

OPPORTUNITIES AND BARRIERS OF FOREIGN INVESTMENT IN THE ECONOMY OF UKRAINE

Serhii Hushko

Professor, DSc, Kryvyi Rih Economic Institute of Kyiv National Economic University
named after Vadym Hetman,
e-mail: dep.director_edu@kneu.edu.ua, orcid.org/0000-0002-4833-3694, Ukraine

Volodymyr Kulishov

Professor, DSc, Kryvyi Rih Economic Institute of Kyiv National Economic University
named after Vadym Hetman,
e-mail: kulishov_vv@kneu.dp.ua, orcid.org/0000-0002-8527-9746, Ukraine

Kateryna Bortnyk

Master`s student, Economics, Polonia University in Czestochowa,
e-mail: bortnykkateryna@gmail.com, orcid.org/0000-0003-4769-1796, Poland

Abstract. The article provides a comprehensive analysis of the state of foreign investment in the Ukrainian economy and identifies further prospects, opportunities and barriers to foreign investment in accordance with current economic and political realities.

Keywords: foreign investment, investment activities, investment climate, investment attractiveness.

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Introduction

Foreign investment becomes important for the economic development of countries. World experience shows that countries and especially those with transition economies are not able to develop domestic economy without attracting and effective usage of investments. By accumulating business, state and mixed capital, providing access to modern technologies and management, investments not only contribute to the formation of national investment markets, but also stimulate commodity and service markets. In addition, investments, as a rule, contribute to measures of macroeconomic stabilization and allow to solve social problems of transformation period.

International investments and their place in the economy of Ukraine - these concepts are becoming more and more interesting for all strata of the economic community - from small business entrepreneurs to foreign investors. Recently, investments began to play a special part in life of any country of the post-Soviet period.

The effectiveness of foreign investment management

Nowadays, Ukraine is on the path of economic transformation and integration into the global economic household. Therefore, in addition to solving other problems, significant funding is required.

However, Ukraine does not have sufficient domestic resources which are needed for provision of the national economy. Therefore, the issue of attraction of foreign investments is very up to date, as this is one of the most important ways to overcoming the crisis, achieving

real structural changes in the economy, technological re-equipment, and increasing the quality indicators of economic activity at micro and macro levels (*Izmaylov, Znotina, Puriy, 2017*).

According to the State Statistics Committee of Ukraine, on January 1, 2018, 39144.0 US million dollars (share capital) were invested in Ukrainian economy by foreign investors, excluding the temporarily occupied territory of the Autonomous Republic of Crimea, city of Sevastopol and part of the territory of the anti-terrorist operation, in the world's flow of the direct foreign investment, there is only less than 1% which accounts for Ukrainian economy. The dynamics of foreign investment in the Ukrainian economy over the last ten years is shown on Fig. 1.

Fig. 1 illustrates the tendency of the growth of the total volume of foreign investments which were made in Ukrainian economy during 2009-2013. The peak of investment still remains 2013 - beginning of 2014 - the pre-crisis period, when the total amount of FDI in Ukraine amounted to 53704 US million dollars. During the entire period of the socio-economic crisis, the outflow of foreign capital amounted to 25.42% or 14785.5 US dollars. The temporarily occupied territories of the Autonomous Republic of Crimea and Sevastopol, as well as parts of the zone of the anti-terrorist operation weren't considered by the data.

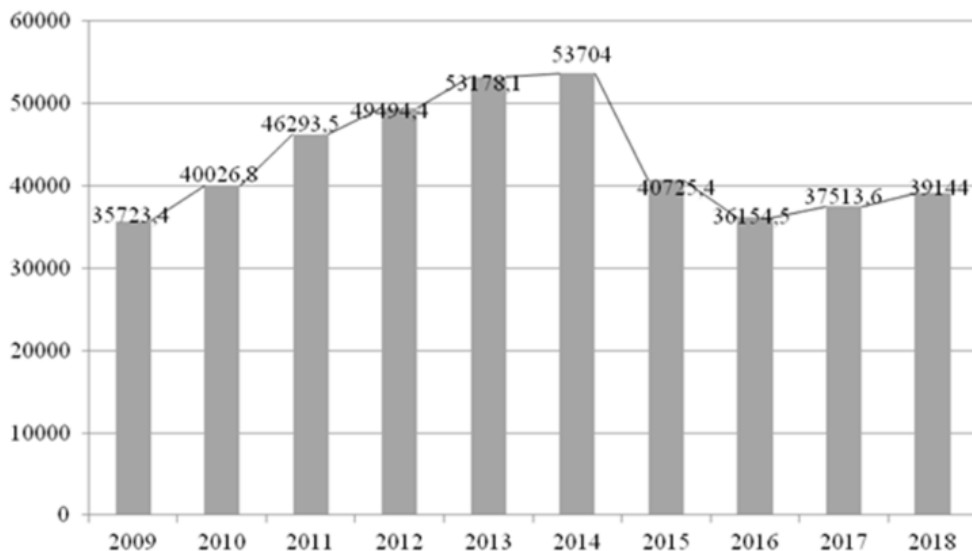


Fig. 1. The volume of direct foreign investments in Ukrainian economy as of January 1 (US million dollars)

(compiled by authors on the basis of the *State Statistics Committee of Ukraine*)

Over the next few years, a disappointing dynamic in the decrease of foreign investment in Ukraine can be observed, which is caused by negative macroeconomic factors: the deterioration of the country's economic climate, the suspension of manufacturing in the eastern region and the active warfare in this area. And only in beginning of 2017, the volume of foreign investment is gradually increasing.

Describing the direct foreign investment of the Ukrainian economy, we will take a look at the geographical structure. It should be noted that the latter is formed under the influence of many factors, among the main - the development of foreign economic relations with strategic partners (by 2002, these partners were the United States of America and Russia, today the main strategic economic partner of the country is the EU) and the demand for diversification of international investment activity. Consider table. 1, which lists the countries that have made the largest investment in the Ukrainian economy in recent years.

At the beginning of 2018, investments in the Ukrainian economy came from 134 countries of the world. According to statistics, it is clear that Cyprus has been and remains the largest investor. In particular, as of January 1, 2018, the share of Cyprus in total investments in Ukraine amounted to 25.57%. This is due to the fact that the founders of Cypriot firms that invested in the Ukrainian economy are Ukrainian oligarchs. It is well known, that first of all, the capital which is Ukrainian by origin, possibly to a lesser extent - Russian, externally comes through Cyprus into Ukraine in the legalistic status. According to official statistics, the investment leaders in Ukraine and from Ukraine are the three largest offshore zones - Cyprus, the British Virgin Islands and Belize. If to formal Cyprus capital one adds international investments flows that come from these offshore zones in Ukraine, then the total share of these jurisdictions in overall volume was 31.2% at the beginning of this year. Therefore, the positive effect of investments can be asserted only for the other 68.8% of the invested foreign capital.

It should be added that the Ukrainian by origin capitals, which were exported from our country to a number of European countries that are not offshore areas (for example, the Netherlands, Austria, etc.), later were coming in Ukraine as international investments.

Having calculated 31.2% of all investors - those relating to offshore operations - we receive "positive" investments in Ukraine. According to official statistics on the allocation of direct foreign investments by industry, most Western investors are interested in the agricultural sector, the IT sector, the commodity market and since 2015, the power industry has begun to become a source of great interest. This was due to a change in the exchange rate, gas issues and the situation in eastern Ukraine. It is necessary to clearly identify several sectors of the economy that can potentially become drivers of investment and innovation development. The most dynamically growing industries: aerospace, military-industrial complex, agricultural sector and e-commerce should become such sectors.

It is a unique situation in Ukraine nowadays. The country has a favorable geographical location, rich natural and recreational resources, excess of skilled workforce, unsaturated goods market and dissatisfied population demand, low competitiveness of local producers and low level of innovation of technologies, etc. The situation in terms of investment today is very beneficial. However, the investment climate is still characterized as unfavorable. The most important thing for foreign investors is the guarantees and return on investment that Ukraine can not fully provide. Ukraine's positions in world rankings due to weak positions of the economy by the beginning of 2018 is shown in tabl. 2.

In tabl. 2 it can be seen that factors which are important for investment-innovation development of Ukraine such as: investor protection (105th place), protection of intellectual property (129th place), state interference in business (115th place), level of innovations (82th place), level of state-commissioned high-tech products (123 place) and others belong to weak positions of the Ukrainian economy.

Table 1

Direct foreign investments (share capital) from the countries of the world in the economy of Ukraine for 2012-2016

Investor countries	2012	2013	2014	2015	2016	2017	2018
Total	49494,4	53178,1	53704,0	40725,4	36154,5	37513,6	39144
Including:							
Cyprus	13026,9	16478,1	17725,6	12769,4	10239,5	9690,1	10008,6
The Netherlands	9330,6	8733,7	9007,5	6986,7	6184,7	5948,4	6292,9
Russian Federation	3222,5	3415,1	3525,9	2338,9	3036,9	4317,4	4598,4
Great Britain	2593,4	2553,6	2768,2	2153,4	1790,3	2008,7	2169,0
Germany	5383,4	4549,4	2908,4	2105,2	1598,2	1584,6	1792,6
Virgin Islands	1666,0	2007,6	2275,9	1988,3	1715,0	1683,1	1601,8
Switzerland	947,7	1105,9	1351,0	1391,5	1390,8	1451,9	1537,6
France	2024,0	1546,2	1520,5	1394,6	1305,4	1294,5	1346,6
Austria	2509,4	2493,2	2314,0	1648,7	1559,8	1268,2	1265,9
Luxemburg	495,2	566,1	555,8	398,8	363,9	964,2	942,3
Poland	834,5	897,4	819,8	808,6	758,3	764,4	815,5
Hungary	681,4	685,8	685,9	593,2	614,9	770,1	796,0
Belize	159,7	852,0	1026,6	652,5	535,1	604,2	600,6
USA	1000,7	1013,9	934,7	701,6	634,1	576,0	538,7
Other countries	5619,0	6280,1	6284,2	4794,0	4427,6	4587,8	4837,5

(compiled by authors on the basis of the *State Statistics Committee of Ukraine*)

Table 2

Ukraine's place in the world ranking on the weak positions of the economy

Factors	Place (among 144)
Country credit rating	105
Inflation rate	75
Investor protection	105
The level of organized crime	126
Protection of intellectual property	129
Ownership	135
Level of state interference in business	115
Level of innovation	82
Business Expenses for Research and Innovation	66
Level of business collaboration with universities in research and innovation	74
The level of the state order of high-tech products	123
Level of patenting by form PCT (Patent Cooperation Treaty)	52

(compiled by authors on the basis of the *State Statistics Committee of Ukraine*)

Improvement of the accounting of foreign investments will enable foreign investors to protect their capital and have confidence in the future, which will increase the volume of foreign investment and, as a consequence, activate the investment and innovation development of Ukraine.

For the effective management of foreign investments, a comprehensive methodology of their analysis is required. The main task of the analysis of foreign investments should be to determine the reserves of the effectiveness of the usage of investment resources, identify and calculate the sources of their attraction and financing.

To improve the analysis of foreign investment it is recommended:

- to reduce the analysis of foreign investments to the calculation of reserves but not to calculations of structural relations, rates of change of indicators, values of financial ratios;
- to use reliable information for the information base of the analysis, while not redoing it for subjective and objective reasons. Objective reasons are the imperfect Ukrainian accounting and reporting system. Subjective - processing of data (to a greater or lesser extent) in order to improve or deteriorate the financial condition of the enterprise;
- when analyzing foreign investments, use the optimal number of coefficients for calculations, since most of them are in a functional relationship with each other;
- to develop new medium-branch financial and regulatory indicators, as well as coefficients, because without adequate and updated normative indicators for modern tendencies of economic development, it is impossible to find out what the strengths and the weaknesses of enterprise operation are and how effective its performance is.
- to create a methodology for analyzing the financial accounting of enterprises with foreign investments in the context of significant inflationary processes in the Ukrainian economy and instability of the monetary unit.
- to improve the terminological obscurity, mainly due to the fact that the methodology of foreign investment analysis in market conditions came to us from abroad;
- to prevent situations when the same indicators are differently treated and calculated.

Consequently, the existing methodology for analyzing foreign investment has a large number of problems and shortcomings that need to be resolved urgently. This will make it possible to make effective investment decisions, to provide investors with objective, complete and reliable information in various sections on foreign investments.

Among the problems that create an unfavorable investment climate and impede the effective attraction of foreign investment, can be distinguished the main problems such as:

- political instability (military actions in the East of Ukraine, change of power);
- undeveloped market infrastructures of international business in Ukraine (insufficient number of relevant experts, auditors, consultants);
- imperfection of tax policy (high level and large number of taxes which deprives the state of competitive advantages in attracting foreign investments);
- imperfect legislation (a large number of legislative acts (over 100) and constant changes in them, inconsistency in the interpretation of some provisions of normative documents, long process of registration and obtaining of necessary certificates, absence of an effective mechanism for protecting investors from debtors and ill-fated partners, an imperfect system for dealing with cases in economic courts and late execution of their decisions, significant differences in the rulemaking of regional authorities (in particular, with regard to conditions (terms, payment, the list of required documents) registration and reregistration of foreign investments);

- customs barriers (high rates of import duty when foreign investment flows to Ukraine, misunderstandings with the customs authorities in determining the customs value of goods, the method of charging customs duties and excise taxes, delay of cargoes);

- unstable economic situation (devaluation of the national currency, growth of inflation rate, unreliability of the banking system);

- inadequate institutional conditions for doing business (lacking guarantees of protection of their business, the presence of raider hijackings, bureaucratic pressure, arbitrariness of the courts, corruptions of all business processes).

In order to solve these problems, which hinder the process of foreign investment in Ukraine, it is necessary to develop strategic measures for attraction of foreign investments and increasing of their efficiency. Among them are the following:

- stabilization of the political situation in the East of Ukraine;

- improvement of legal legislation (simplification of the registration and certification procedure, rigidity to changes, elimination of controversies of the interpretation, minimization of significant differences in the rulemaking of regional bodies of state power);

- reformation of the tax system (ensuring adequate revenues to the budgets of all levels, encouraging investment activity by providing tax preferences (benefits, delays) in sectors which are foreground for the region for profit or property, provided that new jobs are created);

- improvement of the work of insurance companies (creation of a national insurance company for risk insurance of domestic and foreign investors);

- removal of customs barriers when importing in the country modern technological equipment which is necessary for modernization of existing enterprises;

- providing quality services to investors (prepared and accessible information, a network of regional agencies for attracting foreign investors (FDI agencies) that promote the investment of foreign capital in the regions or provinces of the country);

- development of regional plans for increasing of the investment attractiveness of the regions, considering the peculiarities of their current investment attractiveness ratings;

- distribution of realization of training programs among businessmen on preparation of investment offers by regional state administrations, preparation of investment business plans, legal support of investment projects, management of investment projects;

- preparation of a list of measures to strengthen the responsibility of representatives of executive bodies and local self-government bodies for corruption and other discriminatory actions against investors;

- reducing administrative barriers by reducing the level of bureaucracy and increasing the effectiveness of legislation and transparency of the business regulation system;

- cooperation in the field of innovation through the development of R&D projects between foreign and Ukrainian companies and the strengthening of partnerships between universities and manufacturing enterprises;

- increasing the investment attractiveness of the regions by ensuring more balanced development of the western and eastern parts of the country, implementing state programs of regional development and developing programs that take into account regional peculiarities for more active involvement of investors;

- improvement of business education through the implementation of innovative programs in cooperation with foreign universities and expanding the list of specialties which are taught at business faculties.

Conclusions

Nowadays, gradual changes in order to improve the investment attractiveness of Ukraine are taking place. For example, state support for the implementation of investment projects in priority sectors of the economy is provided, in particular, by exempting from taxation by imported duty while importing a certain list of goods which are necessary for the implementation of such projects and delaying the payment of VAT (up to 60 days) for imported goods on the basis of a bill.

The norms of the Customs Code of Ukraine (Article 287) provide the exemption from payment of imported duty for goods which are imported by foreign investors for a period of not less than three years for the purpose of investing on the basis of registered agreements (contracts) or as a contribution of a foreign investor to the authorized capital of an enterprise with foreign investments. Customs clearance of such goods is carried out as a matter of priority.

Therefore, it should be noted that Ukraine has everything to be attractive for foreign investments, it is not isolated from world processes, it is sufficiently integrated into the world economy.

In the ranking of investment attractiveness of the world countries, International Business Compass for the year of 2017, which was published by BDO it's shown that during one year Ukraine has risen by 20 positions in the ranking and is on the 89th place, entering the list of countries that showed the best growth for the year, along with Belarus and Latvia. In 2016, our country took 109th place.

Consequently, further involvement of international investment in the Ukrainian economy will depend on the prompt of elimination of negative factors that cause a disbalance of the country's economic system, elimination of unjustified costs, risks and barriers of competition that hold investors from investing, and implementation of strategic measures that will encourage foreign investors to investment activity.

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