

THE ROLE OF THE FOREIGN ASSETS IN THE ECONOMY OF UKRAINE AT THE TURN OF THE XXth CENTURY

Modern time is determined by the fact that the most characteristic feature of the international finance relations is that they are meant to effectively cater for the international movement of goods and services as well as distribution of the monetary capital among the world market agents. They also signal timely about the condition of the world finance markets, and these signals are a 'litmus paper' for the timely decision-taking by the international finance subjects. It is evidenced by a series of the currency and financial crashes that took place, for example, in 1998 – Asiatic crisis, events in Russia, Ukraine and other CIS countries (the Commonwealth of Independent States).

Nowadays the international financial assets can freely move from the domestic market to the world financial one, and vice versa. It is noteworthy that in the present-day world the gigantic flows of the so-called "hot" money have been formed and they are intensively searching for their excess profit use. This fact prioritizes the problem of the foreign assets application, the problem which was faced by the domestic market at the end of the XIX c. when it was being modernized and presented an interest for foreign investors. In our tempestuous time it would be risky to rely exclusively on the Ukrainian experience. However we are obliged to do certain generalizations as to the use of the foreign assets.

The problem of international finance relations has been researched by a number of the contemporary economists who treat it from various angles. To them belong A.V. Omelchenko, T.S. Shelest, V.S. Stelmach, A.O. Yepifanov, N.I. Grebenyk, V.I. Miscshenko and others [1]. Yet the economic-and-historical aspect of this problem remains beyond the scholars' research focus.

The aim of the article is to prove effectiveness of drawing the foreign capital to invest domestic business activity at the end of the XIXth c., to show how the foreign capital stimulated modernization of the domestic enterprise activity in the period of the factory-and-plant industrialization, and to point out that this experience can be instrumental in our time as well.

To the close of the XIXth c., the industrial overturn in the country was basically completed. The machine industry which came to be implemented in the factory-and-plant production was a qualitatively new form of industrial production. It was a victory over the manufactured production and the factory-and-plant industry gave impetus for radical transformations both in the country's economy and society in the whole. It was the factory-and-plant industry at the end of the XIX c. that

produced a large part of goods and commodities, thus it was turned into the main form of industrial production. Of note is the fact that in this period the heavy industry developed twice as fast as the light one [2, p. 27]. It was a breakthrough and a marked sizing up of the industrial overturn.

The railroad construction turned out to be sort of a business card of the industrial overturn. After the 1861 reform which freed the country folk from the feudal dependence and supplied the labor market with enormous workforce the railroad construction underwent a great growth. While for the 1865 to 1875 decade the average annual lengthening of the railroads amounted to 1.5 thous. kilometers, the increase within the period from 1893 to 1897 was up to 2.5 thous. kilometers. It amounts to 1.7. times increase. In the result of this industrial leap, 21 thous.km of railroads were built in Russia by the end of the XIXthc. [3, p. 57]. As for Ukraine which entered Russia at that time, the overall length of its railroads grew from 227 km in 1865 to 8.4 thous. km in 1800 [4, p. 173]. While in 1865 their length made up only 6 per cent of the total length of the railroads in Russia, it got increased by 16 per cent at the beginning of 1900. Taking the density of the railroads, it was higher in Ukraine than in Russia: 16,8 km for every 1000 km in Ukraine as compared to average 9.9 km in Russia. Of interest is the fact that by this index the Donets-and-by-Dnieper region (Donetsko-Pridneprovsky region) was second only to the Russian centre [5, p. 57].

It was achieved owing to the doctrine of attracting foreign assets. Russia came to possess the railroad network which it would not have had but for the foreign assets because the domestic assets could not have been drawn even with the help of the lottery-loans which were extremely profitable for the creditors and heavy for the Treasury. It was due to the railroads that the country got secured in the political aspect as well because industry and agriculture could attain a stable progress. From this viewpoint, the railroads had cost to the domestic taxpayer very high but they got remunerated very quickly by their usefulness. If the toll taken by the railroad network was too high, this circumstance did not have anything in common with the doctrine of attracting foreign assets. At this time all Europe was engaged with an accelerated construction of the railroad network, that is why the assets were, in general, very costly; on the other hand, the mistake made in equal measure by Germany, France, Austria, Italy and other countries in the process of railroad construction consisted in entrusting

the companies which were fictitious, in fact, with building the railroads; these companies enjoyed extremely wide rights while a serious financial control was not implemented. But the domestic entrepreneurs were ensured the same conditions in constructing the railroads and they built them no worse than the foreigners did. As for the funds, they got them partly abroad, partly from the Treasury. No matter how heavy financial mistakes might have been committed in the course of building the domestic railroad network in the 60s and 70s, they were to a certain extent, under the then existing conditions and the novelty of the project, unavoidable. However these mistakes were caused by an undue trust in the honest business activity which however revealed great talents in running speculative promotion (“Gründerzeit”) activity but not in the handling of business. These “talents” resorted to securities emission, stock exchange speculations, setting up fake enterprises. But the doctrine of attracting foreign assets did not have an influence here. The government encouraged the capitalists in general, and not especially foreign capitalists. It requires to be mentioned that there were “active” assets in Russia, but when they were procured this was done under heavy conditions. However, at the end of the XIXthc. the domestic credit grew and the foreign assets rushed to the domestic market. But in case the government faced new large expenditures, be it construction of several dozen thousand kilometers of the railroads or crucial improvement of the domestic waterways, it would have all the same to procure the money from the foreign investors because there was not enough assets in the homeland while they were comparatively costly and extremely inert. Suffice it to say that the real practice in a few summer months of 1890 promptly afforded a convincing example of a necessity of resorting to a credit in the similar cases, namely the railroad loan to the amount of 75.000.000 roubles was made [6].

The foreign capitalists proposed their funds for the domestic industry and it would be a short-sighted approach not to make use of them. By the end of the XIXthc. the empire was poor in respect of “free” assets [7]. It was natural then, that in the course of executing the project of the century, namely the Syberian railroad construction, the empire had to withdraw considerable resources to finance the multimillion enterprise. But that involved a great risk because the other industry branches and trade turnover were thus infringed and slowed down. And the other way round, the inflow worth of 300 hundred million roubles of the foreign assets provided earnings for the population and naturally ensured a boost in the domestic industrial production [6].

The flow of the foreign assets to the domestic market was not incidental. It was closely related to the capitalist transformation of the assets at the end of the XIXthc. as well as with the monetary reform of 1895-1987. The reform got the name of Count C.Yu. Vitte,

the then Russia’s Finance Minister. In its essence the reform was as follows. The paper money (assignments) was made equivalent to a certain amount of gold (one rouble was equivalent to 0.17424 of zolotnyk or 1/96 of pound) and the new banknotes which were being introduced into circulation could be freely exchanged in Russia’s banks for a corresponding to their nominal value amount of gold by any Russian subject or foreign citizen. The banknotes had their counterparts in metallic roubles – gold tens and fives, and the corresponding paper money was added with minting small silver and copper coins. Vitte and his Ministry took a very rigid control not to allow a surplus issue of paper money to the detriment of minting gold coins. Any deviations from this rule were ruthlessly persecuted. That is why in the period of 1887 to 1917 nobody dared to alter this rigid provision of the Russia’s State Bank statutes, even the Tsar. In the result of these steps there were 1630 million roubles in circulation in Russia by the beginning of World War I, and the gold stored in the cellars of the Russia’s State Bank was equivalent to 1743 mln rouble [8, p. 23]. To sum it up, in the country a system of gold monometallism was implemented in the basis of which lay the gold circulation and a free exchange of credit banknotes on a stable currency rate. The success of the reform was ensured by the serious measures aimed creating the gold reserve. The monetary reform promoted the rouble stability and encouraged the foreign assets flow. This system was a system of the capitalist type.

At the end of the XIXthc. the foreign assets were cheap. Therefore it would be inconsiderate not to make the best of these favorable conditions and not to switch them on for the needs of the domestic industry. Moreover the foreigners crediting the state-owned enterprises got only a very insignificant interest rate and sometimes they did not get any remuneration at all. But all the material and moral profits from the enterprises (for example, railroads) that were being constructed on the similar assets came to be totally owned by the state.

While they in Russia pondered on and debated the usefulness of railroads and expected for this purpose an accumulation “from their own funds”, from inability to make use of the foreign assets, all the other countries, not excluding the ones similar in area and sparseness of population (for example, the USA), were quickly covered with railroads removing Russia from the technical markets and bringing the domestic agriculture nearly to unprofitability. It should be recalled as well how much the backwardness in the period of 1825 to 1855 had cost Russia. At that time one feared the onrush of everything “non-indigenous” not excluding even foreign assets. Finally Russia turned out to be *weaponless* in all respects when it was confronted with a real *onrush* – not on the part of an imaginable but a real enemy in the guise of everything foreign [9].

The practice of the domestic enterprise showed doubt and non-doing approach even in those cases when

all that was required was only to make use of the ready-made example or approved methods of running business by the foreigners. As is well-known, any invention, any technical improvement as well as practical application of the technical or other measures required a lot of effort, they resulted in countless failures and sufferings, erroneous calculations and bankruptcies. By and large, with a few exceptions, the inventions and improvements were made by the foreigners. In this sense, the domestic businessmen took much from the foreigners beginning with inventions and the spirit of entrepreneurship and ending with their assets. As it was, the domestic capitalist did not easily respond to the stimulus: except subsidies, Treasury insurance and a correct estimation of large profits he was in no hurry "to be generous". When the foreigners, besides experience and example, were as well ready to put to risk their assets for constructing technical facilities and enterprises which were profitable for Russia and which remained forever in the country, then the true love for the homeland, common sense and calculation naturally led to making use of these services.

Unconditionally, Russia was not Turkey, nor Serbia or Bulgaria to have fears that in this way it could be entrapped by foreign capitalists. With few exceptions, nearly all Russian state loans were issued with the intermediary help of the foreign assets and foreign bankers. Russia borrowed incomparably more abroad in that very time when its foreign policy was marked for the topmost independence. As for the Turkey example, it showed that this power existed only, at least in the military and seafaring sectors, due to the foreign services, expertise and assets [9].

At the end of the XIXthc., Russia was in an altogether different situation. If it borrowed assets abroad, it was only on the account of them being cheaper than in the home country. The foreigners were ready to place their assets into the private enterprises in Russia which of course led to their assimilation and naturalization. A great number of facts testifies to that. For instance, in 1897, near the town of Kremenchuk, the new mineral resources were explored, such as kaolin, granite, pure quartz sand. To exploit them, a French capitalist company was set up which mainly had the equipment for the porcelain kitchenware plant [10]. In the same year, the Belgian joint stock company named as "Iron Rolling Plants" was allowed to perform their operations in Russia, in the town of Kostyantynivka, Donbass [11]. And in March of 1898 the Cabinet allowed the Belgian joint stock company "Rutchenkovo Mining Association" with the capital stock of 16,000,000 francs to begin their operations in the domestic industrial market. The Association had for its goal the exploitation of the coal deposits in the Bahmut district (povyt), the Katerinoslav Province (the area of 7.292 desjatin (one desyatina = 1.09 hectare) was taken over under the rental content terms from "The French Mining Association") as well as the exploitation of the coal deposits and their

sales in other regions of the empire [12]. As for the Belgian "Diamond Coal Joint Stock Association", it was granted the right to cast iron, for which it was given additional blast furnaces at the rented lands in the Slav-Serbian povyt, the Katerinoslav Province [13]. To multiply examples, in Brussels an anonymous association the capital stock of 6 mln francs was set up, that is 20,000 shares worth 3,000 roubles each, with the aim of appropriating and renting the lands in the Herson province for constricting iron-and-steel works. Incidentally the association was called "The Metallurgic and Mining Association" [14]. But a large number of the industrial and trade firms got "Russianized" long ago and they were ready to support and defend various kinds of "patronage" in order to avoid the competition with the flow of new services and new foreign assets to Russia.

Present-day Ukraine also employs direct foreign investments for its development. They are not only a simple financing of the capital investments into the economy, but they also happen to be a means of for raising productivity and technological level of the Ukrainian enterprises. Allocating their assets in Ukraine the foreign companies bring along new technologies, new kinds of production organization and a direct opening to the world market, and this is achieved due to the possibility to make use of the well-established network of traders, clients and service centres via their affiliate companies.

The world experience proves that attracting foreign assets in the form of direct investments has a number of essential advantages for the country. Namely, direct investments: 1) are favorable for getting the funds to settle external arrears; 2) are a source of funding the commodity production and service sphere, the ensure the transfer of technologies, know-how, advanced methods of managing and marketing; 3) they enable an output increase of the high-quality produce which is competitive; 4) they play an essential role in accelerating privatization, reconstruction and structural reshuffling if production; 5) they are conducive to effective integration of the national economy into the world one.

Increase and realization of the investment potential are a key factor of the stable economic growth. Insufficient investing and a high level of the capital consumption give rise to the danger of decapitalization, that is minus values of pure investments. While in 1999 this index amounted to 0.5 per cent of the Gross Domestic Product, at the beginning of the XXIstc., in 2001, it was over 2 per cent [8, p. 337]. That is why for Ukraine's economy the most realistic way out from such a situation lies in increased attracting of the external private capital. Regretfully, for today the overall share of the private capital investments, including external ones, does not exceed 20 per cent of the Gross Domestic Product, while in Hungary and Poland it makes up 70 to 80 per cent.

Overall, since 1995 and by the beginning of the XXIstc. direct foreign investments into Ukraine made up 5339.0 mln US dollars [8, p. 342], whereas in 2013 they amounted to 56365,8 mln US dollars, which shows their increase by 10,6 times. While at the end of the XIXthc.

Belgium, France and the nearby countries were the main foreign investment donors, nowadays the geography of the latter has become very diversifies which testifies to the globalization of the investment sources (See tabl. 1) [15].

Table 1

**Direct foreign investments from the world countries into Ukraine's economy
(excluding temporarily occupied territories of the Crimean Autonomous Republic
and the city of Sevastopol)**

(mln US doll.)

	01.01.2010	01.01.2011	01.01.2012	01.01.2013	31.12.2013
Total	39 175,7	43 836,8	48 991,4	53 679,3	56 356,8
including					
Cyprus	8 847,9	9 866,0	13 002,3	17 121,7	18 500,3
Germany	6 498,6	6 977,3	7 338,2	5 983,0	6 153,4
The Netherlands	3 934,0	4 658,7	4 873,4	5 179,9	5 438,5
The Russian Federation	2 286,8	3 079,2	3 253,0	3 417,5	3 889,9
Austria	2 593,2	2 717,4	3 226,9	3 386,3	3 178,1
Great Britain	2 234,1	2 229,9	2 536,4	2 496,9	2 646,5
The Virgin Islands (Brit.)	1 283,6	1 384,9	1 580,2	1 888,2	2 339,9
France	1 617,5	2 341,8	2 229,5	1 730,7	1 789,2
Switzerland	785,7	852,7	939,3	1 097,6	1 319,2
Italy	979,8	978,3	974,8	1 027,3	1 267,5
Belize	112,9	132,4	151,7	809,2	1 008,9
The USA	1 283,3	1 130,9	966,6	976,5	953,7
Poland	866,7	932,7	854,0	916,9	845,3
Other countries	5 851,6	6 554,6	7 065,1	7 647,6	7 026,4

But today we have to care not just for an increase of attractiveness of Ukraine's economy for the foreign investors. The task is to make use of their possibilities for an expansion of the domestic effective consumer demand, stirring up of the innovation impact on the domestic production. To attract foreign investors, there should political "quietness" in the country which is a natural condition for the comfortable operation of the finance-and-monetary system.

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Лантух І. В. Роль іноземного капіталу в економіці України кінця XIX – початку XX століття

У статті обґрунтовується ефективність залучення іноземних капіталів щодо вітчизняного інвестування підприємництва в кінці XIX ст. Автор з'ясує привабливість вітчизняного підприємництва для прямих іноземних інвестицій, яке модернізувалося в період фабрично-заводської індустріалізації і вимагало потужних фінансових донорів. Звернено увагу на грошову реформу 1895-1897 рр., що полегшала проникнення іноземного капіталу на внутрішній ринок країни. Проводиться також паралель із сучасними прямими іноземними інвестиціями в Україну та аналізується їх спрямованість.

Ключові слова: підприємництво, фінанси, іноземний капітал, прямі інвестиції, грошова реформа.

Лантух І. В. Роль иностранного капитала в экономике Украины конца XIX – начала XX столетия

В статье обосновывается эффективность привлечения иностранных капиталов, относительно отечественного инвестирования предпринимательства в конце XIX в. Автор выясняет привлекательность отечественного предпринимательства для прямых иностранных инвестиций, которое модернизировалось в период фабрично-заводской индустриализации и требовало мощных финансовых доноров.

Обращено внимание на денежную реформу 1895-1897 гг., которая облегчила проникновение иностранного капитала на внутренний рынок страны. Проводится также параллель с современными прямыми иностранными инвестициями в Украину и анализируется их направленность.

Ключевые слова: предпринимательство, финансы, иностранный капитал, прямые инвестиции, денежная реформа.

Lantukh I. The role of the foreign assets in the economy of Ukraine at the turn of the XXth century

The article proves the effectiveness of foreign assets at traction to the domestic investment enterprise at the end of the 19th c. The author determines attractiveness of the domestic business, which was being modernized during the factory-and-plant industrialization and required strong financial donors, for foreign direct investments. Attention is paid to the monetary reform of 1895-1897, which facilitated the process of foreign capital penetration to the domestic market. Also, a parallel is drawn with the modern foreign direct investments to Ukraine and their vectors are analysed.

Keywords: enterprise, finance, foreign assets, direct investment, monetary reform.

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