

## **ROUND-TRIP TRANSACTIONS AND THEIR ROLE IN UKRAINE'S FOREIGN DIRECT INVESTMENT**

**Introduction.** Round-trip transactions are an interesting mechanism in the investment market. It is widespread in all countries of the world and poses major difficulties in the foreign direct investment study. In Ukraine, there is an annual increase in the percentage of round-tripping investments. That is why this topic is relevant at the present stage of development of the world economy. Such investments are difficult due to the need for data from multiple countries, long-term tracking and complicated networks.

**Review of recent publications.** Round-trip transactions and their role in foreign direct investment is presented in world scientific papers of Dilek Aykut Apurva Sanghi Gina Kosmidou [1], Xiao Geng [2], etc. However, in terms of Ukraine, this problem has not been fully explored; it is partly considered in the paper of David Saha, Vitaliy Kravchuk, Robert Kirchner [3]. This issue was also described in the NBU reports [4].

**Objective of the paper** is to assess the extent and analyze the role of round-trip transactions in Ukraine's foreign direct investment.

**Results of the research.** Round-tripping, also known as round-trip transactions or "Lazy Susans" refers to money that leaves the country through various channels and makes its way back into the country often as foreign investment [5]. For example, a local investor owns company A, sends funds to a related foreign company B, which invests back a local company C. This mostly involves black money and almost often used for stock price manipulation. In international scenarios, round-tripping is used for tax evasion and money laundering.

Moreover, swapping assets on a round-trip produces no net economic substance, but may be fraudulently reported as a series of productive sales and beneficial purchases on the books of the companies involved, violating the substance over form accounting principle. The companies appear to be growing and very busy, but the round-tripping business does not generate profits. Growth is an attractive factor to speculative investors, even if profits are lacking; such investment benefits companies and motivates them to undertake the illusory growth of round-tripping [6].

In the period from 2017 to 2018, Mauritius was the biggest investor into India, with \$13,4 billions USD or 36% of the total, according to Indian central bank data. As India's economy is the sixth largest in the world, while Mauritius' is currently ranked 124th in USD terms, we see that round-tripping foreign investment is involved.

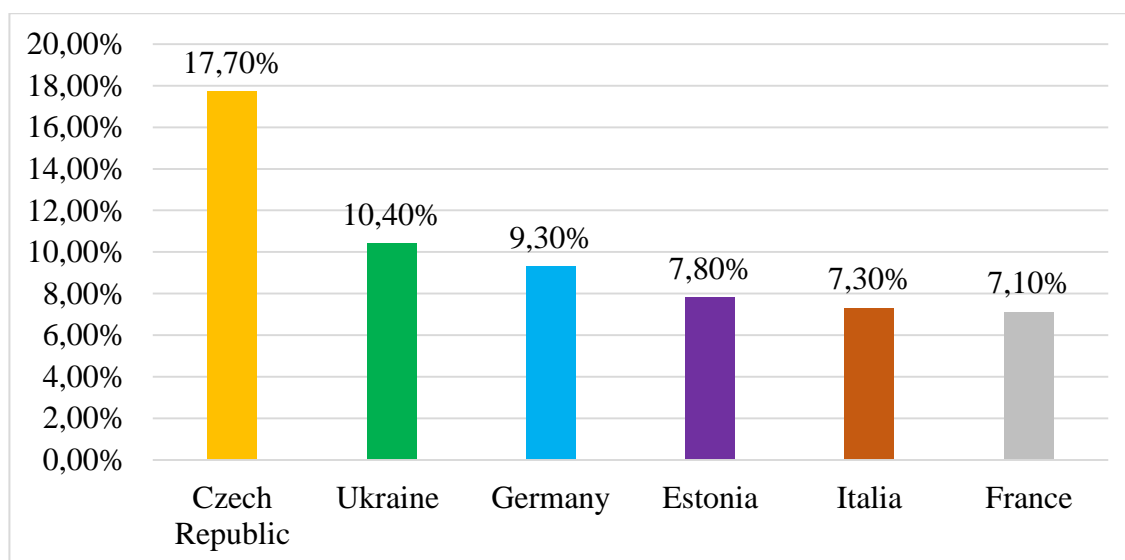


Fig. 1 Share of round-tripping in overall FDI in selected countries, %  
*Source: created by the author based on [4]*

In 2017, according to OECD estimates, 5% of all FDI is round-trip. In the same year, the share of round-tripping FDI in Ukraine was 34%, in Russia – 70% [7].

Below are the data on the percentage of round-tripping in overall FDI in Czech Republic, Ukraine, Germany, Estonia, Italia, France (fig.1).

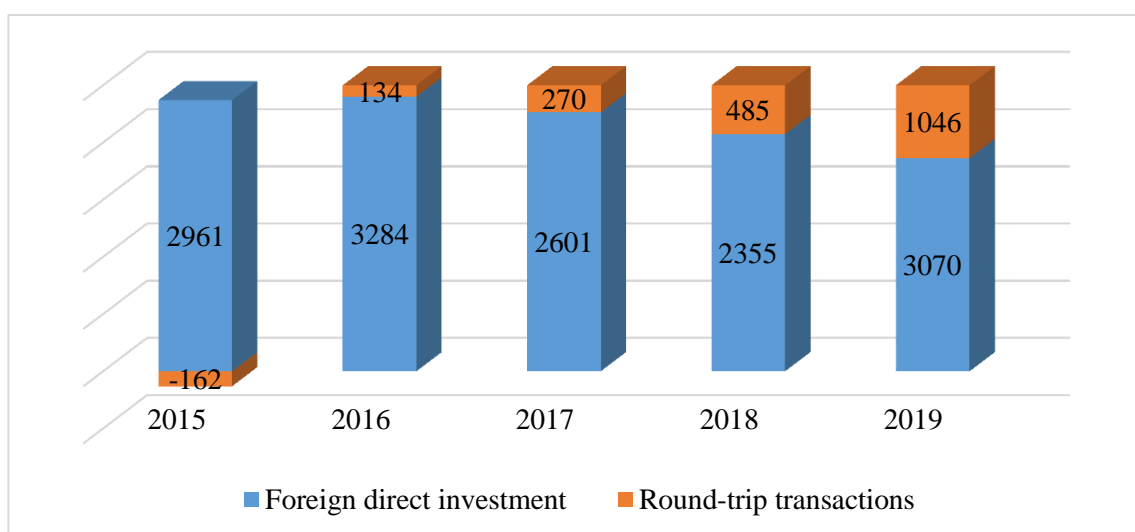


Fig. 1 Estimates of round-tripping transactions for 2010-2019 in Ukraine, millions USD  
*Source: created by the author based on [4]*

Round-tripping investment reached its highest level from 2010 to 2013. This accounted for about 32.7% of total investments. About 87% of such investments were directed to real sector enterprises. However, in 2014-2015, the situation changed and there was an outflow of funds from Ukraine for operations related to political changes in the country. In 2016-2019, there was a gradual increase in net inflows of funds for round-tripping operations, but in smaller amounts than on the eve of the crisis. In

2016, they provided 4.1%, in 2017 – 10.4%, in 2018 – 20.6% of FDI inflows to Ukraine. In 2019, round-tripping operations are estimated at \$ 1 billion USD, which is 34.1% of FDI inflows to Ukraine (fig.2) [4]. The largest volumes of round-tripping operations were routed through Cyprus, the Netherlands, Switzerland and Austria.

**Conclusion.** In summary, this paper found that during 2010-2019, the volume of FDI, where the ultimate controlling investor is a resident (round tripping) is estimated at 9.4 billion USD. This is approximately 22.8% of the inflow of FDI to Ukraine (41.3 billion USD) [4]. FDI round-trip transactions do not provide real economic benefit to either country or company. Moreover, it may have an effect for the Ukrainian economy, ranging from foregone tax revenues, distortions of the information and domestic competition, support of corruption, as well as possible welfare and efficiency losses.

## References

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## THE IMPACT OF GLOBALIZATION PROCESSES ON CROSS - CULTURAL COMMUNICATION BETWEEN COMPANIES

**Introduction.** In the global environment, the ability to communicate effectively can be a challenge. Even when both parties speak the same language, there can still