

## TRENDS AND PRIORITIES OF INTERNATIONAL INVESTMENT IN THE ECONOMY OF UKRAINE

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**Abstract.** The trends and priorities of international investment in Ukraine's economy have been identified. The basic directions of enhancing the inflow of foreign capital in Ukraine have been analyzed. The strategic ways of attracting and effectively using foreign investment for the economic development of Ukraine have been proposed.

**Keywords:** international investment, foreign investment, investment priorities, stimulating the inflow of foreign capital, strategic measures.

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### Introduction

International investment plays an important role in the structural changes of national economy and acts as a catalyst for international business development. A significant component of the implementation of the Association Agreement between Ukraine and the European Union on the path of gradual integration of Ukraine into European and world economic system is efficient attraction and use of international capital flows for the development of the national economy on the innovative basis. An inflow of foreign capital in Ukraine at the stage of revival and post-crisis development of the economic potential represents an opportunity to address such priorities: structural reform of the economy, technological renovation of production, increasing the production of consumer goods and overcoming dependence on imports. Therefore, consideration of international trends and priorities for investment in Ukraine's economy, which has accumulated a number of acute problems and has not created favorable investment environment, is very important. Despite the existing investment risks and lack of internal investment resources in the country, the intensification of the process of international investing can be considered one of the most reliable mechanisms for socio-economic transformation, financial support of the reconstruction and modernization of national production and the qualitative transformation of business activities towards export orientation and import substitution.

### International investment theory

For a long time, Ukrainian and foreign scientific economic literature has been dealing with an active discussion, analysis and improvement of various theoretical, methodological and methodical aspects of international capital movements, formation of a national policy of

attracting foreign investment, regulation of international investment, international investment strategy formation. Therefore, there is a relatively high degree of elaboration of issues related to structuring, motivation, objects, entities, assessment of the effectiveness of international investment, analysis of investment attractiveness of the countries, the impact of foreign capital inflows on the development of the national economy and the like. In particular, T. Mayorova, V. Nowicki, A. Peresada, S. Reverchuk, W. Sharp and others have focused on the theory of investment and international features of the investment process. I. Blank, G. Birman, S. Pivovarov, and S. Schmidt have carried out a thorough study of the issues of international investment management. Publications of V. Andriychuk, V. Bozhko, I. Matiushenko, A. Mokiy, M. Fleychuk and others are concerned with the forms and methods of regulation and stimulation of attraction of foreign investments; compliance with investment security; tools of national policy in the field of foreign investments and the nature of its influence on the economic development of the host country. I. Yegorova, Ya. Izmailov, E. Zabarna, A. Zadoia, Yu. Kozak, D. Lukyanenko, I. Sazonets, A. Sukhorukov, V. Tarasevych and others have analyzed the trends, issues, strategic goals and prospects of international investment in Ukraine's economy. However, due to the active search for strategic directions of reforming Ukraine's economy and strengthening the country's position in the global economy there is a need to improve the investment image of Ukraine and to revive foreign investment in key areas of the national economy, which requires the establishment of a systematic analytical framework. The development of measures to enhance the processes of international investment in the Ukrainian economy is only possible on condition of carrying out comprehensive analysis of trends in the intensity of foreign capital flows and the correct choice of priorities for investment of attracted international investment funds with the aim of getting the most value from them for the stabilization and development of the national economy in the future.

Thus, the aim of the study is to analyze the current status, to identify the trends, priorities and strategic ways of enhancing international investment in Ukraine for the development of the national economy.

### **Legislative framework and practice of foreign investment in Ukraine**

In the legislative field of Ukraine foreign investment is referred to as the value invested by foreign investors in objects of investment activity with the aim of obtaining profit or achieving social effect (The Law of Ukraine "On foreign investment regime", 1996). They can be:

- direct, if they are invested by a foreign investor directly in a particular company and involve the participation of the investor in the management of its activities;
- portfolio, if investment is made in securities with the aim of generating income (dividends), but does not provide actual control of the investor over the investee.

Since, according to Ukrainian legislation, a business entity of any organizational-legal form can acquire the status of the enterprise with foreign investments only from the date of admission of foreign investments on its balance sheet, provided that the foreign investment in its authorized capital is not less than 10 %, the majority of these enterprises are considered to be both the object and the result of foreign direct investment. So the share of investment of 10% is often considered to be sufficient to control the invested enterprise, using this percentage as a border (boundary) between direct and portfolio investment.

Ukrainian legislation has also defined a number of forms of foreign investment in Ukraine's economy, namely:

- partial participation in enterprises established jointly with Ukrainian legal entities and individuals, or acquisition of shares of existing enterprises;
- creation of enterprises wholly owned by foreign investors, branches and other subdivisions of foreign legal entities or acquisition of full ownership of existing enterprises;
- the acquisition of real estate or movables that are not prohibited by the laws of Ukraine, including houses, apartments, buildings, equipment, vehicles and other objects of ownership through direct acquisition of property and proprietary complexes or in the form of stocks, bonds and other securities;
- the acquisition of rights to use land and natural resources on the territory of Ukraine independently or with participation of Ukrainian legal entities or individuals;
- economic (business) activities on the basis of production sharing agreements;
- other forms that are not prohibited by law.

In the world economic theory and practice there are several types of foreign investors. They differ in the magnitude of resources managed, the nature and methods of investment decision-making. Among them:

- individual foreign investors, who carry out international investment independently (without intermediaries);
- institutional, that is, financial intermediaries that accumulate funds of individual investors and carry out a specialized international investment activity, as a rule, securities transactions (investment funds and companies, pension funds, insurance companies, mutual funds companies and banks);
- corporate investors, i.e. companies and organizations of various types of economic activities;
- Government as a specific foreign investor.

Defining goals, directions and volumes of investment abroad, foreign investors, to implement their intentions, attract a variety of participants of international investment activity on a contractual basis, i.e. individuals and legal entities that ensure the implementation of foreign investments as executors of orders or instructions of the investor.

In Ukraine, the legal regime of foreign investment is regulated by national legislation and international treaties of Ukraine, which are implemented in the national legislation, once approved by the Verkhovna Rada of Ukraine.

It should be noted that until recently, there were some problems in the Ukrainian investment practice regarding the definition of investment transactions related to intangible assets. In modern Ukrainian legislation there has been some expansion of the regulatory framework by means of defining intangible asset as the one that does not have tangible (physical) shape and structure, provides future economic benefits from its use and can be reliably estimated. There have also been some refinements with respect to investment in tangible and financial assets.

There are two major participants in the process of foreign investment: the donor countries, which are the main suppliers of capital to other countries and recipient countries, to which foreign investments are directed. The process of attracting foreign investment is generally regulated by the state to support the national interest and priority areas of the economy.

A team of experts of World Data Center for Geoinformatics and Sustainable Development (WDC – Ukraine) carried out a fundamental study of economic development of

Ukraine (Zgurovskiy, 2015). As a result of their study, they identified the top five factors affecting the status and prospects of the Ukrainian economy that impede the inflow and effective use of the capitals of foreign investors in Ukraine. Among them:

- the imperfection of the tax system of Ukraine, which leads to the fact that at least half of its economy has been in the "shadow" for a long time. In 2014, the share of the shadow sector in Ukrainian economy reached 50%, in 2015. – 52%, and in 2016 – 47%;
- corruption, which pulls about 14-15% of the funds from the gross domestic product (GDP). In particular, in 2014, the level of corruption burden was estimated at 13.9% of GDP, in 2015- 14.0%, and in 2016 – 13,1%;
- the lack of pension reform and, as a consequence, the inability to get rid of the shortfall in the Pension Fund, which amounted to 7.5% of GDP in 2016. The deficit is covered by the expenditure side of the state budget;
- the problem of servicing the public debt, which arose from the fact that the largest payments to the IMF and the owners of government bonds of Ukraine for loans that were obtained back in 2008-2010, occurred in 2014-2015. This forced the government to resort to restructuring debt to external borrowers that led to the fall in ratings of solvency of Ukraine to critical levels of «Restricted Default» and «CCC». This, in turn, reduced the credibility of Ukraine as a reliable borrower and alienated potential foreign investors;
- high energy intensity of Ukraine's GDP, which is in need of funding and implementation of measures on energy, resource and material saving, hindering positive development in the national economy. Thus, Ukraine consumes 3-5 times more energy per \$ 1 of GDP compared to developed countries (Pasova, 2016 December 29, pp. 1, 4).

For Ukraine, the main emphasis in attracting foreign investments should be made on achieving positive structural changes and the maintenance of the investment component of economic growth (not by increasing external debt, but rather contributing to obtaining funds for its redemption). Based on the data of the Department for Attracting Investments of 15 October 2015, the main tasks for attracting foreign investment into the economy of Ukraine were formulated and published (Department for Attracting Investments, 2016), namely:

- preparing proposals for the formation and implementation of public investment policy, including management of national projects and state policy in the sphere of public-private partnership;
- drafting regulations in the areas of public-private partnership and investment, including public support (care), special regimes, industrial parks, free customs zones of industrial type;
- coordinating activities of Central and local Executive bodies on the formation and implementation of national investment policies, including management of national projects, state policy in the sphere of public-private partnership, preparation and implementation of projects that involve the attraction of foreign loans under state guarantees;
- maintaining the State Register of investment projects and project (investment) proposals, the State Register of investment projects in priority sectors of the economy, the State register of national projects and the Register of industrial parks;
- monitoring and analysis of the efficiency of state support of investment activity;
- providing assessment of economic efficiency of project (investment) proposals and investment projects, expertise and selection of investment projects requiring government support;

- preparation of proposals on creation, reorganization and liquidation of regional centers for investment and development to support investment development of regions and to provide subjects of investment activity with services related to the preparation and implementation of the investment project on the principle of a "single window" (regional centers);

- the implementation of methodological support of activities of the regional centers;
- providing information and consultation for the founders and managers of companies;
- coordination, monitoring and evaluation of implementation of national projects;
- ensuring the implementation of activities, including international, aimed at creating a positive investment image;

- preparation of proposals and ensuring submission of investment projects in priority sectors of the economy for approval by the Cabinet of Ministers of Ukraine with the aim of providing state support to investment activity entities that implement such projects;

- monitoring the implementation of the Law of Ukraine "On stimulation of investment in priority sectors of the economy to create new jobs" (The Law of Ukraine "On stimulation of investment in priority sectors of the economy to create new jobs", 2013, number 32, art.41);

- submitting proposals on the list of state property objects that can be conceded for approval by the Cabinet of Ministers of Ukraine;

- monitoring, compilation, and publication of the results of the implementation of public-private partnerships, including the assessment of the overall risk level of state partner in the agreements concluded within the framework of public-private partnerships;

- monitoring compliance with legislation in the sphere of public-private partnerships, including during the competitions for defining the private partner;

- - preparation of opinions on the expediency of providing state support for implementing public-private partnership regarding state-owned facilities, its shape and volume or on the in expediency of provision of state support;

- - keeping records of contracts concluded under the public-private partnership (Department for Attracting Investments, 2016).

The list of priority sectors of the national economy, defined by the Cabinet of Ministers of Ukraine to promote attracting foreign investments, includes:

- 1) agriculture in the following areas: production, food storage, including baby food and biofuel production, with a focus on import substitution;

- 2) housing and communal services in the following areas:

- creating waste treatment facilities (municipal, industrial and waste formed as a result of mining and processing of mineral resources and the production of electricity and heat);

- construction, reconstruction and technical re-equipment in the field of heating, water supply and sanitation;

- 3) machine-building complex in the following areas: manufacture of new and import-substituting types of computers, electronic and optical products, machinery and equipment, electrical equipment, motor vehicles and other vehicles;

- 4) transport infrastructure in the areas: construction, reconstruction and technical re-equipment in the field of transport infrastructure;

- 5) resort and recreational sphere and tourism in the following areas: construction of resort-recreational objects and tourist facilities;

6) processing industry in the area of import-substituting metal production (The Law of Ukraine "On stimulation of investment in priority sectors of the economy to create new jobs," 2013, number 32, art. 41).

The Portal of World Data Center "Geoinformatics and Sustainable Development"(Foresight, 2016) presents nine clusters of the economy that are a priority for reform and economic development of Ukraine. They were identified using the methods of Delphi and SWOT-analysis. These economic clusters might be interesting for foreign investors and enable the country to successfully integrate into the European and international economy.

The agricultural complex has been ranked first by priority. By 2020, it will be able to contribute to GDP at the level of 19-20%, and by 2030 - at the level of 24%. Ukraine should produce and sell agrarian products highly processed and high value added (including high-quality organic foods that are expensive in foreign markets), preventing the export of unprocessed raw materials (corn, sunflower or rapeseed).

The second place goes to the military industrial complex (MIC). By 2020, it will be able to provide contribution to GDP of 15%, and by 2030, this contribution is expected to grow to 17%. After all, Ukraine is now among the ten largest arms exporters in the world, especially having mobilized its efforts after the beginning of antiterrorist operation in the East of Ukraine.

The cluster of information and communication technologies ranks third in terms of its attractiveness for foreign capital. By 2020, it will be able to contribute to GDP at the level of 9%, and by 2030 – at the level of 12%.

The fourth cluster of the economy, in terms of investment priority for the flow of international capital in Ukraine, is nanotechnology and creation of new substances and materials, for the development and implementation of which there are still scientific schools, powerful laboratories and plants in the appropriate area.

The fifth promising sector for attracting foreign investment to Ukraine is green energy, which will gradually replace hydrocarbons with the so-called clean sources. By 2020, this sector will be able to make a 5% contribution to the GDP, by 2030 - 8%.

The sixth cluster of the economy, in terms of its attractiveness for foreign investment, is high tech engineering with the expected contribution of 5% of GDP by 2020 and 7% by 2030. This cluster spans the space and rocket engineering, aircraft construction, turbine construction, shipbuilding and machine tools. Ukraine has retained a great potential in this industry, but there is a significant loss of foreign markets because of specific geopolitical and geo-economic losses of the country on the world stage.

The seventh cluster, in terms of its attractiveness for inflow of foreign funds, is the development of transit infrastructure. This low position of the industry can be explained by the low level of technological development. By 2020, transit infrastructure contribution to GDP is expected to reach 5%, by 2030. - 7%.

Ukrainian cluster "life science", which includes biomedical engineering, pharmacy, cell medicine and other sciences that increase life expectancy, ranks the eighth, penultimate place, in terms of its attractiveness to foreign investors. Despite the presence of traditionally strong scientific schools in the field of biology and medicine, Ukraine lags far behind developed countries that make huge scientific and technological breakthroughs due to the large capital investment.

Tourism, ranks ninth in terms of the priorities of foreign investment in Ukraine because, in spite of having great potential, it lacks quality management, services and infrastructure (Pasova, 2016 December 29, pp. 1, 4 )

According to the State Statistics Committee of Ukraine, the leading areas of economic activity in Ukraine in terms of attracting capital investment in recent years are: industry, construction, information and telecommunications, agriculture, forestry and fishing, wholesale and retail trade, repair of motor vehicles and motorcycles, transport, storage industry, postal and courier activities and real estate (Foreign investments in modern economy, 2016).

The share of foreign investors in the sources of capital investment is about 4%. However, the main source of investment resources are own funds of enterprises and organizations, whose share is over 60%.

The specific objectives of some foreign investors already present in the Ukrainian investment market often contradict the implementation of priority programs of reforming Ukraine's economy. The structure of the national economy is responsive to the interest of foreign capital foremost in the implementation of projects related to the primary processing and exporting from Ukraine different kinds of raw materials, metals, coal, chemicals and chemical products, etc. to maintain the processing industries and employment in developed countries, including EU Member States. The reason for targeted allocation of capital is the interest of donor countries in the natural resources of the recipient countries to ensure a guaranteed supply of raw materials for their own companies.

At the same time, companies that have certain technological advantages and development prospects, scientific and technical potential and skilled workers are of particular interest to many foreign investors. Unfortunately, while Ukraine is committed to gain access to modern technology via foreign direct investment, Western companies are trying to implement technologies that have already passed half of their life cycle and are not competitive on world markets. Simplicity of consumers of the Ukrainian market provides the opportunity to prolong the life of obsolete and non-profit in the Western market goods. Competitive global corporations are not focused on the development of national production of goods in Ukraine; they are focused on global export strategy. Besides, not very favorable investment climate and high investment risk in Ukraine cause low credibility of Western businessmen. Those foreign investors who are already working in the domestic market of Ukraine are in no hurry to solve the problems and challenges of their Ukrainian partners.

To develop effective measures to improve the interaction of Ukrainian business with foreign investors, we offer to systematize the objectives of foreign investors in Ukraine and the problems they face (Table 1).

Analyzing the dynamics of foreign direct investment in Ukraine and direct foreign investment from Ukraine for 2010-2015 (Table 2), we can argue that the growth in the inflow of foreign capital in Ukraine took place before 2013.

As can be seen from the above data, with the aggravation of the crisis phenomena in the economy in 2014 there was a reduction of foreign investment by 21.05%, and in 2015 – by 5.54%. This was caused by negative macroeconomic factors: the deterioration of the investment climate in the country through the unstable economic situation and the suspension of industrial production in the East of Ukraine as a result of active hostilities in the area.

However, the outflow of capital from Ukraine to other countries was insignificant. Moreover, the volume of direct foreign investments from Ukraine in the period from 2013 to 2015 underwent a gradual reduction (by 3.39% in 2014 and 1.89% in 2015). For the whole period of socio-economic crisis, the outflow of capital from Ukraine was 25.33%, or 14207,5

million USD. National data was calculated without data from the temporarily occupied territories of the Autonomous Republic of Crimea and Sevastopol, as well as part of the zone of the antiterrorist operation.

Table 1

**The objectives of foreign investors in Ukraine and the problems they face**

<b>The objectives of foreign investors in Ukraine</b>	<b>The problems foreign investors face in Ukraine</b>
1. Obtaining high profits when creating enterprises for producing products, which Ukraine lacks, or the domestic prices for which are high enough	1. Unstable legislation of the recipient country and the imperfect mechanism for implementing existing legal provisions in practice
2. Using relatively cheap (but skilled) labor and raw materials	2. Lack of guarantees for protection of rights of foreign investors because of the high level of corruption, including corruption in the court system
3. Involving Ukrainian enterprises in technological chains of foreign companies for the purchase of Ukrainian supplies of raw materials and semi-finished products	3. The lack of transparency in licensing procedures
4. Acquisition of potentially effective Ukrainian enterprises (typically export oriented) at a low price in order to obtain a high level of profit after limited investments in creation of distribution system, implementation of marketing activities and improvement of the product range	4. Inconsistent, frequently changing tax and customs policy
5. Promotion of their production on the domestic market of Ukraine by investing in the establishment of sales networks, service companies and assembly plants	5. Inadequate insurance coverage of international investment and business activity in Ukraine
6. Using outdated or environmentally harmful equipment which cannot be used in developed countries	6. The lack of visa-free border crossing with EU countries
7. Investment of funds of Ukrainian origin, under the guise of foreign ones, to have more opportunities to protect the capital from the authorities	7. Poor infrastructure, relatively weak banking and financial system
8. Obtaining high profits through energy efficiency and energy saving technologies	8. Economic and political instability



**Compiled by the sources:** (Kozak, Lukyanenko, & Makogon (2004, pp.130-135); Bilotserkivets et al. (2012, pp.185-189); Sukhorukov, Sobkevych, (2015, March, pp. 193-205); Yegorova, Matukova, Izmailov, Kutsenko, Matsyura, (2010, pp. 171 189)).

Table 2

**Dynamics of foreign direct investment to Ukraine (foreign capital inflows) and direct foreign investment from Ukraine (outflow of capital) for 2010-2015, mln. USD**

Indicators	Years					
	2010	2011	2012	2013	2014	2015
Foreign direct investment in Ukraine (foreign capital inflows):	44708,0	49362,3	54462,4	58156,9	45916,0	43371,4
- the amount, mln. USD;						
- absolute growth to the previous year, mln. USD;	+4681,2	+4654,3	+5100,1	+3694,5	-12240,9	-2544,6
- relative increment to the previous year, %	+11,70	+10,41	+10,33	+6,78	-21,05	-5,54
Direct foreign investments from Ukraine (foreign capital outflow):	6871,1	6898,0	6481,9	6575,3	6352,2	6232,0
- the amount, mln. USD;						
- absolute growth to the previous year, mln. USD;	+647,8	+26,9	-416,1	+93,4	-223,1	-120,2
- relative increment to the previous year, %	+10,41	+0,39	-6,03	+1,44	-3,39	-1,89

Source: Foreign direct investment from the world economy in Ukraine (2016)

Ukraine remains in the list of 30 countries that are looking to raise capital. However, in recent years, Ukraine has failed to obtain the required level of foreign investments and use them effectively for structural change and economic development (Zadoia, Tarasevych, 2012, pp. 188).

In the ranking of investment attractiveness of the countries of the World International Business Compass for 2015, published by BDO, Ukraine climbed 20 positions in a year in the ranking and was on the 89 place, being among the countries that showed the best growth per year, on a par with Belarus and Latvia. In 2014, our country ranked 109. ( State investment in Ukraine, 2016).

The largest foreign investors in Ukraine in recent years are: Cyprus, Germany, Netherlands, Russia, Austria, Virgin Islands, and Belize (Tab. 3).

Large capital inflows in Ukraine (approximately 40% of total foreign investments) from three offshore zones – Cyprus, Virgin Islands and Belize, which have been going on for a long time, have a certain explanation. After all, the founders of Cypriot firms that invest in Ukraine are Ukrainian citizens who accumulate capital withdrawn from Ukraine to Cyprus. Offshore operations occur, as a rule, because there is a possibility of illegal export of capital. That's why; part of invested foreign capital must be regarded as return of funds of national investors for investment purposes, bypassing the existing legislation. Moreover, Ukrainian

capital is invested in the same countries: Cyprus, Russia, Latvia, Virgin Islands, Poland and other countries.

Table 3

**Foreign direct investment (equity capital) from the world countries in the economy of Ukraine for 2011-2015**

Investor countries	The amount of foreign direct investment by years, mln. USD					In % to the total 01.01.2016
	2011	2012	2013	2014	2015	
Total	49362,3	54462,4	58156,9	45916,0	43371,4	100,0
including:						
Cyprus	12645,5	17275,1	19035,9	13710,6	11744,9	27,1
Germany	7386,4	6317,0	6291,8	5720,5	5414,3	12,5
Netherlands	4822,8	5168,6	5561,5	5111,5	5610,7	12,9
Russian Federation	3594,5	3785,8	4287,4	2724,3	3392,1	7,8
Austria	3423,1	3401,4	3257,5	2526,4	2402,4	5,5
UK	2508,2	2556,5	2714,1	2145,5	1852,5	4,3
Virgin Islands	2230,7	1884,9	2493,5	1997,7	1798,9	4,1
France	1744,0	1765,3	1825,8	1614,7	1528,1	3,5
Switzerland	1607,0	1600,1	1325,4	1390,6	1364,2	3,1
Italy	1043,1	1106,2	1267,8	999,1	972,4	2,2
USA	965,9	1015,9	1055,6	862,3	698,9	1,6
Poland	960,3	936,7	991,1	831,2	785,9	1,8
Belize	875,5	916,4	845,4	642,4	547,2	1,3
Other countries	5555,3	6732,5	7204,1	5639,2	5258,9	12,3

Source: Foreign direct investment from the world economy in Ukraine, 2016

The largest multinational companies investing in Ukraine are: Mittal Steel, Siemens, Volkswagen, Jabil Circuit and Electronics, Sony, Panasonic, TNK-BP, Coca-Cola, Cargill, Carlsberg, Sun Interbrew, Kraft Foods, Nestle, Phillip Morris, Reemtsma, Raiffeisen Bank, Erste Bank, HVB, ING Bank, BNP Paribas, EFG Group, McDonalds, Metro, Cash & Carry, Billa and others (Molchalova, 2012, pp. 6-11).

Among regions of Ukraine the largest share of foreign investments as of 01.01.2016 comes to the city of Kyiv (22733 million USD), Kyiv region (1653,8 million USD), Dnipropetrovs'k region (7758,7 million USD), Donetsk region (2550,4 million USD), Kharkiv region (1726 million USD), Odessa region (1432,5 million USD) and Lviv region (1374,9 million USD) (The investment climate in Ukraine, 2016).

Thus, the main trends of international investments in the Ukrainian economy include:

- due to the high level of investment risks strategic foreign investors are reluctant to invest in Ukraine, taking a wait and see attitude;
- the uneven distribution of foreign investment in individual areas of Ukraine, their concentration in industrial centers of Ukraine;

- the decline in foreign investment due to the deterioration of the socio-economic situation in the country and the fall of the investment attractiveness of the regions in the East of Ukraine due to combat actions on the territory;
- the concentration of foreign capital flows in sectors and economic activities with insignificant payback period;
- the orientation of the part of foreign investors to the development of production of goods and services, with which the world markets are almost saturated;
- limited amounts of foreign capital investment aimed at its rapid rotation or at benefit from the investment brokerage operations due to lack of reliable safeguards to protect the rights of foreign investors;
- insufficiently developed system of insurance of foreign investments;
- lack of transparent mechanisms for tax and other motivated forms of stimulation of inflow of foreign investments into the country;
- problems in the banking sector of Ukraine's economy, which cause poor use of financial market mechanisms for joint investments.

Ukraine has taken some positive steps aimed at improving the investment climate and competitiveness of the national economy, namely:

1. the legal framework for investment and development of public-private partnership has been established, guarantees of activity for investors, economic and organizational basis for implementation of public-private partnership in Ukraine have been legally defined;
2. the application of national treatment to investment activities of foreign investors in Ukraine, i.e. a level playing field for foreign and domestic investors;
3. foreign investments in Ukraine are not subject to nationalization;
4. to improve the protection of foreign investments, the Law of Ukraine of 16.03.2000 number 1547 ratified the Washington Convention of 1965 on the Settlement of Investment Disputes between States and Nationals of Other Countries;
5. the intergovernmental agreement on promotion and mutual protection of investments with more than 70 countries has been signed and ratified by the Verkhovna Rada of Ukraine (The investment climate in Ukraine, 2016);
6. sixteen inefficient regulatory restrictions have been canceled to stimulate investment;
7. the system of land lease has been harmonized; the deadlines for registering businesses of no more than two days have been set; issuance of permits through the centers of administrative services has been implemented;
8. the Action Plan on deregulation and the simplification of the regulatory framework, aimed at elimination of excessive administrative regulation of economic activities and creation of favorable conditions for business has been approved;
9. the ineffective certification in the agricultural sector and mandatory monitoring the implementation of special conditions of subsoil use, opening significant opportunities for corruption have been canceled;
10. the adaptation of Ukrainian legislation to the European legislation and appropriate protection of minority shareholders has been ensured;
11. the validity and transparency of decisions on financing public investment projects, efficient use of public funds and the impact of public investment projects have been ensured;
12. plans for the implementation of certain acts of EU legislation in the field of intellectual property have been approved;

13. to confirm compliance of Ukrainian technical regulation system with the EU requirements, a unified legal and institutional framework for the development, adoption and application of technical regulations and conformity assessment procedures has been established ;

14. guidelines to ensure transparency regarding the activities of entities of public sector of economy have been approved;

15. the monopoly position of the SE "Ukrecoresursy" has been eliminated;

16. the Procedure for drafting, approval and monitoring the implementation of the financial plan of a business entity of the public sector has been introduced;

17. the basic standard for deduction of share of profit used for dividend payments by results of financial and economic activity in 2014 of economic companies, whose authorized capital includes state corporate rights, was approved;

18. the conditions to conduct high quality and independent audits of the largest state companies have been provided;

19. the business intelligence module, which provides citizens with online access to information about the procurement ([bi.prozorro.org](http://bi.prozorro.org)), has been launched to the public along with community organizations and business;

20. a help-desk ([help.vdz.ua](http://help.vdz.ua)) to support customers and participants of public procurement, which enables constant, fast and professional support on issues of public procurement, has been launched;

21. state support of implementation of investment projects in priority sectors of the economy, in particular, by the exemption of import duty on importation of a specified list of goods required for such projects, and the postponement of VAT payment (60 days) in respect of the imported goods on the basis of promissory notes, has been provided;

22. state support for the creation of industrial parks and implementation of projects within these parks has been provided;

23. media support for the formation of positive investment image of Ukraine by means of production and distribution on the Internet, including official web-sites of embassies of Ukraine abroad, information materials called "Invest Ukraine open for U!", the video "Invest Ukraine!", issue number 2 of video blog featuring Minister of Economic Development, which is devoted to the creation of a favorable investment climate and so on., has been provided.

However, these positive steps have not been sufficient to radically increase the investment attractiveness of Ukraine in the international capital market.

Therefore, we propose a set of policy measures to attract and effectively use foreign investment for the economic development of Ukraine:

- taking into account the experience of attracting foreign direct investment in Central and Eastern Europe to prevent the possibility of adverse effects as a result of implementing foreign investors' investment strategies that may not meet the national interests of the host country;

- the formation of a clear strategy for increasing the investment attractiveness of Ukraine in accordance with the selected scenario of the national economy development in future;

- long-term invariance of the main legislative provisions regarding the conditions for making foreign investments in Ukraine, focusing on the liberalization of the investment regime and guarantees of protection of foreign investments;

- using selective (differential) approach to tax and other kinds of international investment stimulation given the scale of foreign capital inflows, types, forms, investment areas and economic development priorities of Ukraine;
- carrying on systematic implementation of the initiated reforms aimed at deregulation and simplification of business conditions, creation of favorable investment climate, investor protection and development of public-private partnerships;
- providing political and socio-economic stability in society, focusing on negotiations to end armed conflict in Eastern Ukraine;
- the implementation of a consistent anti-inflationary, monetary, foreign economic policy and competent regulation of the exchange rate to create international competitive advantages of Ukraine;
- the radicalization of the fight against crime and corruption in economic and investment spheres;  
the cessation of the undue diversion of capital from the country;
- conducting a comprehensive reform of the judicial and law enforcement systems;
- active development of information support in the field of international investments;
- creation of favorable conditions for inflow of foreign capital in the sectors of national economy, where it is necessary and expedient to introduce innovative and energy-efficient technologies, to create new jobs in certain areas and regions of Ukraine;
- carrying on the practice of concluding intergovernmental agreements on the promotion and protection of international investments and avoidance of double taxation;
- participation in international events to demonstrate investment opportunities in Ukraine;
- development of efficient financial, banking, insurance and other infrastructure for foreign business and investment.

### **Conclusions and suggestions**

Based on careful consideration of the legal framework, the analysis of statistical information and a systematic review of the existing scientific views on the implementation of international investment into the economy of Ukraine we have found out that:

- the major factors that hinder attracting foreign investments in Ukraine are: imperfect tax system of Ukraine, corruption, lack of pension reform, the problem of servicing the public debt and high energy intensity of GDP in Ukraine;
- foreign capital flows should be directed at achieving positive structural changes and providing investment component of economic growth;
- the priority sectors of the national economy that require foreign investment at the government level are : agro-industrial, housing-and-municipal, machine-building complex, transport infrastructure, resort and recreational sphere and tourism, the processing industry;
- According to the rating presented on a portal of the World Data Center "Geoinformatics and Sustainable Development", the agricultural complex is ranked first in terms of its attractiveness for foreign investors and at the same time priority for reforming the economy of Ukraine, the military-industrial complex is ranked second, information and communication technologies - third, nanotechnology and the creation of new substances and materials - fourth, green energy - fifth, high-tech engineering - sixth, the development of transit infrastructure - seventh, cluster "Life Sciences"- eighth and tourism - ninth;

- according to statistics, the largest amount of foreign investment is in industry, construction, information and telecommunications industry;
- the share of foreign investors in the sources of financing of capital investments in Ukraine is about 4%;
- the objectives of a certain part of foreign investors that are already present on the Ukrainian investment market, often come into conflict with the implementation of the priority programs of reforming Ukraine's economy;
- despite not very favorable investment climate in Ukraine, foreign investors often face the following challenges: unstable legislation of the host country and the imperfect mechanism for implementing existing legal norms in practice, failure to protect the rights of foreign investors due to the high level of corruption, lack of transparency in licensing and license procedures, inconsistent, frequently changing tax and customs policy, insufficient insurance coverage of international investment and business activity in Ukraine, the absence of visa free travel with EU countries, poor infrastructure, relatively weak banking and financial system, economic and political instability;
- the largest foreign investors in the Ukrainian economy in recent years are: Cyprus, Germany, Netherlands, Russian Federation, Austria, Virgin Islands, and Belize;
- Ukrainian capital is invested in almost the same countries: Cyprus, Russia, Latvia, Virgin Islands, and Poland;
- starting in 2014 there has been a downward trend in foreign investment flows in Ukraine and the structure of international investment has not been perfect either;
- - a number of positive steps in the investment field taken by Ukraine have been insufficient to dramatically increase the investment attractiveness of Ukraine in the international capital market.

The proposed set of strategic actions is expected to enhance the efficiency and impact of national investment policy to improve the amount and quality of international investment, effective use of resource potential and development of economy of Ukraine on innovative basis.

Further study of this issue should be aimed at forming and justifying a strategy of enhancing the inflow of foreign capital into the economy of Ukraine to implement structural reforms and provide a new impetus to the economic development of Ukraine based on the experience of the countries of Central and Eastern Europe.

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