.3 million every year until 2030, solely on the basis of the demographic development [5].

The proportion aged 0-19 years in the overall population of the MENA countries is today nearly double (39.5 per cent) that of the EU. By 2030, however, it will be on the downturn there as well (Tab. 3.10).

Table 3.10

Youth dependency ratio, people aged 0-19 per 100 persons aged 20-64

	2010	2020	2030
MENA	73,9	63,9	55,4
Egypt	76,7	67,5	57,7
Morocco	66,9	55,6	48,4

Source: calculated according to the data [5]

Thirdly, Middle Eastern migrants are the additional human potential for countries of Europe, actively sharing new knowledge, technologies and professional skills with the local population.

Fourthly, Middle Eastern migrants become investors in the local economy, paying taxes and social benefits which, according to expert calculations, exceed their own personal income and profit. Therefore, the society financially benefits from migrants.

In this situation, countries of the Middle East and North Africa are expected to become suppliers of workforce due to continuing population growth coupled with deficit of jobs and unstable economic situation.

However, it must be clearly regulated by law, and at the same time, adaptation of migrants to Ukrainian conditions must also be addressed.

At the present stage, migration networks are the social agent that contributes to the socialization of Ukrainian emigrants in foreign communities, mitigates the effects of their cultural shock, and is one of the alternative employment opportunities. That is the reason why we believe that the institutions in the field of migration management need to thoroughly develop socio-cultural ties with the formed new and long-established diasporas (Table 3.11) [6].

Table 3.11

Elements of the USAID framework for engaging the diaspora to participate in the development of Ukraine

Elements of the USAID framework	
Tourism and “nostalgic” trade	Support for the Ukrainian economy through tourism and purchase of Ukrainian goods
Propaganda and diplomacy	Active participation in the activities of the diaspora, promotion of dialogue on policy and promotion of Ukraine in the country of stay
Volunteering	Arrival in Ukraine for short-term work in the public sector, which will provide expertise and skills for economic and social development
Philanthropy	Active participation in the activities of the diaspora, contribution to collective funds to finance local development projects in Ukraine
Entrepreneurship and investment	Investments of emigrants in the Ukrainian economy as private entrepreneurs
Cooperation with Ukrainian colleagues	Cooperation with Ukrainian colleagues, participation in joint research projects, research funding in Ukraine

Private social media are the main contributor to finding a job. The diaspora is able to ensure employment for low-skilled personnel. In case of highly-skilled migrants, informal provision of information may lead to the spread of the “brain drain” from Ukraine [6]. Since migration at this stage does not have a one-way orientation, but has acquired pronounced features of circular migration, the regulation also requires circular migration. And this, in turn, requires adequate institutional support not only in Ukraine and also active participation of recipient countries of domestic migrant workers.

In our opinion, the recipient countries are mutually interested in cooperation, since this will help minimize the flows of illegal migrants and generalize the situation in the field of migration.

The most appropriate term for modern migration processes can be determined as “mixed migration flows”. Of course, this is also economic migration, which is largely due to the deterioration of the security situation in Ukraine because of the outbreak of a military conflict and deterioration of the economic situation.

Prospects for the development of circular migration require the existence of an appropriate legislative framework, the fact of voluntary return, minimum bureaucratic disqualification evasion opportunities and the availability of courses on the study of culture and language. These activities

need to be implemented in the labour markets with the participation of employment services from both donor and recipient countries.

Schemes of circular migration require regular adjustment and taking into account the findings of the current analysis of the situation in the field of migration. In most cases, the problems that the migrants had to face needed some time lag to be dealt with. The fact that it is about individual problems of migrants, the solution of which requires the flexibility of the relevant authorities, should also be taken into account.

Since, as mentioned above, migration has acquired the signs of a circular process, it is important to create the necessary legal conditions for the circular migration of highly skilled professionals, which, in our opinion, will help reduce their departure to foreign countries for permanent residence.

A creative economy, increasing the requirements for the qualification of workers in the labour market, thereby intensifies the migration of skilled workers [7]. That is why there is a need to stimulate the development of innovation infrastructure in the field of external migration and the creation of a single educational space, which is also a prerequisite for the formation of a single labour market of highly-skilled professionals.

Globalization of the labor market, the increasing migration activity in the Middle East and North Africa and growing effect of change factors necessitate active formation of an international worker.

In particular, dynamics of migration flows and formation of an international worker are affected by development of information and communication technologies in the form of virtual organizations/institutes of employment, search and selection of personnel (information search systems, corporate websites of international employer companies, websites of virtual employment agencies and virtual employment services), development of ICT, rise of transborder professional careers, etc [8].

Today's trends in the international labor market put forth new requirements to worker's qualities. The global labor market and the changing system of labor relations require workers of a new type who are amply endowed with characteristics of international labor resources, such as digestion of international experience and national specifics in various areas of international production, and possession of the culture of international communication.

Since migrants from MENA countries are modern international economic migrants, they establish, maintain and develop all forms of relationships (family, social, economic, political, organizational and religious) across borders, and at this point, workers turn into trans-migrants and international workers notable for having interests (economic, political, personal and other) both in the recipient country and in their native land.

A substantial share of the migrant community comprises undocumented economic migrants who work without being officially employed, without receiving required documents and without paying taxes to the budget. This situation has far-reaching consequences, ranging from the declining value of labor resources to the growth of a large shadow sector that has destructive effect on the economy of the country receiving these migrants.

As a rule, a stricter legislative framework regulating labor relations, job quotas for foreigners and other similar coercive measures do not produce the desired effect. Therefore, in addition to regular measures of clamping down on illegal migration, Ukraine must take steps to legalize it. Measures aimed at assimilation and integration of migrants within the framework of a multiculturalism policy would be the most effective in this regard, because in today's conditions, multiculturalism policy has no alternatives. Assimilation envisages complete acceptance of not only economic and legal conditions of the country where a migrant wants to permanently stay but also of cultural, social and political traditions of European civilization. In other words, assimilation is a method of transforming migration flows into new citizens of the recipient country (in this case, Ukraine). Integration and multicultural approach mean that adaptation of migrants from MENA countries to socio-economic and political realities is a two-sided process, for in that case, the receiving country needs a certain time to create conditions for migrants to maintain their national culture and lifestyle.

The creation of a common labor market of highly-skilled specialists between Ukraine and countries of MENA region could be possible if mechanisms of innovative and educational infrastructure of a new format that would create conditions for circulation of professionals as opposed to their emigration are in place.

Development of an intergovernmental concept for development of a common labor market requires integration of partner states in the sphere of foreign migration and employment, and common efforts aimed at devising prospective goals and objectives that define long-term areas of a balanced development of foreign economic migration processes. In turn, the implementation of this concept requires unification of both migration and labor laws of partner states (including MENA countries), while formation of global information and communication networks facilitates broad access to international information regarding international employment, which surely makes territorial movements of workforce easier.

Migration as an objective phenomenon accompanying globalization processes will retain its directionality from economically and socially backward regions of the world to the most developed and democratically free regions. Being a complex socioeconomic phenomenon, migration affects all elements of economic security system, which in the conditions of permanent impact can cause a resonance effect and have bearing upon the entire economic security system of European countries (including Ukraine). Countries of Europe may potentially benefit from the migration crisis by con-

sistently implementing the policy of securitization, integration and assimilation of migrants while finding the balance between sufficient tolerance of international migrant workers and the necessary level of security for local population.

Ukraine, which has one of the longest land borders with Eastern European countries, quite expectedly may find itself in the role of Greece, Hungary and Serbia, as a transit country on the migrants' way to the European Union [9].

For a majority of countries today, migration –international labour and skills mobility-- has become the key factor to sustaining and renovating essential processes of development: production and distribution of goods, services and knowledge, notably constructing and servicing housing, education, healthcare and transportation [10].

In its 2018 review of Human Rights in the Middle East and North Africa, Amnesty International said there had been positive legislative developments in Qatar and the UAE with respect to migrant labour and/or domestic workers. However, there are still migrant workers who face exploitation, including in countries such as Bahrain, Jordan, Kuwait, Lebanon, Oman and Saudi Arabia. For a large part this is due to the kefala sponsorship system which restricts migrants from accessing their human rights as the sponsor usually maintains control and power over the migrant workers - including entry, visa renewals, labour mobility and in some cases exit from the country [11].

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CHAPTER 4.

ISLAMIC FINANCE DOCTRINE: THE NATURE AND EVOLUTION

4.1 The preconditions for emergence and evolution of the Islamic finance doctrine

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Objective demographic, political and economic factors are driving the growing role and impact of the Islamic finance industry on regional financial markets in particular and on international finance in general.

The relevance of research into Islamic trends and problems is confirmed by the fact that around 1490 Islamic financial studies have been published in the last three years. Numerous research and training organizations are involved in academic research on this subject, including: Islamic Economic Institute (Jeddah), Institute of Islamic Banking and Insurance (London), Islamic Finance Academy (Dubai), International Centre for Education in Islamic Finance (Kuala Lumpur). The following organizations also deal with practical problems of industry development: Islamic Development Bank, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Islamic Financial Services Board (IFSB), World Islamic Economic Forum, etc.

The informational saturation of this issue is clearly evidenced by the fact that only one of the numerous online resources - questia.com's online library, offers 4,947 publications in the case of search by the request "the Islamic finance", of which: 1534 books, 303 articles in academic journals (academic journals), 883 magazine articles, 2223 newspaper articles, 4 encyclopedias [6].

Despite the considerable amount of scientific research and analytical publications, Islamic Finance, as an academic discipline, faces serious challenges that hinder the qualitative development of Islamic financial institutions and instruments. This leads to the lack of a scientific and methodological base and is manifested as a lack of quality regulation of the industry, a lack of convenient methods of risk assessment in the application of Islamic financial products, a lack of standardization and consistency of approaches to the definition of financial instruments. From this perspective, it can be stated that both theoretical concepts and economic practices of Islamic finance are in a state of formation and development, and this, in turn, requires further scientific research.

In the last twenty years, the Islamic finance sector has grown significantly and in recent years (2015/16) it is about \$ 1.814 trillion by assets (a sixfold increase over the last decade). Most transnational financial institutions are involved in Islamic finance, in one form or another: as global banking, investment, consulting, accounting or information companies. At present, Islamic financial institutions operate in at least 105 countries, and more and more of them have already implemented

(or are considering introducing) legislation designed to provide a legal framework for the development of this type of financial industry.

To date, the increase in the number of Muslims in the world, is now around 1.6 billion, or 25% of the total population of the world, with a projected value of 2.76 billion in 2050 [1], which determines the huge potential of the Islamic finance industry. In turn, the size of sovereign wealth funds of Muslim countries, especially the Gulf oil exporting countries - more than \$ 2.3 trillion [2], objectively determine the growth of their impact on global financial markets, the distribution of financial resources, the functioning of global and regional international financial centers and the increase in the proportion of the Muslim population in developed countries, such as in Europe, has reached almost 43.8 million people, in the US - 2.8 million, in the fast-growing South Asian region - 985.4 million [3], which leads to an increase in demand for specific, namely Islamic financial services by traditional financial institutions.

In the Islamic world, Islamic financial institutions are major economic players. Five countries dominate Islamic banking, namely: Iran with \$ 345 billion in Islamic assets; it is followed by Saudi Arabia (\$ 258 billion); Malaysia (\$ 142 billion); Kuwait (\$ 128 billion); and United Arab Emirates (\$ 112). Several non-Muslim countries, including the UK and Singapore, have announced their intention to become Islamic finance hubs, while others (such as Australia, France and South Korea) have changed their legislation to become more receptive to Islamic finance [3].

The number of Islamic financial products has been increasing steadily in recent years, attracting more and more customers. Non-Islamic financial institutions that previously ignored the Islamic market, drew attention to it. With a significant rise in prices of energy resources between 2003 and 2008 and increasing importance of the oil producing countries, Islamic financial institutions have gained an additional boost.

From the early 2000s to 2008, the Islamic financial industry grew at a rate of 10-15% per year. In 2008, the Islamic banking sector consisted of 300 institutions spread across 51 countries, including the United States, as well as 250 mutual funds operating in accordance with Islamic business principles.

During the 2008 global financial crisis, no Islamic bank was declared bankrupt (due to the conservative model of Islamic finance and the outright prohibition of speculation and excessive risk). However, the decline in the value of real estate and the decline in the commercial paper market - two main target segments of Islamic banks - have negatively affected the state of the industry and caused slowdown in the market. There are some questions of efficiency, standardization, regulation [4].

Particularly notable was the emergence of sukuk and its rapid increase in popularity, often called the Islamic bond. Since 2001, when the Islamic finance industry became an international

market (with the first US \$ 100 million worth of sukuk nominated by the Bahrain Central Bank), corporations and governments have been able to raise funds in a manner consistent with Islamic law. Over the last fifteen years, the aggregate volume of the sukuk market has grown rapidly, amounting to more than \$ 295 billion at the end of 2014 in accordance with the Thomson Reuters data [5].

Islamic financial institutions have long been criticized for being too conservative when it comes to financial innovation, but they subsequently felt right when the subprime mortgage crisis in 2007 hit most of the traditional banking sector. At the same time, Islamic banking sector saw an average 33 percent growth.

Turning to the study of the theoretical basis of the above questions, it should be noted that Islamic finance is a way of conducting financial activities that is consistent with the religious rules of Islam. A special feature is the presence of a number of certain prohibitions dictated by the provisions of Sharia (Islamic law). The main prohibitions include:

- riba - a prohibition on loan interest (usury);
- gharar - prohibition of unnecessary uncertainty, timely operations, asymmetry of information;
- maisir - prohibition of speculative behavior, acceptance of excess risk, gambling;
- haram - banning and engaging in illicit activities.

In addition to fundamental prohibitions, there are some basic principles, namely: co-financing of risks, transparency of contracts (absence of any conditionality of their performance), absence of mortgage (money is not recognized as a commodity), inability of banks to multiply money. These prohibitions and principles determine the specific forms of financial relations and the tools for their implementation.

Yes, the lending ban has transformed Islamic banking into an analogue of project-based investing techniques related to risk sharing and bank equity participation from borrower profit. The uncertainty prohibition (for example, a classic insurance contract contains it in the form of a probability of an accident) caused the emergence of a specific Islamic insurance system - takaful, which is based on the mechanism of distribution of profits and losses between participants and operator. The presence of haram forced banking institutions to create so-called "Islamic windows" in order to distribute cash flows (both attracted as well as placed) between traditional banking operations and operations conducted in accordance with Sharia requirements.

Summarizing, it is possible to determine that the basis of Islamic economic activity is not the most effective solution to the dilemma of "limited resources vs limitless needs" (Economics), but the principles of Islamic ethics, based on religious norms. Some types of financial services that were formed under the influence of Islamic law are listed in Table. 4.1.

Table 4.1

Types of financial services in Islamic law

Prohibition in Islamic law	Analog in Islamic finance.	Definition
Riba (Arab.) - growth, gain, increase	Various schemes of project investment	Risk sharing, equity participation. The bank studies the project, analyzes the risks, receives part of the borrower's profit
Gharar (Arab.) is a danger	Takaful presents Islamic insurance	The principles of takaful are broadly similar to the principles of mutual insurance. The insurer, having paid the insurance premium, becomes a shareholder of the company and receives part of its profit as a result of the year
Maisir (Arab.) means a gamble	The presence of zakat, waqf (analog of the trust) instead of the ban on lotteries, including charitable ones	Zakat is an obligatory (for the orthodox) annual tax in the form of a voluntary donation to the fund for the benefit of the poor or those in need. Waqf is inalienable property (both personal and real estate property) donated for charitable (religious) purposes
Haram means forbidden	"Islamic windows" in traditional banks	Adaptation of banking services to Sharia requirements. Muslim funds are allocated to Islam-approved activities using tools that do not contradict Islamic law

However, the rigidity of religious prohibitions is mitigated by a wide range of interpretations. For example, there are several types of gharar: admissible, intermediate and excess, the existence of which deprives the deal of validity, with all the ensuing consequences. However, Sharia law scholars still do not have an agreement on the degree of gharar at which the deal becomes invalid. On the other hand, the ban on speculation does not prevent the use of some modified financial instruments on NASDAQ Dubai and Borse Dubai. And the absence or even impossibility within the Sharia law to apply certain financial instruments is compensated by the so-called "emergency rule", which enables Muslims to use "traditional" financial services until a product that "meets the requirements of the Sharia" is available.

In general, Islamic finance can operate within three models based on partnership, trade or lease (see Fig. 4.1). Ideal models of financing in terms of Islamic law are Musharakah (analogue of the limited partnership) and Mudarabah (analogue of the joint venture).

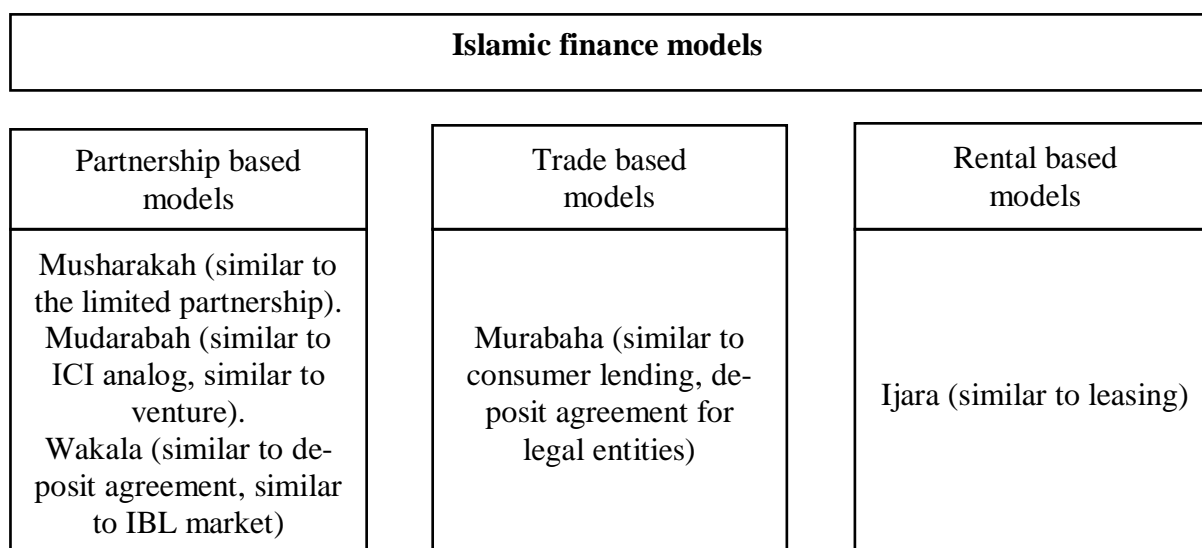


Fig. 4.1. Operating models of Islamic finance

Partnership-based models include: Musharakah, Mudarabah, Wakala.

Musharakah is a type of investment activity, a joint venture, in which Islamic Bank participate in a partnership. The Bank and the partners enter into an agreement on the basis of which they share risk and income. Partner liability is usually unlimited. Since the bank directly develops a project, it incurs more obligations, higher risk and greater authority than other partners. In this case, Musharakah is a certain analogue of the limited partnership.

Mudarabah is an equity joint venture. A partner (investor) provides funds to another partner, usually a bank (managing partner), for the purpose of investing in a business enterprise. The Bank does not provide guarantees for these deposits. The losses, if any, are borne only by the investor, since the managing partner does not participate in the investment. Partners' responsibility is limited by the size of their investment. Mudarabah is an analogue of the Joint Venture Institute and the venture capital fund.

Wakala is a "deposit/savings" product. It is an agency agreement between the client (the owner of the funds) and the bank (the agent), according to which the depositor authorizes the bank to invest its funds in allowed in terms of Sharia assets. The bank will refund if the expected revenue cannot be achieved. Wakala is an analogous to deposit accounts. In addition, the Sharia Council approved the use of this tool to manage the liquidity of Islamic banks. Wakala contracts are offered by Central Islamic Bank to retail banks on a weekly basis, allowing them to place surplus funds in the accounts of the Central Bank, which in turn invests them, for instance, in sukuk portfolios (Islamic bond analogue). Thus, Islamic Wakala banks are able to manage their liquidity by analogy with the interbank lending market.

A striking example of trade-based models is the Murabaha. Murabaha is used in financing, when a bank or other financial intermediary acquires required by client asset on the market (the

product must be owned) and sells it to a customer with deferred payment agreement. In the contract, the seller clearly states the amount of costs incurred for the purchase and the margin added to them. In this form, the Murabaha is analogous to consumer lending.

In the last case, a company wishing to place temporarily free funds in an Islamic bank, appoints the bank as its sales agent according to the Murabaha deal. The Bank purchases liquid commodities on behalf of a company, such as government securities, and sells them by installments for a price that includes a certain margin - the company's revenue from the placement of funds. However, the structure of commodity Murabaha is often criticized by Islamic economists as being only formally compliant with Sharia law. In this form, Murabaha is similar to a deposit agreement for a legal entity.

Ijara is the main lease-based model. Ijara is a type of investment activity in which the landlord acquires the property specified by a tenant and gives it to a tenant for temporary possession and use for an agreed period, on a paid basis. Ijara deal can include the obligation to buy out the leased property, either after the expiration of the contract, or in the determined phases during the period of the contract (in this case ijara becomes analogous to a credit transaction). The ijara mechanism is widespread in Islamic banking operations, including such an international organization as the Islamic Development Bank to finance significant expenditures - equipment purchases, transportation, and infrastructure construction.

In general, it can be stated that modern Islamic finance is used in Muslim countries together with traditional financial institutions, while fulfilling the function of providing the needs for "more correct", from Islam point of view, forms of economic activity of the religious and conservative segments of the population.

In spite of the presence of certain ethno-confessional contradictions in Islam, all differences between religious movements, in fact, are reduced to issues of law, not dogmatics. That is, between the schools of Sharia law (Madhhabs), there are some differences only on minor issues, first of all, on the interpretation of hadith⁴. In terms of the perception of the fundamental principles of Islam, there are no contradictions between Madhhabs and, consequently there is no discussion on the concept of developing of an Islamic finance model.

Islamic finance has reached its present state during a long time period of its evolutionary development, which has accelerated significantly since the 1980s.

⁴ The set of hadiths makes up the Sunnah - a translation of examples of the life of the Islamic prophet Muhammad, as a model and guide for the entire Muslim community (ummah) and every Muslim. The Sunna is the second source of Islamic law (fiqh) after the Qur'an.

According to Islamic economists⁵, since the time of prominent Arab statesman Umar ibn al-Khattab (634-644) (Omar I), the prohibition of lending has been a well-established principle of the Islamic economic system, although such interpretation of usury has not been universally recognized in the Islamic world. The School of Islamic Thought, which originated in the nineteenth century, led by Syed Ahmad Khan, advocated the differentiation of "sinful usury", in which they saw both credit and consumption restrictions and "legitimate interest" in commercial lending [7].

In the XX and XXI centuries there is a gradual development of interest-free financial institutions. In the twentieth century, Islamic economists such as Naeem Siddiqi, Maulana Maududi, Muhammad Hamidullah also recognized the need for commercial banks to place financial resources (so-called "inevitable evil"). A banking system was proposed, based on the Mudarabah concept, in which one party contributes capital (a bank) and the other "expertise" (a contingent borrower) to carry out business.

Further significant work on the topic of interest-free banking has been done by: Said Gilani (1947), Muhammad Uzair (1955), Abdullah al-Araby (1967), Nejatullah Siddiqi (1961, 1969), al-Najjar (1971), Baqir al-Sadr (1961, 1974).

In the middle of the twentieth century, some organizational forms that offered financial services in accordance with Islamic law, were invented. First experimental Islamic bank, which did not charge interest on loans, was established in the late 1950s in rural Pakistan [8].

Significant efforts to make Islamic banking compatible with banking law were made in the rural areas of Egypt by economist Ahmad Elnaggar in 1963. He appealed to people who lost confidence in state-owned banks with an offer to participate in a "profit sharing experiment" in Mit-Ghamr city in the Delta of Nile river. For this purpose, public savings were used to issue loans based on the joint participation of depositors in the institution's income. The project was not particularly advertised because of fears of being accused of Islamic fundamentalism, which the Gamal Nasser regime was actively fighting at the time. In 1968, the experiment was closed down by the government, but many regarded it as a success [9]. Nine similar banks were operating in the country at that time. In 1972, the Mit-Ghamr Savings project became part of Nasr Social Bank, which is still operating in Egypt [10].

At the same time, Perbadanan Wang Simpanan Bakal-Bakal Haji Bank was founded in Malaysia to help Muslims raise money for Hajj.

⁵For instance, see: Choudhury, M.A. and Malike, U.A. (1992) *The Foundations of Islamic Political Economy*, London: Macmillan; New York: St. Martin's Press. Islamic banking and finance.

Since the 1970s, the involvement of institutions and governments, the holding of various conferences and research activity⁶ have played an important role in the application of theory to the creation of the first interest-free banks. The influx of "petrodollars" into the Gulf countries and the general trend of "re-Islamization" after the Yom Kippur War and the oil crisis of 1973 gave a big boost to the development of the Islamic banking sector, which since 1975 has spread to all Muslim countries.

Islamic Development Bank was established in 1975 to organize the Islamic Conference with the mission of financing the project in member countries. The bank's capital is formed by contributions from the founding countries, these are the main ones: Saudi Arabia, Sudan, Kuwait, Libya, Turkey, UAE, Iran, Egypt, Indonesia, Pakistan. The first modern commercial Islamic bank, Dubai Islamic Bank, was established in 1979 [10].

Since 1980 to 1985, Islamic investments effectively expanded in the Muslim world, offering deposit agreements with the promise of "great benefits" and "religious safeguards" backed by Islamic lawyers who were actively involved in issuing fatwas for condemning traditional financial institutions and promoting their Islamic counterparts. In 1980, the Government of Pakistan approved the legal framework for most Islamic instruments. At the same time, the Egyptian government, in 1988, worried by the intensification of Islamist movements that relied on financial independence, among other things, launched a media campaign against Islamic banks. The ensuing financial panic has led to the bankruptcy of some banking institutions.

In 1990, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was established in Algeria to prepare accounting, auditing, management, ethics and sharia standards for Islamic financial institutions.

By 1995, 144 Islamic financial institutions had been established worldwide, including 33 state-owned banks, 40 private banks and 71 investment firms.

Since early 2000s to 2008, the Islamic financial industry has been growing at a rate of 10-15% per year with signs of further sustainable growth in the future. By 2008, the Islamic banking sector consisted of 300 institutions⁷ spread across 51 countries, including the United States, as well as 250 mutual funds operating in accordance with Islamic business principles.

According to the estimation of The Economist for 2005, the total value of assets managed by Sharia-compliant organizations was more than \$822 billion. At the beginning of the 21st century, Islamic finance became the fastest growing segment of the world financial system.

⁶ Among them most prominent are the following: the Conference of Ministers of Finance of Islamic Countries (Karachi, 1970), large-scale study of the potential of Islamic institutions by the Egyptian government (1972), the First International Conference on Islamic Economics (Mecca, 1976), the International Economic Conference (London, 1977).

⁷ The most famous of them are: International Islamic Development Bank, Emirati Dubai Islamic Bank, Saudi Al-Rajhi Bank, Iranian Bank Melli, Malaysian Bank Muamalat Malaysia Berhad and Islamic Investment Bank Gulf Finance House, located in Bahrain.

In 2009, spiritual leadership of the Roman Catholic Church put forward the idea that "Islamic financing principles can become a cure for the turbulent markets", since no Islamic bank was declared bankrupt during the global financial crisis (due to the conservative nature of Islamic models) bans on speculation and excessive risk).

By 2015, the Islamic sukuk bond market has become so prosperous that some non-Muslim states, including the United Kingdom, Switzerland and Luxembourg, have issued paper on it.

To date, Islamic finance segments are classified, measured and regulated in accordance with the following types of business:

- Commercial banking services;
- Trade financing;
- insurance;
- capital market operations;
- investment banking services;
- operations with equity and venture capital.

Evolution of Islamic financial products and services since their inception in the 1970s up to now is presented on the Fig. 4.2 . Starting with simple banking products, Islamic finance has gradually covered such business segments as the capital market, asset management and insurance.

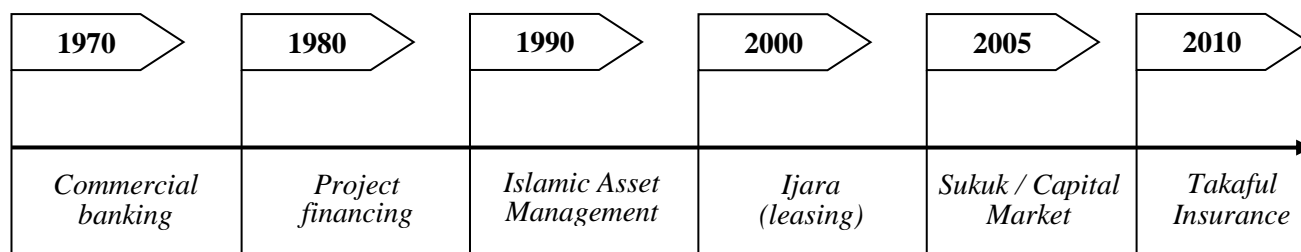


Fig. 4.2 Evolution of Islamic banking, financial products and services [11]

Although existing "purely Islamic" products are still in their infancy and hedging instruments in the capital market are few, their creation and further improvement is a prerequisite for Islamic finance's competitiveness with existing traditional financial instruments.

Some Organizations such as International Swaps and Derivatives Association (ISDA) and International Islamic Financial Market (IIFM)⁸ are collaborating to structure and standardize instruments to align with Sharia and expand hedging requirements. The so-called general Agreement "IS-DA/IIFM Tahawwut Master Agreement" offers rules (requirements) under which financial institutions may carry out derivative transactions. The main goal is to make the

⁸ ISDA (International Swaps and Derivatives Association) [12], IIFM (International Islamic Financial Market) [13]

Islamic financial industry more resilient, liquid and convenient for various transactions. In addition, it contributes to the effective management of financial risks and private capital transactions.

Islamic financial institutions can operate in various forms, namely:

– full-fledged Islamic institutions, such as: Islami Bank Bangladesh Ltd, Meezan Bank (Pakistan), Bank Negara Malaysia (BNM), etc.

– Islamic windows in traditional financial institutions, such as: Commercial Bank of Dubai (UAE), HSBC, American Express Bank, ANZ Grindlays, BNP-Paribas, Chase Manhattan, UBS, Kleinwort Benson, Commercial Bank of Saudi Arabia, Ahli United Bank Kuwait, Riyad Bank.

– Islamic subsidiaries of traditional financial institutions, for example: Citi Islamic Investment Bank (Bahrain) - a subsidiary of Citibank, Noriba Bank - a subsidiary of UBS, etc.

To date, the Islamic banking industry accounts for almost 1/80 (or 1.25%) of traditional global banking. According to a study by Ernst & Young, Islamic banking accounts for only a small proportion of all Muslim banking assets. Consequently, it has the potential to grow rapidly, with the involvement of various economic agents from Muslim and non-Muslim countries [14].

The property of this segment to grow rapidly is confirmed by statistics. Thus, the Islamic banking sector has shown annual growth - about 17.6% from 2009 to 2013, while traditional banks are stagnant. Assets of traditional banks grow by an average of no more than 4-5% per year, while Islamic banks' assets, for example in 2014, increased by 9.4% compared to 2013 and amounted to \$ 1.814 trillion (\$ 1.666 trillion in 2013, respectively) [15].

Such a significant increase in assets was driven by significant growth in all sectors of Islamic finance: banking, takaful, sukuk markets and Islamic funds. Assets in the Islamic financial sector are expected to continue to grow by 10% annually over the next five years, reaching \$ 3.24 trillion by 2020.

According to the World Islamic Banking Competitiveness Report 2013-2014, Qatar, Indonesia, Saudi Arabia, Malaysia, the UAE, and Turkey represent 78% of international Islamic banking assets (except Iran, which is not included in this ranking but which, according to Reuters, accounting for over a third of total global Islamic banking assets) [16].

There are now more than 1,000 Islamic financial institutions in 75 countries. However, experts unanimously expect their significant growth over the next decade. The main drivers of Islamic finance growth are, first and foremost, the Gulf countries, as well as Malaysia (which is adjacent to dynamic South Asian markets) and Iran (which is gradually coming out of international sanctions).

In addition to Islamic countries, the industry is actively developing in many non-Muslim countries - mainly in Western Europe, the United States, Canada and Australia as a consumer segment (targeted at local Muslim-immigrant communities), and corporate (primarily focused on at-

tracting investments from oil-producing Gulf countries). Greatest progress has been made in this area by the UK, where operate: 22 Islamic banks with assets (according to only six banks) - \$ 19 billion; 34 Islamic mutual funds with assets - \$ 300 million; and 43 sukuk were placed on the London Stock Exchange, totaling \$ 24 billion [17]. The experience of the UK shows that Islamic finance can be an attractive market segment for the existing banking sector, where 17 of the 22 Islamic banks, are the "Islamic windows" of local traditional banks and only 5 are full-fledged Islamic banks founded by investors from Gulf countries.

To date, the Islamic finance industry already has institutional support from international Islamic financial organizations, whose purpose is primarily to unify and codify tools, principles, norms, standards. Some of the major influential organizations involved in the development of the Islamic finance industry are listed in Table 4.2.

Table 4.2**Organizations involved in the development of the Islamic finance industry**

Institution	Year of foundation	Aim (activity)
The Islamic Development Bank, IDB ⁹	1973, Jidda, (SA)	Promoting the economic and social development of OIC member countries (Organization - Islamic Conference) and Islamic communities
The Accounting and Auditing Organization for Islamic Financial Institutions, AAOIFI	1991, Bahrain	Preparation of accounting, auditing and management, ethics and sharia standards for Islamic financial institutions
The Islamic Financial Services Board, IFSB ¹⁰	2002, Kuala-Lumpur (Malaysia)	Standardization and harmonization of work and supervision of Islamic financial institutions, capital standards, risk management and corporate governance
Islamic Interbank Money Market, IIMM ¹¹	1994, Kuala-Lumpur (Malaysia)	Develops and implements tools for the effective management of bank portfolio liquidity
General Council for Islamic Banks and Financial Institutions, CIBAFI	2001, Bahrain	A non-profit organization that encourages and supports employees of Sharia Law banks and financial institutions of all sizes
International Islamic Rating Agency, IIRA	2005, Bahrain	Conducting research based on ratings, determines the value of securities, assesses risk within Islamic instruments
The Dow Jones Islamic Market Index, (DJIMI)	1999, Bahrain	Independent expert evaluation of the capitalization dynamics of enterprises (banks) that position themselves as "Islamic"
Dow Jones Citigroup Sukuk Index	2006	Independent expert evaluation of the dynamics of capitalization of the sukuk market (similar to bonds market)
World Islamic Economic Forum, (WIEF)	2003, Malaysia	Increasing economic prosperity, increasing trade and business opportunities, promoting cooperation

⁹ It plays a major role in the implementation of the postulates of the Islamic economy

¹⁰ Founded by the central banks of Bahrain, Iran, Kuwait, Malaysia, Pakistan, Saudi Arabia, Sudan, together with IDB, AAOIFI and the IMF. By April 2015, 188 members of the Board consist of 61 regulatory and supervisory bodies, 8 international intergovernmental organizations, as well as 119 market participants (financial institutions, professional firms, industrial associations) operating in 45 countries.

¹¹ Founded by Bank Negara (Malaysia)

Table 4.3**Most ranked research and educational institutions that study or develop Islamic economics and finance**

Institution	Location
Islamic Economic Institute (International Centre for Research in Islamic Economics); King Abdulaziz University; Islamic Research and Training Institute (IRTI); Islamic Development Bank (IDB)	Jeddah, (Saudi Arabia)
Institute of Islamic Banking and Insurance; Institute of Islamic Finance; Islamic Finance Advisory and Assurance Services	London, UK
International Centre for Education in Islamic Finance (INCEIF); Islamic Finance Training (IFT); Centre for Islamic banking and Finance Training	Kuala Lumpur (Malaysia)
Ethic Institute of Islamic Finance; Islamic Finance Academy	Dubai (UAE)
Islamic Finance Institute of South Africa	Cape Town (South Africa)
Centre for Islamic Finance of Bahrain, Institute of Banking and Finance (BIBF)	Manama (Bahrain)
Centre for Banking and Financial Studies	Doha (Qatar)
Securities and Exchange Organization	Tehran (Iran)

As for the qualitative development of the Islamic finance industry, it is determined by the following facts:

- 378 educational institutions from 36 countries provide Islamic financial education (degrees), of which 141 are in Malaysia and the United Kingdom (Tab. 4.3);
- The number of Islamic financial professions and courses, as well as research projects increases every year;
- over the last 3 years, 1,490 Islamic financial studies have been published;
- The quality of governance of Islamic financial markets varies widely across countries.

The best result was achieved by Bahrain and Malaysia, which are widely experienced in Western corporate practices besides Sharia law. Bahrain, Malaysia, and Indonesia are the jurisdictions with the most comprehensive set of Islamic financial regulation tools.

- There is a significant gap between the leaders and the rest of the countries, which has not been narrowed;
- In 2014, there were 953 scholars actively involved in the global Islamic finance industry. 75% of these, are countries in the Top 10 of the Islamic Financial Development Index;
- Islamic finance trends and issues are relevant topics for seminars and conferences. In 2014, the number of international seminars increased to 142 (106 in 2012), conferences - to 122 (76 in 2012). The theme of Islamic finance in the information field has also grown. In 2014 there were 19,000 exclusive news (events) and 131,000 regional news. In 2013 there were 14,000 and 83,000, respectively. The News Center is gradually moving to Southeast Asia (primarily Malaysia) and Western Europe (most notably to the UK) [18].

Data presented below shows that Muslims are the fastest growing segment of the world economy (Table 4.4).

Table 4.4

Factors that determine potential of development of Islamic finance.

	Indicator
<i>1.2 billion</i>	Muslims worldwide are not involved in banking
<i>\$126 billion a year</i>	Muslim travel expenses (2012)
<i>20 %</i>	the share of the Middle East, North Africa and Muslim countries of Pacific region in the global tourism market
<i>62 %</i>	Muslims in the world are under 30 (potential of development for small and medium-sized businesses)
<i>60 million</i>	new jobs will be needed by the Arab world by 2020 (SMEs development potential)
<i>\$685 billion. a year</i>	the halal food industry
<i>28 %</i>	should account for the growth of the food market from 2013 to 2017
<i>50 000</i>	financial professionals require Islamic economic infrastructure annually
<i>5 000</i>	annual offer of graduates of financial specialties
<i>19 %</i>	annual growth of the Islamic finance industry (the last 15 years)
<i>\$1,8 bln.</i>	annual market volume of all halal products

Source: calculated according to the data: [5].

With the introduction of convenient, liquid and standardized financial instruments, with the further improvement of the regulation of financial markets in the future we can expect redistribution of market resources in favor of Islamic financial markets and the rapid growth of their share in international finance.

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4.2. SWOT ANALYSIS OF THE ISLAMIC FINANCE DOCTRINE.

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The research carried out in the previous paragraph on the definition and systematization of the principles that operate Islamic finance, the classification of models of their implementation, the study of the current state of the Islamic finance industry in terms of statistics of their qualitative development is advisable to supplement the characteristic of theoretical foundations of Islamic finance using the analytical method (SWOT analysis).

The results of the analysis of the strengths, weaknesses, opportunities and risks of the Islamic finance doctrine are presented in the SWOT matrix (Tab. 4.5).

Table 4.5

SWOT analysis of Islamic finance doctrine

Strengths	Weaknesses
1) resolve the contradictions between religious tenets and the needs of Muslim society in modern development institutions; 2) prevent aggressive radicalism, promote tolerant Islam, combined with modernity and globalization; 3) prevent irrational behavior in the financial markets, which contributes to their stability and less volatility and risk; 4) focus on the real economy; 5) form an additional and, conceptually, an independent element of the global financial system.	1) inefficiency inherent in the basic model of Islamic banking - profit and loss sharing model. <ul style="list-style-type: none"> • information asymmetry. • moral hazard. • Asset/liability management. 2) impossibility to conduct an effective monetary policy by the central bank; 3) challenges of an academic nature; 4) lack of a proper system of regulation and supervision.
Opportunities	Threats
1) Islamic finance industry growth is 50% faster than traditional finance over the next few decades. The development of Islamic finance is possible in two ways: <ul style="list-style-type: none"> • increasing the share of the financial market in Muslim countries. • increasing number of financial institutions in the markets of global and regional financial centers. 	1) the internal weakness and inconsistency of the system of financial relations, that are based on the paradigm of religious dogmas; 2) the narrowness of the Islamic finance marketing brand.

Explanation of Table 4.5

Strengths.

1) resolve the contradictions between religious tenets and the needs of Muslim society in modern development institutions.

In Muslim countries (especially in secular ones), religion is, if not the basis, an important component of all social relations. In turn, (any) religion itself is built on the tenets, that is declared mandatory by the church as obligatory and unchanging truth, which cannot be criticized (doubted). In the Islamic world, the Quran and the Sunnah are the source of law (Sharia law), the compilation of Divine rules and prohibitions (Divine Law), a practical religious instruction for Muslims and Islam in general. Throughout history, these prescriptions have remained binding and unchanged.

On the other hand, the development of society requires the constant modernization of social relations (political, social, economic, cultural), which leads to the emergence of contradictions between church tenets and social needs in modern institutions. In this regard, the development of Islamic financial institutions and instruments makes it possible to eliminate such contradictions, which gives greater stability to the socio-economic systems of Muslim countries, adapts them to modern realities and reconciles with religious requirements.

2) prevent aggressive radicalism, promote tolerant Islam, combined with modernity and globalization.

Given their effective development, Islamic financial institutions eliminate the development of Islamism, a totalitarian religious and political ideology. Islamism is the reaction of the conservative part of Muslim society to the scientific and material lag, the reaction to globalization and the modernization processes of the modern world. First of all, Islamism is developing in the places, where is a lack of modern quality institutions, not least economic ones. The development of Islamic financial institutions fosters tolerant contemporary Islam, devoid of any extremism and fundamentalism that goes well with modernity and globalization.

3) prevent irrational behavior in the financial markets, which contributes to their stability and less volatility, as well as less risk.

Behavioral economics and its scientific subdivision, behavioral finance, study the influence of social, cognitive, and emotional factors on economic decision-making. Numerous studies prove that the limits of rationality of economic agents are narrower than originally thought in classical economic theory. The influence of such behavior (not always rational) on market variables - prices, profit, resource allocation, has quite specific negative consequences for the macroeconomic equilibrium of the studied models.

On the other hand, Islamic law contains a number of directives for the implementation of economic activities. These are, first and foremost, bans on: lending (Riba), excessive uncertainty

and information asymmetry (Gharar), speculative behavior and accepting unnecessary risk (Mayssir), the pursuit of non-religious activities (Haram). In fact, they define the specific tools and forms of relations that are inherent only in Islamic finance. The existence of these bans is an effective mechanism for preventing the irrational behavior of economic agents in financial markets in conditions of high risk and uncertainty.

The 2008 global financial crisis was triggered by complex and opaque financial derivatives, lack of effective prudential supervision, mismanagement of risk, false motivational models that stimulated unnecessary risk, aggressive strategies and speculation. Such a crisis would not occur in the Islamic financial system because most (if not all) of the factors that contributed to its development and dissemination are not allowed under Islamic law.

4) focus on the real economy.

In theory, the Islamic financial model is more focused on the real economy. As a working method, Islamic banks are best determined by definition of project investing with risk-sharing and equity participation. The advantage of project investing allows you to concentrate significant financial resources on achieving a specific economic goal.

Also since in the Islamic financial model, the principles of Islamic ethics are primary in relation to the principles of profit maximization, in theory, it should be more socially oriented than the traditional model (Economics). However, the claim that there is greater corporate social responsibility in an economy that functions under Sharia law remains empirically unproven (though not disproved).

5) form an additional and conceptually independent element of the global financial system.

The development of Islamic finance forms an additional and conceptually independent element of the global financial system. In turn, diversity gives the system greater crisis resilience, offers additional opportunities (options) to its participants, updates discussions about the effectiveness of existing models, principles, methods. All this, on the whole, has a positive impact on the development of both international financial relations and economic science.

Weaknesses.

1) inefficiency inherent in the basic model of Islamic banking - the model of "profit and loss sharing".

The basic model in Islamic finance theory is the profit and loss sharing (PLS) model, but in practice in leading Islamic banks, its scope has been steadily diminishing in recent years [1, 2]. The reason lies in its inefficiency. Critics insist on the PLS model's inability to meet the industry's needs for managing profit, risk, and liquidity.

The main point is the risk of uncertainty: information asymmetry. Islamic banking is implemented in investment lending models. The banker studies the business plan, assesses all the risks of the project, makes the investment decision and receives part of the income, if successful. Obviously, there is considerable information asymmetry in such a model, since it is not possible to constantly evaluate correctly the various risks of different projects in different businesses.

In addition, there are motivational issues that determine moral hazard - the risk of one of the party's unfair behavior. An Islamic bank customer has compelling reasons to report lower profits. In this case, the bank can compensate the weaknesses of the relationship by greater monitoring, auditing, control over management decisions, but all this requires additional time and money. Obviously, transaction costs of the "investor – partner" model are higher than the lender-borrower models.

At the same time, real transaction costs are very important to the economy. How cheap and fast or expensive and difficult it is to enter into different economic relationships - to exchange, invest, buy or sell, to hire, to fulfill orders. Low transaction costs are the main prerequisite for the effective functioning of the market mechanism.

In addition:

- a ban on doing business with "someone else's money", but only on their own.
- a ban on the use of collateral.
- Limited (as an option, difficulty) in the use of financial instruments of hedging in the form of derivatives.

All this significantly increases the overall risk of information asymmetry and transaction costs of the entire banking industry as a whole.

The PLS model is also not convenient for the bank in terms of managing of its assets/liabilities. Assets: a traditional bank is able to place its assets at any time - for a year, month, week, day, at the same time, an Islamic bank depends on the project portfolio: it does not choose the term of financing. Liabilities: A large proportion of Islamic bank deposits is short-term, so investment projects with a longer payback period are often unable to obtain financing.

2) Inability of conducting an effective monetary policy by the central bank.

The most important invention of economic theory in the twentieth century is the emergence of macroeconomics. This field of knowledge explores aggregated phenomena (i.e. the result of a large number of economic agents) - economic growth, inflation, unemployment, balance of payments, and so on. The main instrument for implementing macroeconomic policy is monetary policy implemented by the central bank. Effective counter-cyclical monetary policy is an important prerequisite for sustainable economic development in the country. In turn, monetary policy is implemented through partial reserve mechanisms and a banking multiplier (banks' ability to "make money in the economy").

In the Islamic finance paradigm, counter-cyclical monetary policy cannot be implemented a priori, since the bank operates in a "interest-free environment", and so there is nothing to raise or lower. Although there are attempts to develop certain "refinance facilities" for the central bank, so far proposed instruments are not compelling.

It is also doubtful that the central bank can counteract such dangerous phenomena as the credit crunch or liquidity crisis in the "common profit and loss" paradigm model, which operates the Islamic financial sector.

3) challenges of an academic nature.

Despite the considerable number of scientific and analytical publications, Islamic finance, as an academic discipline, faces serious challenges that hinder the quality development of Islamic financial institutions and instruments.

These include:

- lack of intellectual freedom and productive criticism of outdated dogmatism - the influence of religious clerics in the industry is very significant;
- narrow focus on interest-free banking (there is no standard textbook on Islamic economic theory at present);
- superfluous theological discussion of purely economic phenomena;
- lack of qualitative research based on the analysis of empirical data - an undue emphasis on the concepts of ethics, morality, not on subject, but on what should be in an "ideal" economic system, hence - excessive paternalism and idealism;
- lack of interconnection between scientific works within the general scientific paradigm - most works are merely an extended study of a particular (specific) issue;
- lack of consistency between Islamic law schools regarding the valuation and standardization of financial products. All this leads to the weakness of the scientific and methodological base and is expressed in the lack of quality regulation of the industry, the lack of convenient methods of risk assessment in the application of Islamic financial products, the lack of standardization and consistency of approaches to the definition of financial instruments.

4) lack of a proper system of regulation and supervision.

The Islamic financial system is actively growing, but the key problem is the lack of proper regulation and supervision at all levels: self-regulation (professional activity), national regulation, standardization and codification - at the international level of coordination and regulation. Thus, the creation of a system of oversight with powers and competences far broader than that of the Sharia Council, which monitors only the Quran's norms in financial institution activity, is the issue of the day for the further development of the Islamic finance and markets industry [4].

Opportunities.

1) Islamic finance industry growth is 50% faster than traditional finance over the next few decades.

Further development of the Islamic finance industry is possible in two ways: a) an increase in the financial market share in Muslim countries; b) the increase in the number of Islamic financial institutions in non-Muslim countries, especially in the markets of global and regional financial centers.

Islam is the fastest growing religion today. To date, the number of Muslims in the world is around 1.6 billion, or 25% of the total population, with a projected value of 2.76 billion in 2050 (+73%).

At the same time:

- Only 1-2% of all assets are managed by Islamic financial institutions.
- less than 20% of adults in MENA countries have a bank account.
- Islamic microfinance (which, by the way, is able to finance the development of Muslim communities) covers no more than 0.5% of the total market [3].

The proportion of the Muslim population in developed countries is also increasing. For example, in Europe, the number of Muslims has reached almost 43.8 million, in the US - 2.8 million, in the fast-growing South Asian region - 985.4 million.

To date, there are 72 countries with one (or more) million Muslims. By 2030, it is expected that the number of these countries will reach 79.

The sovereign wealth funds of Islamic countries (especially the Gulf countries) have accumulated significant monetary resources during the surplus of their trade balances, which can give a significant boost to the development of the Islamic finance industry in the face of improving regulation and overcoming the weaknesses inherent in Islamic financial doctrine.

All of the above clearly defines the significant potential of the Islamic finance industry, both in the national markets of Islamic countries and in the international markets: global (London), regional (Dubai).

Threats.

1) the internal weakness and inconsistency of the system of financial relations, the basis of which is the paradigm of religious dogmas.

There are a number of fundamental problems inherent in Islamic finance that cannot be solved by the sudden invention of a new instrument or method, using them as a magical tool. For example, the introduction of a new financial product requires its approval by Islamic theologians in the form of a fatwa. Since the concept of "fatwa shopping" has been put into practice, it can be assumed that these procedures may have corruptive components and conflicts of interest. The intrinsic

properties of the PLS model are moral hazard, motivational contradictions, considerable information asymmetry.

Religious dogmatism limits productive criticism and the competition of ideas. The "essence" is sacrificed to "formalism" and one concept dominates over "competition". In this regard, there is a debatable issue of how far Islam can be combined with modern institutions that are critical to sustainable economic growth, i.e. whether it is possible to create effective and competitive financial institutions, instruments, markets, products within the Islamic finance doctrine at all. And how successful this segment of the global financial market will be in qualitative development, not in quantitative terms.

2) the narrowness of the "Islamic finance" brand.

Obviously, this term is deprived of universality and assigned to one religion, namely Islam. Although, in the context of banking, the term "participant banking" has recently been used instead of "Islamic banking". Participant focuses on the partnership business model, profit and loss sharing.

In some cases, some terminology may also have a negative connotation, such as the term "sharia law" may be associated with Islamic quasi-states, radical Islam, human rights abuses, and so on. All this limits the competitiveness of the doctrine, making Islamic finance a "niche" segment of the global financial market. Thus, the increase in the number of Muslims both in the world and in the developed countries, the rapid growth of Islamic financial institutions' assets, the gradual improvement and development of the financial markets of Islamic countries, determine the relevance of research in this area of global financial market development.

According to the results of the systematization of forms, types and instruments of Islamic finance, three models can be distinguished on the basis of which they function. Such models are those based on partnership, trade or lease.

Starting with simple banking products, Islamic finance has gradually expanded into other commercial areas, such as the capital market, asset management, and insurance. Today Islamic finance is represented in all segments of the modern financial market - in commercial banking, in operations with equity and venture capital, in financing of trade, insurance, and also hedging of financial risks.

There are now more than 1,000 Islamic financial institutions in 75 countries. However, experts unanimously expect their significant growth over the next decade. Also, this industry already has institutional support from international Islamic financial organizations whose purpose is primarily to unify and codify tools, principles, norms, standards.

The development of Islamic finance forms an additional and conceptually independent element of the global financial system. In turn, diversity makes the whole system more resilient to crises, offers additional opportunities (options) to its participants, updates discussions about the effec-

tiveness of existing models, principles, methods. All this, in general, has a positive impact on the development of both international financial relations and economic science.

With the introduction of convenient, liquid and standardized financial instruments, with the further improvement of the regulation of the financial markets, there is expectation of the redistribution of market resources in favor of Islamic financial markets as well as their rapid growth of their share in international finance.

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CHAPTER 5.

APPROACHES OF INTENSIFICATION OF INTERNATIONAL ECONOMIC COOPERATION BETWEEN UKRAINIAN AND MENA REGION

5.1. Intercultural Business Communication within the Framework of Cooperation between Ukraine and MENA Countries

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In the last 50 years, countries where Islam is predominantly professed have been actively developing their own concept of socio-economic development. This concept is a fundamentally different approach to the organization of the system of economic life, which in its ethical, legal and economic settings is significantly different from the principles and values underlying the economies of industrialized countries.

Fundamental features of the Islamic economy and finance orient the activities of economic agents to important social goals. They ensure the well-being of their family, stimulate the development of trade and the provision of various financial services, while significantly limiting the opportunities for illicit trade and trade in imaginary financial assets that prevent usury, unreasonable growth in debt load, tie financial liabilities to the real economic effect and real assets. In this way, the Islamic principles of economics, finance and banking, with their practical implementation, make it possible to create more financially stable businesses, which in turn have a positive effect on the development of the national economy.

The Islamic financial system is based on five basic principles defined by the Koran:

- 1) interest rate ban [10];
- 2) the principle of risk, profit and loss sharing for partners [9];
- 3) prohibition of speculative activity and uncertainty;
- 4) the inadmissibility of financing illicit businesses (including the production of weapons, alcohol, tobacco, pork and activities related to the development of gambling);
- 5) the principle of asset support [14].

Interest rate ban. One of the fundamentals of Islamic economic conception is the identification of the exploitation of a person with the receipt of income by a person who is not personally involved in the production process and does not risk his property. The symbol of such exploitation in the Koran is usury. The loan, or bank, interest is called “riba” – the usury interest.

The principle of risk sharing. Another feature of building the Islamic financial market is the prohibition on using instruments that underpin the excessive risk of “heat”. It should be noted that Shari`ah does not condemn risk at all, since risk is an integral part of a business transaction. Garar is a deliberate risk that goes beyond inevitable accident and is forbidden [11].

Prohibition of speculative activity, “the maysir”. The notion of garar in Islamic business ethics is closely related to the notion of a maysir, which means income derived not from the productive use of resources but arising out of accidental circumstances. This implies a ban on buying in for speculation.

The principle of asset support. Money is considered as “potential” capital: that is, it is converted to real capital only when invested in productive activities. Therefore, cash is not considered real capital until the owner invests it. In addition, financial instruments must be asset-backed.

When it comes to financial cooperation between countries, it should be noted that Islamic banks are the fastest growing and fastest growing Islamic banks among the circle of Islamic financial institutions. The data of the institutes of the Islamic financial system are rapidly spreading not only in Muslim countries but also in non-Muslim countries, where the Muslim population is quite high.

The central idea of Islamic banking is that money cannot grow only because it has been issued in the form of a loan. The lender can count on income only if the money is invested in the real sector of the economy and create added value. This unique characteristic is very attractive to many economies, as it is the key to stability, reliability and successful socio-economic development of the country.

Islamic banking institutions should be regarded as Islamic, not by geographical origin of their capital, but above all by the principles of operating and investment activities. They conduct operations in strict accordance with the principles of Islam. Thus, the system of Islamic banks is very specific, and they themselves act as a separate “organism” in the international banking structure.

The Islamic banking system consists of:

- full-fledged Islamic banks;
- “Islamic windows” (auxiliary banking units) of ordinary banks.

Using Islamic financial principles, Islamic banks offer various forms of Islamic financing. The evolution of Islamic banking has shown the efficiency and viability of this system under capitalism. In addition, although Islamic banking’s share of traditional banking remains small now, leading Western banking corporations, seeing the potential in this business, are joining this global movement. That is why Islamic banking is competitive in a market economy and will continue to grow at a high rate.

The majority of global assets (77 percent) in Islamic banking are located in the Middle East and North Africa (MENA region); they are followed by Asia (18 percent), Europe (3.73 percent) and sub-Saharan Africa (less than 1 percent).

The same trend is observed with Islamic banks:

- 50 percent of Islamic banks are located in the Middle East and North Africa (MENA region);
- 30 percent of Islamic banks are based in Asia;
- 15 percent in sub-Saharan Africa, despite having less than 1 percent of total assets.

In recent years, Islamic banks have stepped up external expansion, seeking to expand their reach in host countries and fit into today’s transnational banking structure, taking a prominent place in the international banking capital market and in international investment flows.

The capital of Islamic banks increased from 200 billion US dollars to 2.2 trillion US dollars in 2000-2016 with estimation of 3.8 trillion US dollars in 2022 [6]. The average annual growth of Islamic capital market equals 19.7 exceeding the tempo for traditional banks. It influences on conventional commercial banks forcing them to diversify their activity by providing their clients with Shari`ah compatible Islamic financial services. The increasing interest to Islamic finance observed among consumers from countries, where Muslims are not the majority of population, also stimulates the development of Islamic banking market.

Islamic banking is the main component of Islamic finance (Fig. 5.1).

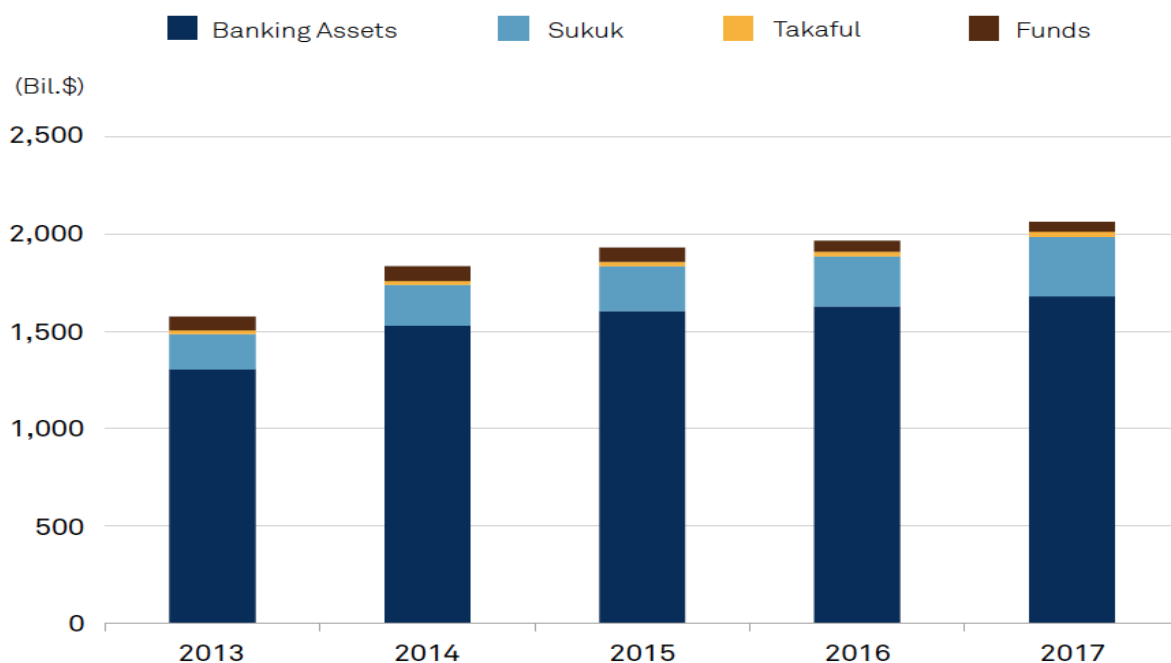


Fig. 5.1 The Global Structure of Islamic Finance

Source: calculated according to the data: [12]

The litmus test for Islamic banking utility is its ability to stimulate growth and decrease the poverty via its main feature – risk sharing [1]. Islamic banks have social duties going far beyond the goal to maximize profits.

The global Islamic banking demonstrated the asset growth equaled to 1.56 trillion US dollars (compared with 1.49 trillion US dollars in 2016), but its share in Islamic financial services slightly dropped to 76 percent (from 78.9 percent in 2016). The main increase of assets occurred in all key regions including Persian Gulf, Middle East and North Africa countries. Starting with January 2018, Islamic banking appeared in South America after transforming the Suriname bank into the bank adequate to Shari`ah norms. Thanks to this fact, Islamic banking products are traded all over the world. The gross input of the world takaful-industry also increased by 4 percent reaching 26.1 billion US dollars by the end of 2016 (25.1 billion US dollars in 2016), but its share stays very small – 1.3 percent [8].

The Islamic Financial Services Board issued the report on stability of Islamic financial services sector [12] stating that the world sukuk market increased by the record 25.6 percent hitting 399.9 billion US dollars in 2017 (318.5 billion US dollars in 2016) thanks to selling sovereign and multilateral bonds in key Islamic markets aimed at supporting budget expenses. Additional factors were first sukuk operations by Saudi Arabia, Nigeria, as wells and Pan-African multilateral financial development institution – African Financial Corporation.

Along with the sharp rise in prices in developed stock markets as well as in emerging markets, Islamic fund assets also increased by almost 19 percent in 2017 to reach \$ 66.7 billion at the end of 2017 (2016: \$ 56.1 billion). Taken together, two sectors of the Islamic capital market currently represent 22.8 percent of the global assets of the Islamic financial services industry (2016: 19.8 percent) – transforming the Islamic capital market into the key and vital component of the global Islamic financial services sector [8].

Following a slowdown in 2015, when the Islamic banking sector grew by an average of 5.7 percent, the third quarter of 2016 saw the highest level of annual growth in assets during the first quarter of 2016. The analyzed period followed by a slowdown in the next three quarters up to Q2 2017 (Figure 2).

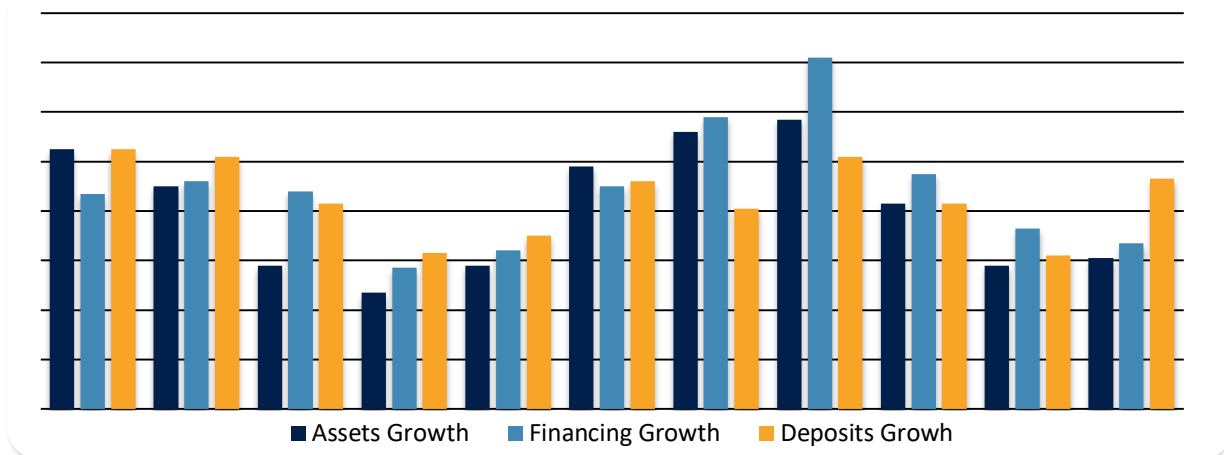


Fig. 5.2 The average annual growth tempos of Islamic banking in 2014-2017

Source: calculated according to the data: [8]

The growth of financial sector showed similar dynamics. On the one hand, the annual growth tempos equaled 6.8 in 2017 after reaching 14.3 in the third quarter of 2016 (the highest level since 2013). On the other hand, average tempo of increment of deposit considering compound interest totaled 9.4 percent 9.4 percent with an annual growth rate of 9.2 percent, primarily driven by high rates of deposits from the largest Islamic banking markets.

Figure 5.3 illustrates the global distribution of Islamic banking assets.

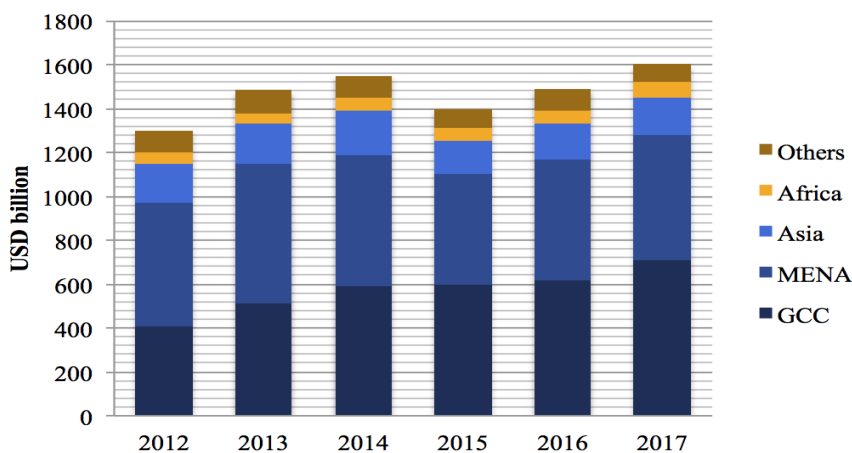


Fig. 5.3 The global distribution of Islamic banking assets

Source: calculated according to the data: [8]

The end of era of high prices on oil slowed down economies of Persian Gulf countries and worsened opportunities for growth of their banking systems (Figure 5.4). According to S&P forecasts, the oil prices will be 55 US dollars per barrel in 2019. The weighted average economic growth of Persian Gulf counties will be 2.5 in 2019 or less than a half of their results in 2012 [12]. Exchange rates, especially on key markets for Islamic banking, influence the global value of Islamic banking assets.

The geographical concentration of Islamic banking assets remains significant: 91.5 percent of these assets in 2017 were in countries where the Islamic financial sector is considered systemically significant, compared to 88 percent reported in 2016. This increase is partly explained by the inclusion of Bahrain as a new addition to the list of systemically significant territories for Islamic finance in the report. The top 10 Islamic banking jurisdictions in terms of assets currently account for 93.2 percent of the global Islamic banking industry, compared with 91.8 percent from 2016, while four countries, namely Iran, Saudi Arabia, UAE and Malaysia, own more than 73 percent of the industry’s assets worldwide [8].

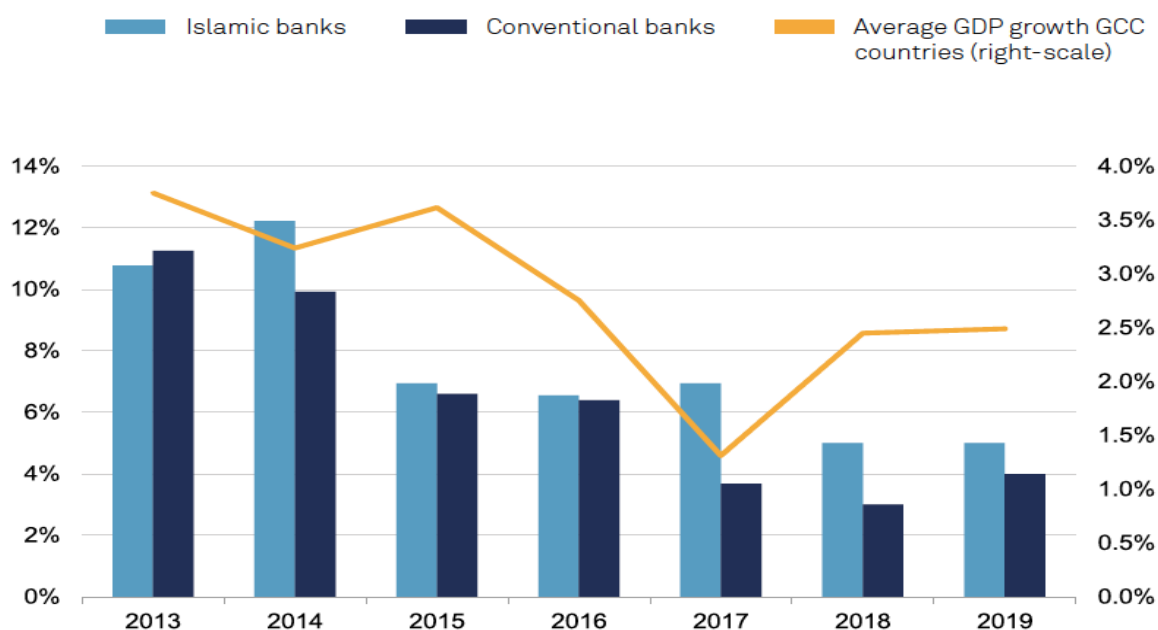


Fig. 5.4 Forecasts for growth of assets of Islamic and traditional banks

Source: calculated according to the data: [12]

Overall, several countries have seen steady levels of growth in key Islamic banking indicators, with many increasing their assets, financing and deposit portfolios with double digits. However, 2016 trends continue to prevail, due to difficult economic conditions, declining government revenues and the need to diversify the economy in many countries.

In particular, the questions of regulating liquidity in Islamic banks come to the fore. There is a need to use the Liquidity optimization model to determine the maximum possible profitability of the Islamic bank by maintaining an optimal level of risk liquidity [3].

Globalization continues to move around the world and change the financial landscape. With the advent of the new financial landscape, the distribution of risks and, ultimately, the distribution of profits and losses will become standardized, which will create opportunities for the development of new financial systems. Globalization and, consequently, the expansion of equity based methods of

equity and risk sharing should pave the way for further growth of Islamic financing. However, Islamic financing must overcome several problems.

There are problems on several fronts: theoretical, operational and practical. From a theoretical point of view, further work should be done to develop the basic principles of the Islamic economy and to understand the functioning of the financial system operating based on profit / loss sharing. On the operational side, issues related to innovation, intermediation and risk management deserve attention. Particular attention should also be paid to system-wide implementation.

The principle of profit and loss sharing should be applied more rigorously. In the last few years, discussions have begun on what further development Islamic finance has. Some market participants have suggested that the industry was too focused on replicating traditional instruments instead of generating real benefits by using a new method of financing. We believe that the key benefit of the industry is to combine the financial system with the real economy and create a fairer and more responsible financial system.

Some countries allow the Islamic financial industry to develop both new types of products and copies of traditional and specific products. This approach has helped to develop Islamic financial industries in these countries. For example, Malaysia has mandated banks to offer both profit and loss-sharing investment accounts based on Murabaha and Mudaraba. In the first case, depositors run the risk of the issuer defaulting on its contractual obligations. In the latter case, depositors bear the risks associated with the efficiency and value of the underlying assets [12].

Islamic banking fosters the common prosperity influencing the economic growth as the supplier of capital for business activities and thanks to the specificities of its products. The Islamic economy is very normative based on Shari`ah norms and fundamental principles enhancing the well-being of humanity.

The existence of Islamic financial and banking activities is underpinned by key Islamic principles that promote common prosperity, namely:

- prefer risk sharing rather than debt risk transfer;
- prohibit social and economic exploitation;
- distinguish ethical standards; promote moral and social values;
- reward businesses (combining risk and revenue).

Shari`ah laws require that resource should be used to satisfy needs of the society as a whole and be supplemented by the productive economic activity creating the real capital.

The positive impact of Islamic banking is due to the specificity of distributing of risks and specific financial stability and resilience of Islamic banks.

The impact of risk sharing on public prosperity. Islamic banking is based on the principles of risk sharing in the financial system. Islamic financial instrument protect from the impact of the ini-

tial fund of financial resources of individuals on the process of distribution of incomes generated from the economic activity. Besides, the ban on banking interests and usury aims at creating favorable conditions for social prosperity and protecting the fair acquiring of property and values by economic subjects. Islamic banking follows strict rules in financing the real economic activity avoiding the over-borrowing [5] and shifts the economy from the debt-based type with transferring risks to the economy with risk-sharing [1].

Due to its essence Islamic banking enables countries:

- to mobilize resources from individuals (population);
- to increase the share of capital investments in business;
- facilitates the risk sharing in entrepreneurship.

Islamic methods of financial activity connect finance to the real economic activity. Islamic methods of acquiring profit and sharing losses are essential to partnership (musharaka), trust-financing contracts (mudaraba), trade contracts, such as sales with postponed payments (murabaha), sales of goods to be produced (istisna) and sales with postponed delivery (salam). This concept fosters the growth of financial sector simultaneously with the real sector of economy.

Risk sharing guarantees that banks profoundly evaluate business offers as it creates the impetus for financial institutions to internalize expenses connected with bankruptcy. Moreover, risk sharing is carried out via financing based on equality. This type of financing facilitates the development of cooperation, interdependence, as well as the universal brotherhood bringing together everyone in production and investments.

The number of supporters for transiting from financing based on debt to financing based on own capital grows in developed economies. The emphasis on own capital creates the demand from investors in securities. The International Monetary Fund in the World Economic Outlook of reasons and indicators of financial crises recognizes the advantages of financing own capital in ensuring financial stability and admits foreign investments in contrast to debt financing guarantee more secure and stable financing for development [7].

Even though the Islamic banking is not the only recipe for enhancing social and economic justice, as well as public welfare, but ethical aspects enrooted in Islamic banking principles enable the increasing transparency and social responsibility fostering national economic growth and prosperity.

Financial stability and resilience of Islamic banks. The pervasive feature of Islamic banking eliminates the discrepancy between assets and liabilities inherent to the traditional banking sector, therefore, ensuring the stability of financial systems. Investment portfolio are balanced automatically during financial crises, thus, there is no need for governmental intrusion [2]. The embedded stabilizing feature of Islamic banking may protect poor layers of population from financing anti-crisis

measures via additional taxes and expenses. Thus, the burden on the poorest citizens is reduced, and social prosperity is protected.

The Islamic banking system is sufficiently capitalized and liquid, but the level of liquidity depends on regions and share of Islamic banks in banking systems. The capital adequacy ratio of Islamic banks often exceed official requirements. The main part of this indicator considering risks consists of capital of the first level.

Islamic banks in the UK, Turkey, African and Persian Gulf countries met the highest requirements of capital adequacy ratio in 2014, namely 33, 32, 26 and 19 percent respectively, exceeding 8 percent threshold value set in BASEL III.

The profitability of Islamic banks is positive. For instance, the return on assets ratio exceeded 0.5 percent in African and Persian Gulf Countries, as well as, Iran, Middle East and Asian countries. Other countries show worse results due to the national status of Islamic banks and financing of state projects applying privileged interest rates.

The number of nonperforming loans decreased, but stayed at the high level in Persian Gulf Countries, Iran and Africa reaching two-digit numbers in 2010-2013. Persian Gulf Countries and Iran managed to decrease the non-performing loans share to less than 10 percent in 2014. Islamic banks in Indonesia, Malaysia, Pakistan and Sudan had the average share of 6 percent in 2010-2014, while the UK, Turkey, Persian Gulf countries and Iran – 9, 8, 7 and 6 percent respectively [15].

The high level of nonperforming loans share in the Middle East and Asia highlights the problem of credit risk in these regions and draws attention to the necessity to implement the state supervision and self-governing of a better quality. The regulatory thresholds should be more severe. Banks with essential volumes of nonperforming loans need the more intensified supervision from Central Banks. Moreover, Central Banks of these countries must pay more attention to Islamic banks and their biggest clients. It is high time for creating centralized credit rosters and credit-information agencies to check credit histories of borrowers. We also insist on founding the Corporation for Asset Restoring and Management to deal with bad debts.

Islamic banks in the Gulf countries and the Islamic Republic of Iran are more liquid than the same banks in other countries. The next liquid banks are banks in Africa. The reason for this is that the lion's share of Islamic banks in Africa is located in Sudan, whose banking system, like in the Islamic Republic of Iran, is quite Shari`ah, so Islamic banks do not compete with conventional banks. Relevant Islamic banks in the Middle East, Asia, the United Kingdom and Turkey are more moderate in their liquidity.

There is empirical evidence that Islamic financial activity is contributing to growth, and publications have argued that there is great potential to play a significant role in this growth of Shari`ah financial products. This confirms the thesis that the litmus test of the usefulness of Islamic banking

will be its ability to stimulate growth and reduce poverty through its main characteristic – risk sharing [1]. Islamic banks have social responsibilities that go beyond the goal of maximizing profits. There are many obstacles to achieving these goals that need to be addressed by all stakeholders.

The key challenges to Islamic Finance and Islamic banking development are:

- 1) overcoming the discrepancy between theory and practice of conducting Islamic finance and banking business;
- 2) expanding the scales of Islamic banking and finance via granting the access to its services for different social groups;
- 3) entering new markets;
- 4) ensuring the reliability and efficiency of Islamic banking;
- 5) managing the liquidity;
- 6) elaborating of the Shari`ah regulation on non-stop basis; and
- 7) appropriate training for qualified personnel engaged in Islamic banking.

Let us elaborate more on the main aspects of the further development of Islamic banking in the context of this study.

Scale and access to Islamic banking. Underdeveloped risk-sharing tools prevent investors from investing in sectors that are considered high-risk, such as micro, small, and medium-sized enterprises (MSMEs). The MSME market is largely untapped in developing countries and has great potential [16]. In a properly supportive environment, investors with an appropriate willingness to take risks are likely to be interested in providing capital to these sectors.

Entering new markets. In order to have real impact, Islamic finance must reach a critical mass by exploring new markets or by consolidating existing platforms, building an organization with the necessary competence and capital that can affect many areas of the market. A large-scale Islamic financial institution with significant capital is a prerequisite for generating change. Fragmentation in the domestic markets has led to a blurring of profit margins and problems for banks looking to expand their business. However, a large Islamic financial institution will be able to expand its capabilities through its presence in key financial markets. This, in turn, will provide vital funding sources to a wider range of consumers, create new products to penetrate new markets, impact global markets, and increase investor awareness.

Support for the reliability and efficiency of Islamic finance and banking. Adequate and strong regulatory framework and tax base are the main requirements for the creation of reliable Islamic financial institutions and markets. It is also important to ensure greater global integration of the Islamic financial services market in order to counter shocks and adverse market events. Applying mutually acceptable rules and standards will strengthen the stability of the Islamic financial system. Innovation and knowledge sharing between different market players globally can facilitate the

standardization and globalization of Islamic financial products. Accelerating the development of these critical aspects of the Islamic financial system is vital to responding to the changing economic and financial landscape.

The alignment of business conditions with respect to the tax regime for Islamic financial instruments is urgently needed. Ordinary debt often receives favorable tax regulation as long as some Islamic financial products face double taxation. Ensuring the circulation of such products requires uniform regulation as well as legal support. Similarly, the legal and supervisory frameworks existing on the basis of the traditional banking model may also create difficulties in the long run for the effective management of Islamic banks. The accounting procedure, which is based solely on ordinary banking practice, is insufficient due to differences in the nature and characteristics of Islamic financial instruments.

Proper training and professional development of employees in the Islamic banking industry. The institutional, technical and resource requirements of Islamic banks are unique. Islamic banking requires the availability of human capital with a combination of accounting, finance and Shari`ah competencies. Without adequate training and qualification of human resources, even if the demand for Islamic banking services is increasing, the supply of such services cannot be achieved until the industry receives properly qualified staff at all levels of government.

Many banks still have limited capacity and experience to consistently create and structure large Islamic financing arrangements, often incorporating innovative mechanisms and features. The need for highly qualified staff will increase with the development of innovative Islamic financial products and services. Shari`ah experts should have adequate knowledge of banking and finance, while Islamic bankers, finance professionals and regulators must have adequate knowledge of the application of Shari`ah rules and principles.

Specialized courses and institutions for providing Islamic finance knowledge to the population are also required, along with collaboration and knowledge sharing between jurisdictions and additional research and development of key specializations and human resources. To meet these human capital requirements, large financial institutions can act as knowledge centers to attract foreign specialists from existing international financial centers, as well as support local specialists.

Islamic financing and Islamic banking are very conservative, that is why they are more resilient in times of economic crisis than their current popularity and rapid spread.

Considering the economic crisis and the depreciation of the currency, the Ukrainian financial market never needs to expand. One such area is Islamic financing and Islamic banking.

Oddly enough, Ukraine is considered by many experts to be one of the promising markets for the spread of Islamic financing and Islamic banking in Eastern Europe. It is related to the number of people who profess Islam. The number of Muslims in Ukraine exceeds 1 million, which is about 5

percent of the population of the country, composed of representatives of different nationalities: Crimean Tatars who have Turkic roots: Kazan Tatars who came from the Caucasus and settled in Ukraine hundreds of years ago; as well as Azerbaijanis, Chechens, Uzbeks. There is also an Arab Muslim diaspora here [4].

In Ukraine, Islamic financing is hardly spoken about. The principles and approaches used in this model are poorly understood. Like many other non-Islamic countries, society's attitude towards Islamic financing is ambiguous. As a rule, proposals for the study and implementation of such sources of funding are associated with support for terrorism and possible unrest on national or religious grounds and are therefore immediately rejected because of the feud of possible confrontation / controversy between Orthodox believers and Muslims. However, such fears have no reason. The experience of using Islamic financing tools says the opposite. Investments in the development of territorial infrastructure stimulate population activity, reduce unemployment, focus the working population's attention on the construct and, as a result, reduce social tensions among the Islam-speaking population, providing favorable conditions for the development of the territory.

The use of Islamic financing mechanisms to modernize the infrastructure opens up new opportunities in comparison to the usual lending for investment projects. Funding conditions in this case are the most suitable for the implementation of projects of high social importance, which are often very difficult to implement under the traditional funding model. This is especially the case in developing countries where the budget support potential is not high enough and the population's ability to pay for services provided under construction / upgraded facilities is very limited.

It is worth noting that the principles of Islamic financing are the closest to the essence of public-private partnership, which is of interest in Ukraine today. By attracting financial resources from Islamic markets, the risks of the project implementation as a whole and of each partner in particular can be minimized. Accordingly, the cost of attracted capital is reduced, which makes it possible to start implementing projects of vital importance for the population of a given territory, which cannot be implemented within the traditional financing model.

Ukraine needs investments, not short-term loans. Moreover, the Arab countries can help, they are ready to do it if a suitable investment climate is created in Ukraine.

Ukraine's cooperation with Muslim countries (the Middle and Middle East, North Africa, Asia) is at a low level, particularly in the financial sphere. There are two groups of reasons that impede such cooperation:

- 1) lack of an Islamic bank and legal framework in Ukraine regarding the use of Islamic finance and Islamic financial instruments;

- 2) unresolved problems of direct bank settlements, which forces the commercial structures of both countries to pay through third countries or using opaque schemes.

Addressing these issues will give a real opportunity to use the various Islamic tools that are successfully used in the world in the domestic market and establish direct bank payments between countries.

The main trading partners of Ukraine are EU countries, CIS countries and MENA countries. MENA countries, together with Turkey, account for 19.3 percent of domestic exports and only 3.6 percent of imports. We can conclude that they are the target export markets for Ukraine, which provide an annual positive trade balance. In 2015, it amounted to almost \$ 7.5 billion, in 2014 – more than \$ 9.5 billion. Among the MENA countries, the main trading partners of Ukraine in 2015, in terms of turnover were: Egypt – \$ 2.2 billion, Saudi Arabia – \$ 926 million, UAE – \$ 654 million, Iran – \$ 572 million (8.7 percent), Iraq - \$ 486 million (7.4 percent). The share of these countries in the total volume of Ukraine's trade with the MENA countries is 74.0 percent, namely: Egypt – 33.5 percent, Saudi Arabia – 14.1 percent, UAE – 9.9 percent, Iran – 8.7 percent, Iraq – 7.4 percent [13].

Research shows that the potential of developing international economic relations with Muslim countries in Ukraine is considerable, but the challenge of introducing a model of Islamic financing is not an easy task. The provisions of national law are still hindering the widespread adoption of Islamic financial products in Ukraine. The situation is further complicated by the fact that there is no precise list of Islamic products that can be applied today without the corresponding legislative changes in the country.

In addition, there is no state authority or agency in Ukraine that has the authority to interpret Shari`ah law, to keep records and control of such financial transactions. There is no experience in matters of accounting and financial reporting of Islamic financial institutions. In addition, Islamic bank products are more expensive than traditional bank products because of the need to comply with both Shari`ah law and international standards.

At the same time, some Ukrainian industrial companies already use Islamic financial products, but outside our country. One of these companies is Metinvest Holding, which is a member of the Metinvest group of companies – the British Spartan UK Rolling Mill. In December 2017, the plant attracted a £ 15 million revolving credit facility from the largest Islamic bank in Europe, Bank of London and The Middle East (BLME), with an initial maturity of 12 months.

Firstly, we still need to create an institutional environment, increase the level of knowledge about the specificities of Islamic banking and train practitioners in the field.

Another deterrent to the development of Islamic financing in Ukraine is the lack of a habit for domestic businesspersons to disclose their profits. In addition, Islamic finance is based on the principles of trust, risk sharing, commitment and equitable profit sharing. Business transparency is one of the important conditions of Islamic banking.

Summing up all of the above, it is worth noting that the issue of introducing Islamic financial

institutions into the Ukrainian economy is quite complex. Firstly, because Ukraine is secular state and Muslim financial institutions are subject to Shari`ah law, that is, religious norms. Secondly, the development of Islamic financing requires a significant improvement in legal regulation in the financial market, the development of an institutional environment, an increase in the general level of knowledge in this field, and the acquisition of skills in the use of Islamic financing methods. Addressing each of these issues takes time and intellectual effort. Considering that there are still some prerequisites for Islamic finance development in Ukraine, it is worthwhile to take practical steps, slowly, carefully, building and improving the current system towards legislative changes that will formally confirm the legal foundations of Islamic financial institutions.

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5.2. Institutional arrangement of financial relationships between Ukraine and MENA countries

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Financial relations – a part of economic relations concerning the market and/or administrative distribution and redistribution of monetary resources through appropriate institutions to meet the needs of the state, business and citizens. As practice has shown, market mechanisms of redistribution of funds in which the central element is the financial market are more effective than administrative ones. Consequently, we can formulate the main task of organizing the financial market – the

organization of financial flows for more efficient functioning of the economy. To solve this problem, a certain system of financial market institutions has to be built.

From the expression of "financial market organization" we should distinguish similar expression "financial market infrastructure" Without denying their interconnectedness, it should be noted that the term infrastructure refers more to the formation of the conditions for the production and reproduction of financial services in a given market. Without creating these conditions, no market can function. It includes banks, stock exchanges and various financial companies that provide intermediary services in organizing the flow, distribution of capital from suppliers to consumers of financial resources. Of course, they also apply to economic entities of the financial market and they must be considered both as a subject of infrastructure and as a subject of organization of the financial market. Therefore, in this part of the work, certain elements of infrastructure will be given attention in terms of their importance in creating a high-tech, cheap (for an investor) trading platform for the convenience of forming their investment portfolio, creating a truly liquid and transparent market of promising financial instruments between Ukraine and MENA countries.

According to the World Bank, MENA region includes 19 countries (table 1). This is 6.5% of the world population (or 490 million people), which indicates the sufficiency and prospects in creating a common financial market between the MENA countries and Ukraine to improve trade in goods and services, as well as deepening business relations.

Table 5.1.

Countries in the MENA region, 2019

Algeria	Iran	Lebanon	Qatar	United Arab Emirates
Bahrain	Iraq	Libya	Saudi Arabia	West Bank and Gaza
Djibouti	Jordan	Morocco	Syria	Yemen
Egypt	Kuwait	Oman	Tunisia	

Source: calculated according to the data: [1]

Before considering the institutional transformations of this region in the financial sector, we need to look at the financial and economic parameters of these countries (table 2). Of course, taking into account the difficult political and military situation in some countries of the region (Syria, Iraq, Yemen, sanctions against Iran), their economic indicators may be negative, but this does not reduce the prospects of cooperation with these countries.

Almost by all indicators of table 2, in the first place is Saudi Arabia. In 9 out of 19 MENA countries there is no net public debt, in 13 countries there are no unemployment rates. Only Iran (35.7%), Yemen (14.7%), Egypt (13.9%) have inflation problems. At the same time, the most investment-attractive countries in the MENA region are: Saudi Arabia (194 billion dollars in 2019),

Iran (187 billion dollars) and the United Arab Emirates (hereinafter - the UAE) (116 billion dollars). Also, Saudi Arabia (228 billion dollars), Iran (175 billion dollars) and the United Arab Emirates (153 billion dollars) are leaders in gross national savings. The largest government revenues are in Saudi Arabia (\$ 256 billion) and the UAE (\$ 119 billion). Surplus of current balance of payments had only 4 countries of the region in 2019, such as: UAE (+36.59 billion dollars), Saudi Arabia (+34.216 billion dollars), Qatar (+11.52 billion dollars) and Kuwait (+11.3 billion dollars). The total GDP of MENA countries is – 3.12 trillion dollars (2019).

In general, MENA countries give Ukraine \$ 6.6 bln of exports and 0.8 bln dollars of imports [4], that is, the net trading position of Ukraine is 5.7 bln dollars. This indicates a very beneficial cooperation between Ukraine and the MENA countries. The most active trading partners of Ukraine from MENA countries are shown in diagrams 1 and 2 (2018).

Table 5.2 Financial and economic parameters of MENA countries and Ukraine, 2019

	№	Country	GDP, U.S. dollars, Billions	GDP per capita, U.S. dollars	Total investment, U.S. dollars, Billions	Gross national savings, U.S. dollars, Billions	Inflation (CPI), Percent change	Unemployment rate, Percent of total labor force	General government revenue, U.S. dollars, Billions	General government total expenditure, U.S. dollars, Billions	General government net debt, U.S. dollars, Billions	Current account balance, U.S. dollars, Billions	
MENA REGION, 2019	1	Algeria	172	3980	75	53	2,0	12,472	53	67	64	-21,697	
	2	Bahrain	38	25273	12	10	1,4	3,95	9	12		-1,656	
	3	Djibouti	3	2936	1	1	2,2		1	1	1	-0,008	
	4	Egypt	302	3046	52	43	13,9	8,612	62	85	228	-9,301	
	5	Iran	458	5506	187	175	35,7	16,784	59	79	125	-12,268	
	6	Iraq	224	5738		33	-0,3		93	98		-7,786	
	7	Jordan	44	4386	9	5	2,0		12	13	40	-3,104	
	8	Kuwait	137	29266	28	39	1,5	1,322	82	73		11,308	
	9	Lebanon	58	9654		-2	3,1		12	18	88	-15,452	
	10	Libya	33	5019	15		4,2		28	38		-0,096	
	11	Morocco	119	3345	41	36	0,7	9,23	31	36	77	-5,297	
	12	Oman	76	17791	24	19	0,8		28	33	30	-5,495	
	13	Qatar	191	69687		102	-0,4		71	57		11,521	
	14	Saudi Arabia	779	22865	194	228	-1,1		256	304	53	34,216	
	15	Syria											
	16	Tunisia	38	3287	8	4	6,6		11	12		-4,042	
	17	United Arab Emirates	405	37749	116	153	-1,5		119	126		36,59	
	18	West Bank and Gaza	14	3198									
	19	Yemen	29	943	2	1	14,7		2	4	16	-1,201	
	Total (MENA)		3120		Average (MENA)		5,0	8,7					
	Ukraine		150	3592	28	24	8,7	8,7	58	61	76	-4,236	

Source: calculated according to the data: [2], [3]. Bold figures in the table shows the maximums

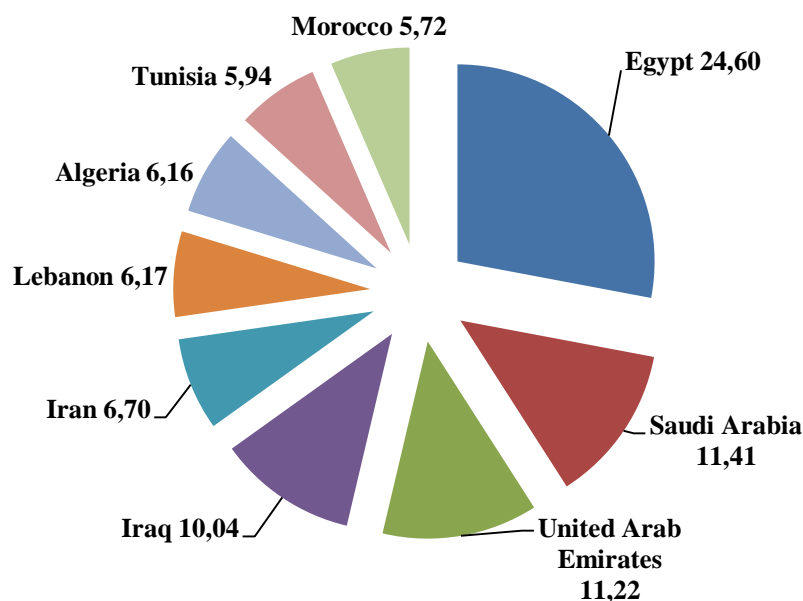


Fig. 5.5 Export of goods & services from Ukraine to MENA countries, % of total MENA export of Ukraine

Figure 5.5 shows the key trading partners of Ukraine from MENA countries, the export share of which exceeds 5%. Most of all in MENA region, Ukraine sells to Egypt – at 1.6 bln dollars, Saudi Arabia – 0.75 bln dollars, UAE and Iraq – 0.74 and 0.66 bln dollars respectively.

From Figure 5.6 the same situation is observed. If for export, 9 MENA countries exceed the threshold of 5%, then for import only 5 in trade with Ukraine. Thus, we need to expand cooperation with all 19 MENA countries.

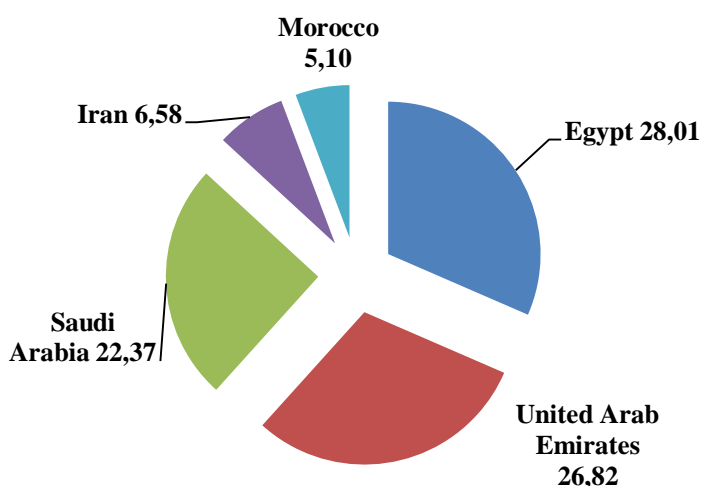


Fig. 5.6 Import of goods & services to Ukraine from MENA countries, % of total MENA import of Ukraine

If we analyze the financial depth of joint ownership of the share capital of Ukraine with the countries of the MENA region, we see that it is practically nonexistent. According to the Ukrainian Statistical Service, the total volume of direct investment by MENA countries in the equity capital of Ukraine is only 74.4 million dollars, while Ukraine does not invest at all in these kinds of assets in these countries [4].

At the same time, in 15 out of 19 MENA countries there are stock exchanges, in some countries there are several. For example, in the AOE - 4 stock exchanges, in Iran - 2. More detailed information in Table 5.3.

Table 5.3

List of stock exchanges in MENA countries and key exchanges in Ukraine

№	Securities exchange	Country	member of WFE	Market Capitalisation, bln USD	Number of listed companies
1	Abu Dhabi Securities Exchange	UAE	+		70
2	Amman Stock Exchange	Jordan	+	22,74	195
3	Bahrain Bourse	Bahrain	+	21,86	44
4	Boursa Kuwait	Kuwait	+	-	-
5	Dubai Financial Market	UAE	+	-	63
6	Dubai Gold and Commodities Exchange	UAE	affiliates	-	-
7	NASDAQ Dubai	UAE	-	-	-
8	Iran Fara Bourse Securities	Iran	+	26,91	114
9	Tehran Stock Exchange	Iran	+	143,54	323
10	Qatar Stock Exchange	Qatar	+	163,04	46
11	Saudi Stock Exchange (Tad-	Saudi Arabia	+	496,35	200
12	The Egyptian Exchange	Egypt	+	42	252
13	Tunis Stock Exchange	Tunisia	+	8,32	82
14	Muscat Securities Market	Oman	+	-	110
15	Iraq Stock Exchange	Iraq	-	-	102
16	Beirut Stock Exchange	Lebanon	affiliates	7,49	10
17	Damascus Securities Exchange	Syria	-	1,53	25
18	Casablanca Stock Exchange	Morocco	-	59,73	75
19	Palestine Exchange	West Bank and Gaza	+	3,73	48
20	Ukrainian Exchange	Ukraine	-	4,34	41
21	PFTS Stock Exchange	Ukraine	-	-	38
22	Perspektiva Stock Exchange	Ukraine	-	-	55
Total				1001,58	1893

Source: calculated according to the data: [5] and websites of stock exchanges

Table 5.3 shows the list of stock exchanges of the studied countries. Most of these exchanges (13) are members of the World Federation of Exchanges (WFE), 2 - exchanges are affiliated with its participants. Unfortunately, any of Ukrainian stock exchanges isn't a member of WFE. Taking into account only data from the table 3, the total capitalization of the stock market is \$ 1 trillion and 1,893 of listed companies. This is without over-the-counter trading, which has significant volumes in undeveloped financial markets.

If we take Ukraine, the share of the stock exchange market is 1% and, accordingly, 99% is the over-the-counter market (2018) [6, p.14]. The country has 5 stock exchanges with a total annual trading volume of 260 billion dollars in 2018. The lion's share of this volume falls on government bonds (Tab. 5.4). More detailed information about the structure of the Ukrainian stock market is shown in Figure 5.7.

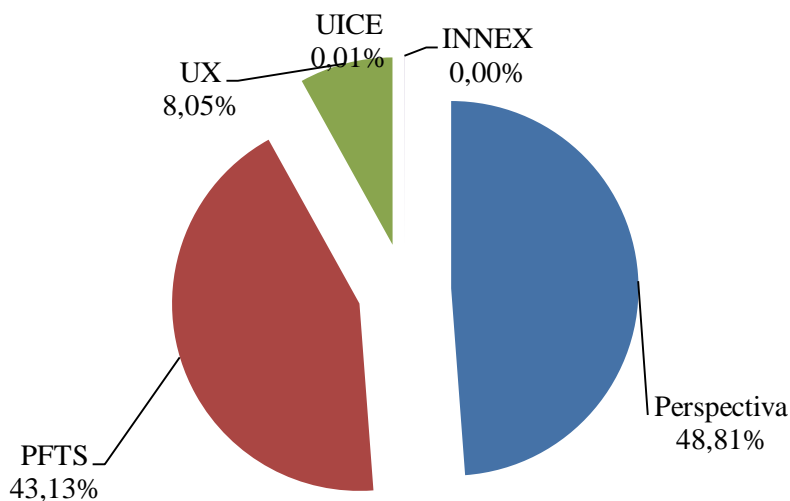


Figure 5.7 shows that 92% of exchange trade falls on two stock exchanges of Ukraine. The third exchange, the Ukrainian exchange occupies only 8% of the market, but it is the most technologically advanced among all the others and is adapted for trading by a small investor.

Fig. 5.7. Structure of securities exchange trading in Ukraine with distribution by stock exchanges, for 2018

What cannot be said about the other two large exchanges, PFTS and Perspective. The stock exchanges UICE and INNEX may cease to exist, since they have almost zero indicators.

As can be seen from Figure 5.8, there is practically no trading volume of stocks of companies on key exchanges in Ukraine. At the same time, the total number of registered public joint-stock companies in the country is 1,491 units (as of October 2019) [4].

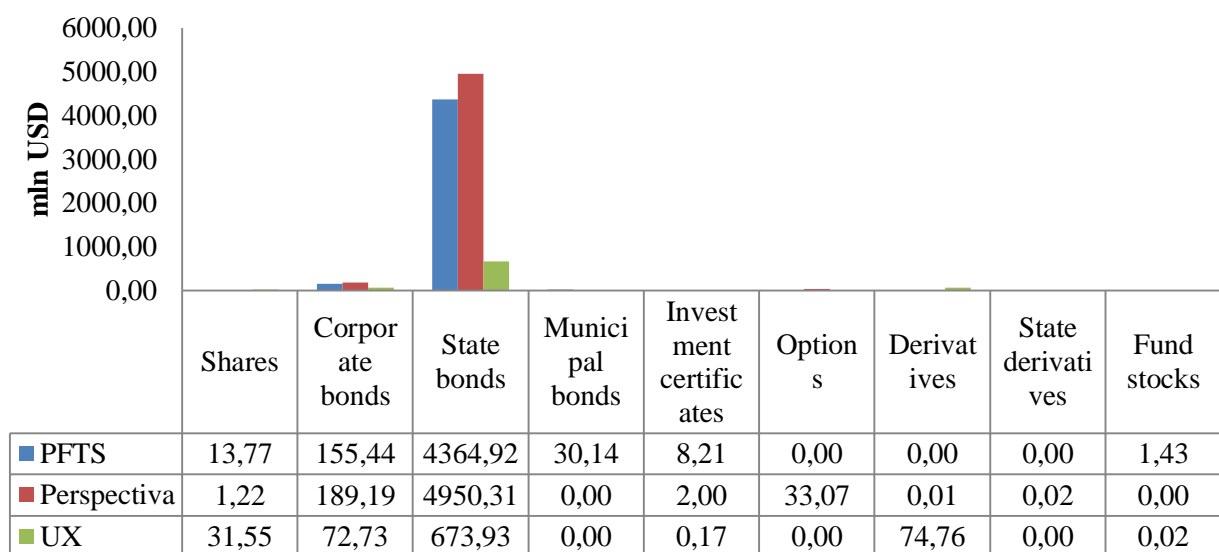


Figure 5.8 Comparative structure of stock exchange trades by types of securities on the largest stock exchanges of Ukraine, for 2018

Source: calculated according to the data: [6]

If we look at the dynamics of the number of intermediaries in the Ukrainian securities market, you can see a sharp decline in brokerage activity (Figure 5.9).

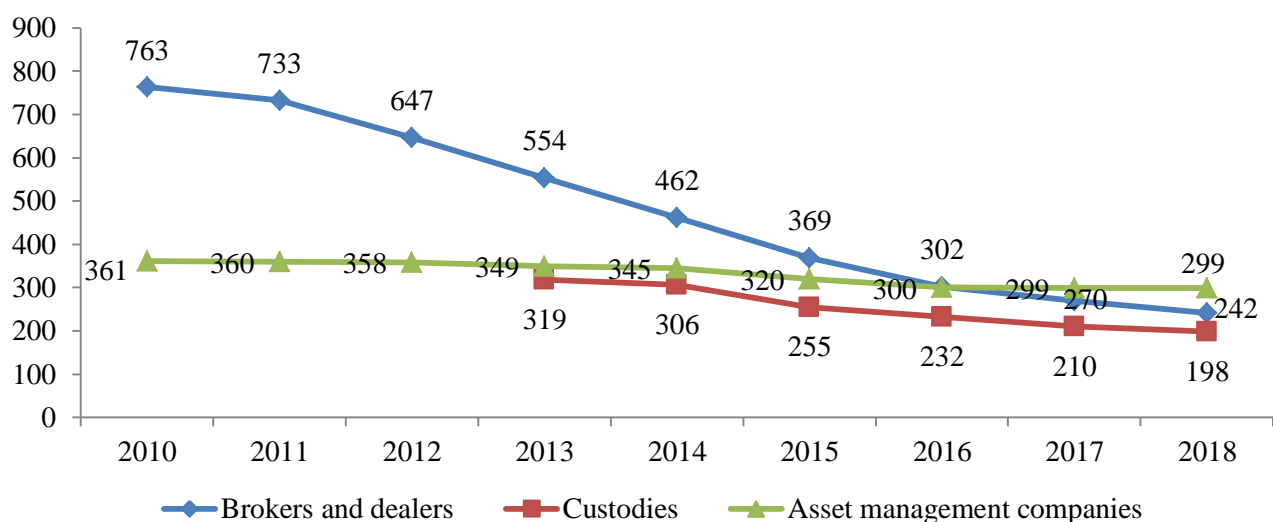
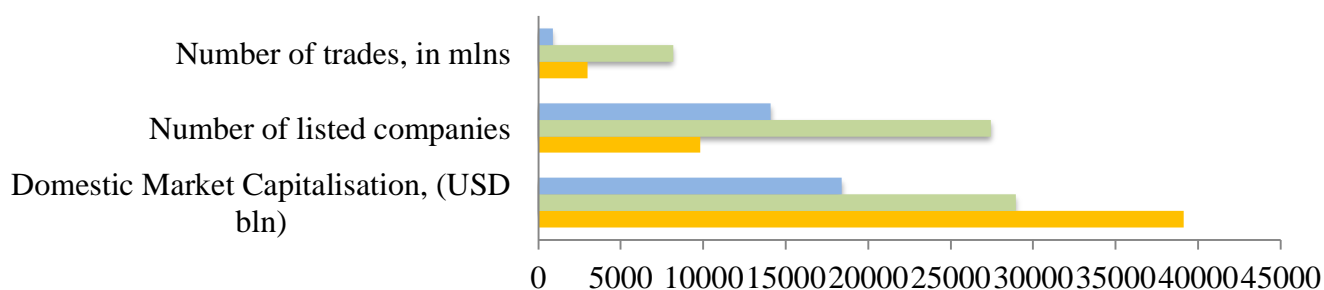


Fig. 5.9 Dynamics of financial Intermediaries on the securities market of Ukraine

Source: calculated according to the data: [6]

All this indicates the underdevelopment of the securities market in these countries, their weak institutional and infrastructural systems. Moreover, being trading partners for a number of certain goods and services, there is no powerful trading platform for financial instruments tied to these goods and services for hedging the risks of price changes and market pricing of assets.

Figure 5.10 shows the global geography of stock exchange capital for three indicators: market capitalization, number of companies and number of trading operations.



	Domestic Market Capitalisation, (USD bln)	Number of listed companies	Number of trades, in mlns
EMEA	18395	14099	892
Asia - Pacific	28944	27463	8199
Americas	39132	9823	2984

Fig. 5.10. Exchanges equity market parameters (H1 2019)

Source: calculated according to the data: [7]

As of July 2019, the total capitalization of the stock exchange market amounted to 86.5 trillion dollars (by WFE data), while the same indicator for MENA countries is - 1 trillion dollars. Diagram 6 shows that the largest capitalization of the stock exchange market in the world falls on the

American region, at the same time, by the number of listed companies and trading operations Asia-Pacific region is in the first place.

According to the stock exchange internationalization index, which is calculated as the arithmetic mean of three key parameters: the share of foreign companies in the listing, the share of trade in foreign stocks in the total trading volume, the percentage of foreign members (participants) of the stock exchange. By this index, the most international stock exchanges were the Luxembourg Stock Exchange, the Oslo Stock Exchange and the Johannesburg Stock Exchange in 2017 (Table 5.4).

Table 5.4.

Indicators of internationalization of the world's leading stock exchanges

№ п/п	Stock exchange	The share of foreign listed companies, %	Share of trading in stocks of foreign companies, %	Share of foreign members of the Exchange, %	Index of Internationalization of the exchange, %
1	2	3	4	5	6
1	Luxembourg	84.44	12.57	61.54	52.85
2	Oslo	20.09	12.76	63.79	32.21
3	Johannesburg	19.41	27.91	35.25*	27.52
4	Frank-Furth	10.30	6.44	52.50	23.08
5	London	18.51	18.54	29.41	22.15
6	Swiss	14.02	0.48	50.50	21.67
7	Tokyo	0.17	0.09	54.72*	18.33
8	Nasdaq Nordic	4.05	4.02	46.74	18.27
9	Warsaw	3.58	0.61	48.20	17.46
10	Hong Kong	5.12	3.39	40.20*	16.24
11	Taiwan	8.56	7.17	25.10*	13.61
12	Euronext	10.94	0.33	27.27	12.85

Source: calculated according to the data: [8, p.8]

In developed capital markets, global competition for investor is increasing, while emergent economies are fixated on competition domestically. This is due to the fact that the last are trying to maintain the old status quo, where you can use the administrative resources in competition, destroying your own market and losing international.

The progressive cooperation of the stock exchanges generate global liquidity centers of capital, which enter into fierce competition among themselves. National exchanges are not able to compete with such global players, so they need to unite and create their own centers of liquidity.

Stock Exchanges are characterized by high rates of return (over 40%) and intangible assets in the structure of their balance sheets. The last include: software, licenses and brands owned by a stock exchange holding company. The most expensive brands are owned by LSE, which, in addition to the London Stock Exchange, also owns FTSE, LCH, Russell and Yield Book. An analysis of the structure and dynamics of stock exchanges indicates that, in order to minimize the risks of underfunding from traditional sources (trading fees and listing fees), the exchanges use strategies to absorb entities that serve the stock market infrastructure. As a consequence, exchange groups, through their units, cover most of the value-added components generated by the modern capital market infrastructure: from the stage of transactions to the dissemination of market information through their own communications networks. The value of each activity and their contribution to the gross income of the exchange varies and depends on the peculiarities of the financial strategy of the trading platform, as well as the macroeconomic and technological conditions in which it operates (Figure 5.11, 12).

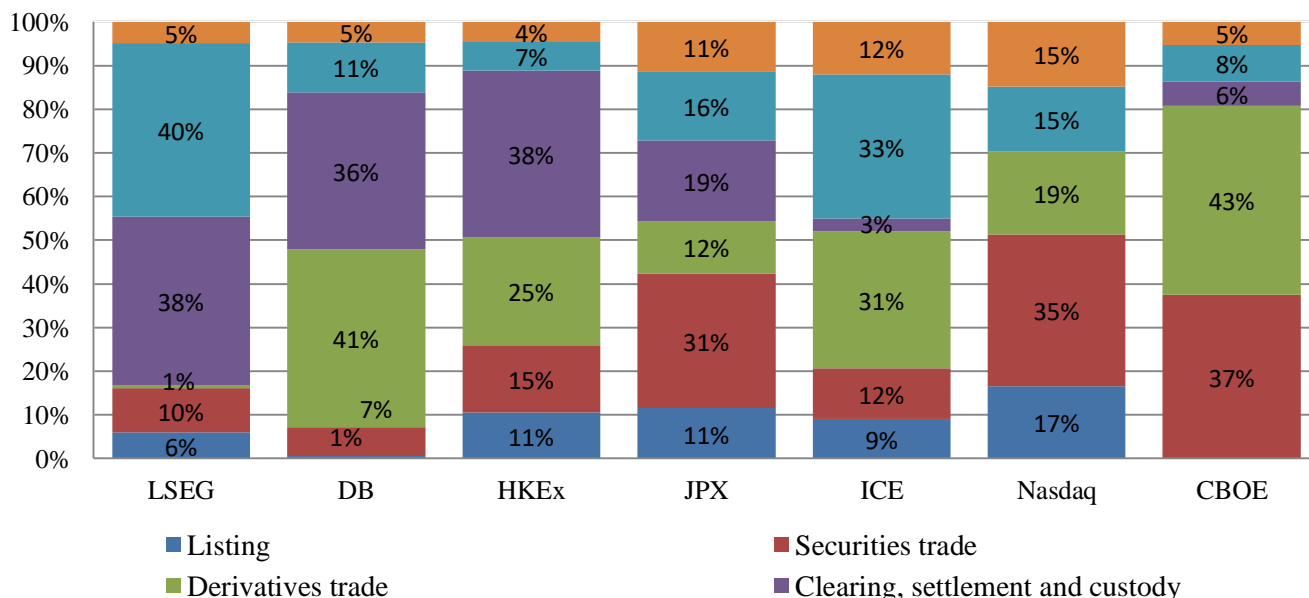


Fig. 5.11. Income structure of the world's leading securities exchange groups, 2017

Source: calculated according to the data: [8, p.12]

Clarification: LSEG (London Stock Exchange Group), DB (Deutsche Börse AG), HKEEx (Hong Kong Exchanges and Clearing), JPX (Japan Exchange Group), ICE (Intercontinental Exchange), Nasdaq (National Association of Securities Dealers Automated Quotation), CBOE (Chicago Board Options Exchange)

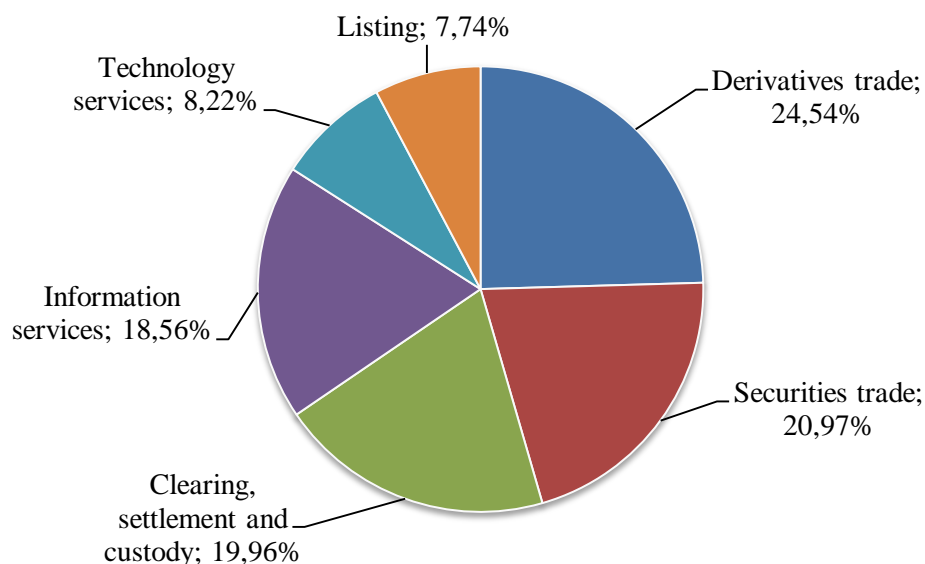


Fig. 5.12 Average performance of income structure of the world's leading securities exchange groups, 2017

Source: calculated according to the data: [8]

As can be seen from Chart 7, the major income of the largest trading platforms is derivatives trading (24.54%), securities trading (20.97%), clearing and settlement (19.96%) and information services (18.56%), all of these amounts 84.03% of total revenue.

Institutional transformations cannot be carried out, showing only political will and "selecting the most effective institutional models." Institutions cannot be "planted" (by passing a law) or "introduced" as a technical innovation. It is proposed to use the concept of "growing" institutions, the essence of which is that "the necessary institutional changes require systematic efforts and costs for rather long periods of time based on thoughtful and flexibly adjusted programs according to the situation [9, p. 8].

Having allocated only key stock exchanges in MENA and Ukraine, we have about 22 stock exchanges. Given the high share of OTC transactions and the underdevelopment of the market, this indicates a highly fragmented financial information space in these countries. This is a negative factor, since it increases the cost of forming and managing an investment portfolio, as well as a growing number of intermediaries (carries additional risks for the investor). Therefore, there is a need to consolidate efforts in creating a joint liquid, high-tech financial instrument market for more efficient movement of capital and investment.

Here we can consider several models of such an institutional formation of the financial market of the above countries. We are talking about models for building a trade infrastructure of the financial assets market of MENA countries and Ukraine (Fig. 5.13).

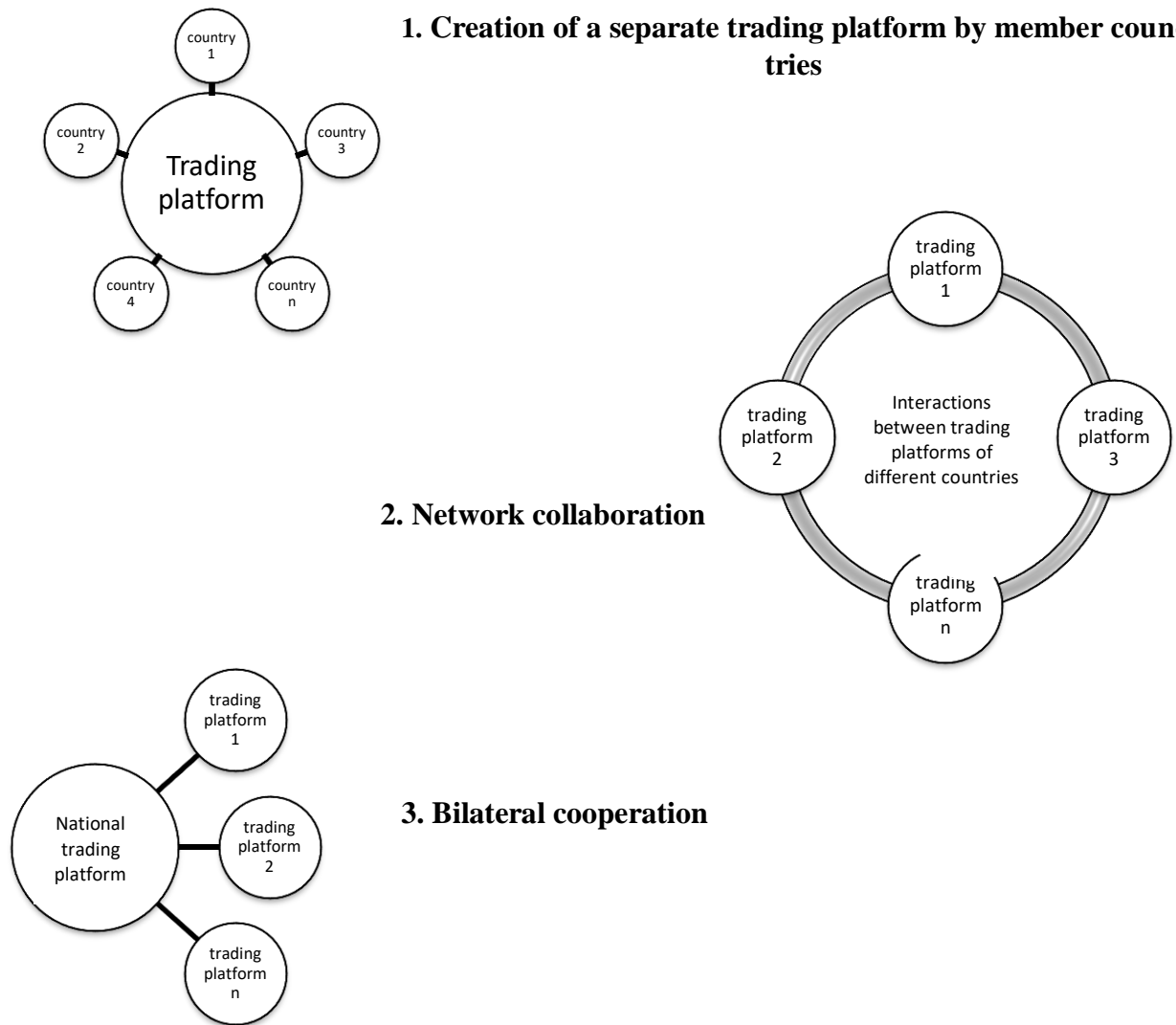


Fig. 5.13 Models for building of trade infrastructure of a joint financial asset market

Source: created by the author. "n" - another participant

The last (third) model is the most primitive, provides interactions between the main trading floors of the countries of the region directly and separately. At the same time, the features of exchange activities in each country are preserved, which causes difficulties and risks for the investor such as: different legal framework and mechanisms for protecting property rights, large transaction costs, many intermediaries.

The second model is aimed at developing software that will connect the leading stock exchanges of the participating countries, provide access to information and quotes, as well as the purchase of foreign assets through its own exchange. However, all exchanges participating in the system will retain their usual activities in the local market. A negative factor will be that the elements in this chain are at different levels of development and technology. That is, some exchanges will be more technological and competitive in the fight for the investor. What will have negative impact on the national market of financial assets.

And the first model, according to the author, is the most progressive and modern. But it requires more investment. Its essence is to create a separate infrastructure facility with powerful servers and a reliable security system. Such an object should include the whole range of financial market services:

- **pre-trading** (rules and ethics of doing business, information database, rating, analytics, tariffs, etc.)
- **trading** (anonymity of trading transactions, its speed, technical reliability, cyber security and others)
- **post-trading** (clearing and settlement)

In legal terms, it can be organized as a holding company in the form of an open joint stock company, on the balance of which all key components of this model will be listed:

- **High-tech trading platform** (with real estate, land, equipment, property rights)
- **Central counterparty** (clearing)
- **Custodian** (depository, repository)
- **Settlement bank** (cash accounts)

The advantage of this model is the creation of a single highly liquid and reliable market for promising financial assets (as well as increasing their number) with the same rules and interface. It will be a company independent of other exchanges, which will replace many fragmented national financial markets of MENA and Ukraine with a single access window. This will increase the ability of a professional and ordinary investor in the formation and management of their investment portfolio. In addition, as a result of the successful construction of this model, it can be connected to other trading platforms from developed countries, for example: Nasdaq, Inc.; Euronext; Intercontinental Exchange, Inc (owner of NYSE), SIX Group, Deutsche Börse AG and so on.

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