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ANALYSIS OF THE INVESTMENT ATTRACTIVENESS OF UKRAINE

АНАЛІЗ ІНВЕСТИЦІЙНОЇ ПРИВАБЛИВОСТІ УКРАЇНИ

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The article is devoted to the issues of investment attractiveness of Ukraine in the context of economic recovery after the Russian-Ukrainian war. The main objective of the article is to assess the current state of investment attractiveness of the national economy and to identify priority areas for its improvement. The use of innovative research methods in assessing the investment attractiveness of the national economy is a fundamental element for building an up-to-date model for its improvement. As a result, an increase in foreign direct investment flows into the country's priority sectors will allow the national economy to recover on the principle of "build-back better", which is in line with Ukraine's short-term priorities. The innovative component of these investments, in turn, will make a great contribution to the long-term economic development of the country even after the return of the pre-war level of the economy, creating additional jobs and promoting high-tech exports. The main issues of the methodology for analyzing the investment attractiveness of the country are revealed. The indicators for assessing investment attractiveness using the indices of rating agencies are detailed.

Keywords: investment, investment attractiveness, investment potential, economy, economic recovery.

Стаття присвячена питанням інвестиційної привабливості України в умовах відновлення економіки після російсько-української війни. Основною метою статті є оцінка сучасного стану інвестиційної привабливості національної економіки та визначення пріоритетних напрямів її покращення. Використання інноваційних методів дослідження в оцінці інвестиційної привабливості національної економіки є фундаментальним елементом для побудови сучасної моделі її покращення. Як наслідок, збільшення потоків прямих іноземних інвестицій у пріоритетні галузі країни дозволить відновити національну економіку за принципом "build-back better", що відповідає короткостроковим пріоритетам України. Інноваційна складова цих інвестицій, у свою чергу, зробить великий внесок у довгостроковий економічний розвиток країни навіть після повернення довоєнного рівня економіки, створюючи додаткові робочі місця та сприяючи високотехнологічному експорту. Розкрито основні питання методології аналізу інвестиційної привабливості країни. Деталізовано показники оцінки інвестиційної привабливості з використанням індексів рейтингових агентств. У статті запропоновано рішення щодо підвищення інвестиційної привабливості ключових секторів економіки України в умовах післявоєнного відродження після російсько-українського конфлікту, що узгоджується з цілями економічного зростання. Для вирішення поставлених у статті завдань використано низку методів дослідження, зокрема діалектичний та абстрактно-логічний підходи, методи узагальнення та систематизації для вивчення концепції інвестиційної привабливості, а також методи групування, порівняння та математичної статистики для аналізу інвестиційної привабливості України. На основі отриманих результатів можна зробити висновок про потенційні можливості країни у залученні інвестицій для забезпечення сталого економічного зростання. Наприкінці, зазначимо, що постійний моніторинг та аналіз інвестиційної привабливості країни є важливою умовою для успішного розвитку національної економіки в умовах глобальних викликів.

Ключові слова: інвестиції, інвестиційна привабливість, інвестиційний потенціал, економіка, економічне відновлення.

Problem statement. In today's environment of intensified international economic relations, investment attractiveness is a crucial factor in the progress of a country's economic development. Attracting investment contributes to the accelerated modernization of key sectors of the economy and the creation of new jobs. The issue of studying investment attractiveness becomes especially important in the context of a shortage of public funds in Ukraine during the recovery of the country's economy after our victory. During this period, a significant number of enterprises located throughout the country lost their production capacity due to disruptions in supply chains, and enterprises located in the war zones lost significant assets.

The state support program is unable to fully compensate for these losses due to the ever-growing volume of the latter. The decline in corporate profits is leading to an aggravation of the economic situation in the country as a whole. Attracting additional investment resources can help restore the country's economic environment and ensure further development [1, p. 84].

The war has a significant negative impact on investment flows to Ukraine in general. Corruption, lack of trust in the judiciary, unpredictable exchange rates, and an unstable economic and political situation are causing a decline in investment flows. Despite this, Ukraine has a number of economic sectors with potential for investors. First and foremost, it is the agricultural sector, as well as the production of agricultural machinery, alternative energy and information technology.

Despite the fact that foreign investment in Ukraine has declined, there are still prospects for its development. In order to boost foreign investment, in addition to ending the war in Ukraine, it is necessary to create a favorable business environment for investors, simplify the procedures for registering and doing business, and abolish outdated regulations.

Analysis of the latest research and publications. The essence of investment attractiveness in economic science has been studied by such scholars as P. Drucker, J. Keynes, F. Kene, M. Porter, R. Rogers, A. Smith, P. Samuelson, K. Freeman, J. Schumpeter, and others. Theoretical approaches and methodological developments of investment attractiveness assessment are disclosed in the scientific works of Ukrainian scientists, in particular: I. Blank, I. Vinnichenko, A. Voynarenko, A. Gaidutskiy, O. Galchynskiy, O. Gudzynskiy, M. Demyanenko, V. Ivanyshyn, M. Kisil, O. Kozak, M. Koretskiy,

S. Kravchenko, G. Mostovyi, O. Nepochatenko, O. Savchenko, O. Oliynyk, O. Prokopenko, O. Skydan, etc.

Identification of previously unresolved parts of the overall problem. The largest war in the twenty-first century has caused significant losses to Ukraine's economy, and its recovery is a newly emerging research topic. Analyzing Ukraine's investment attractiveness before the war makes it possible to identify the traditional problems that need to be solved when attracting investment to rebuild an innovation-oriented economy. In addition, Ukraine's prospects for joining the European community of developed countries require that the country meet the Copenhagen criteria, which can be partially achieved through a high level of investment attractiveness of the national economy. The problem of studying the level of investment attractiveness of the state's economy is revealed in the scientific works of both foreign and domestic scholars, but needs to be further developed.

The purpose of the article is to identify and substantiate the ways to improve the investment attractiveness of Ukraine.

Summary of the main research material. The investment environment can be studied at the macro and micro levels. At the same time, the macroeconomic environment is formed by variable factors that stimulate or discourage investment in the national economy. These factors include: economic, political, environmental, and socio-cultural. Macro- and micro-level factors also have a significant impact on the investment behavior of investors [2, p. 39].

In the studies of scholars from different countries, most components of investment attractiveness or competitiveness of countries are traditional (economic, socio-cultural, political, technological, innovative, natural, image) and are used in different configurations. Determining a universal list of indicators of a country's attractiveness is a difficult task. It becomes even more difficult because the same factors may be more or less important for different investors in terms of specific economic activities.

The specification of methodological approaches to assessing the level of investment attractiveness of the national economy through the prism of rating assessments of various agencies becomes a prerequisite for the formation of modern methods of regulating this process and is a fundamental element of the model of successful attraction of investment capital. The investment attractiveness of the State can

be assessed using the system of indicators of various international rating agencies, namely:

- Ease of Doing Business Index;
- Global Competitiveness Index;
- EBA Investment Attractiveness Index.

The Doing Business Index is compiled by the World Bank. It assesses the level of business regulation and the ease of doing business in various countries around the world. The index takes into account such aspects as company registration procedures, obtaining construction permits, obtaining loans, investor protection, taxation, and others. The Global Competitiveness Index is a ranking compiled by the World Economic Forum (WEF). It measures the competitiveness of countries in terms of their economic, technological and institutional capabilities. The index takes into account various factors such as infrastructure, education, innovation, market conditions, macroeconomic stability, and others. The EBA (European Business Association) Investment Attractiveness Index is an assessment tool used to determine the attractiveness of countries for investors. This index assesses key aspects such as political stability, economic development, business climate, corruption and other factors that may affect investment decisions.

Let's analyze the dynamics of these indexes in Table 1.

As of the current year, Ukraine has seen a decline in investment attractiveness due to large-scale war in the country. Thus, the level of investment attractiveness of the Ukrainian economy in the second half of 2022 is 2.48 points, which corresponds to the value of this economic indicator during the COVID-19 pandemic. According to the European Business Association, military operations on the territory of the state are the first among the possible factors that could negatively affect the level of investment

attractiveness of the state. The second place is occupied by military attacks on the country's energy system, which significantly complicate and sometimes make it impossible to do business, and the third is corruption at various levels.

However, in addition to the negative factors, there are several positive developments towards a high level of investment attractiveness of the Ukrainian economy during active hostilities. For example, according to a survey of EBA member companies, such a factor may be the granting of Ukraine the status of a candidate for accession to the European Union and high investor expectations for in-depth reforms against the background of the terms of international financial assistance agreements with Ukraine, such as the IMF EFF.

In the current context of globalization and internationalization of countries, regions, and economic systems, international investment cooperation is of particular importance, allowing enterprises to attract new production and management technologies, produce innovative competitive products, and expand export opportunities for national goods and services. Improving investment attractiveness, increasing the volume of investment capital, diversifying investment sources and related risks, as well as providing resources and innovation for the development of certain economic sectors will contribute to the growth of high value-added production. Thus, the positive dynamics of attracting investment capital is an incentive for the growth of incomes of the state's population, which reproduces investment flows.

The experience of developed countries shows that active participation in international capital flows strengthens the economic stability of recipient countries and contributes to higher rates of development. In this regard, in the global aspect of the investment process, the movement

Table 1

Ratings of investment attractiveness of the Ukrainian economy

Index	Estimation	Year					
		2012	2014	2016	2018	2020	2022
Ease of Doing Business Index	Rating	142	152	112	83	76	-
	Max value	183	183	189	180	190	-
Global Competitiveness Index	Rating	89	73	76	85	-	-
	Max value	139	144	144	138	-	-
EBA Investment Attractiveness Index	Rating	2,15	2,65	2,87	3,07	2,40	2,48
	Max value	5,00	5,00	5,00	5,00	5,00	5,00

Source: compiled by the authors on the basis of [3–5]

of foreign direct investment is of the greatest interest [6, p. 133].

Ukraine's strategic partner and largest foreign investor is the European Union (EU). In discussions about the priority of Ukraine's European choice, its movement toward European integration and accession to the EU, the main argument is the growth of investment. Investment and economic cooperation is extremely important both for Ukraine's border regions bordering the EU and for other regions with potential for growth. Foreign companies have significant financial resources to invest in attractive investment projects.

In addition, the EU countries have extensive experience in ensuring sustainable development, which can be implemented in investment-attractive sectors of the country. Sustainable development and investment attractiveness are inextricably linked. Investors are increasingly recognizing that sustainable practices not only meet ethical considerations but also contribute to long-term economic stability and profitability. For investment-attractive industries, it is necessary to correctly formulate priorities that will contribute to further accelerated and innovative development of the country in these areas. The link between economic growth and the environment is a major challenge to achieving sustainable development goals, as intensive economic activity causes environmental problems that negatively affect sustainable development. Therefore, when building state projects to restore economic sectors, it is necessary to take into account the environmental

factor, which is part of the "build-back better" principle [2, p. 45].

The analysis of foreign direct investment in Ukraine shows its unevenness. Differences in the distribution of foreign direct investment flows in the global economy depend on the availability of resources in the country, its industrial development and agglomerations of large cities, and economic prospects for cooperation with other countries. An equally important aspect of foreign investment flows is the area of their destination. The correspondence of the investment destination to the priorities of the national development strategy is an indicator of the "quality" of investments and an assessment of the state policy on attracting investments. In Ukraine's economy before the war, the most attractive areas for investment were industry, agriculture, financial and insurance activities, and trade (Figure 1).

Given the focus of the country's economic recovery strategy on high-tech production, the state of the scientific and ICT spheres is an equally important factor that promotes research, innovative development and its implementation at domestic enterprises, especially in the manufacturing sector, which also stimulates the development of Industry 4.0 technologies. In Ukraine, there has been a tendency in recent years to reduce the investment attractiveness of innovative areas. It should be noted that the largest amount of investment in the IT sector was attracted in 2020, which can be explained by the rapid growth in demand for IT services

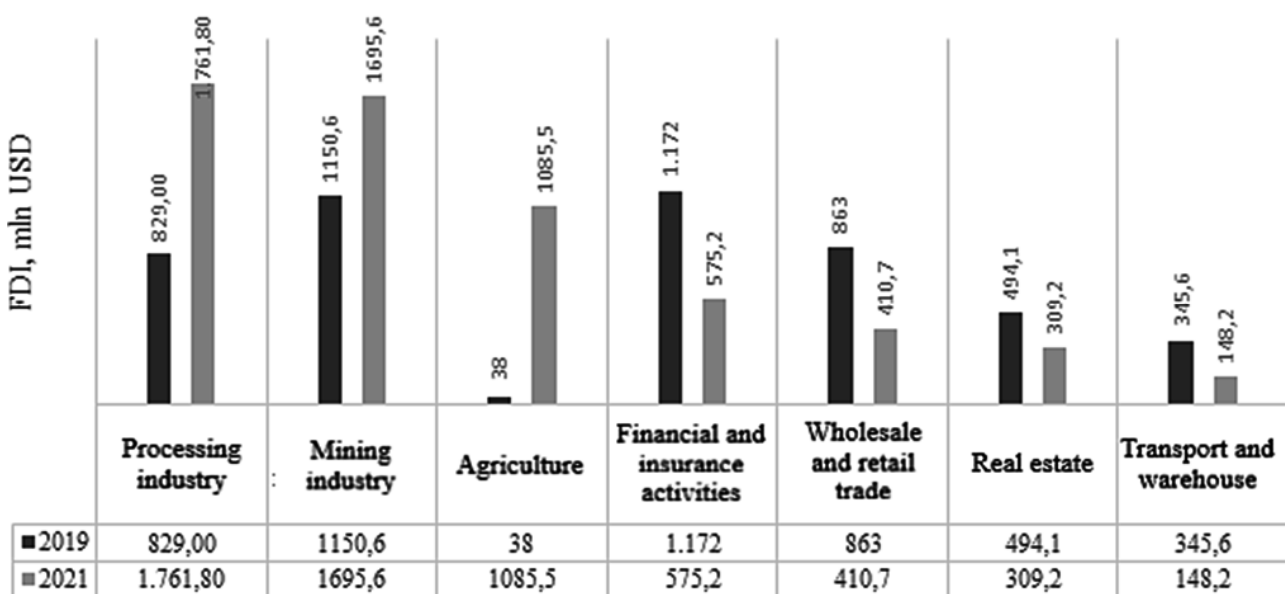


Figure 1. Structure of FDI by type of economic activity in 2019, 2021, USD million

Source: compiled by the authors on the basis of [7]

during the quarantine restrictions. Unfortunately, this trend did not continue after the restrictive measures were lifted. Given the priorities of the post-war economy and the need to rebuild it on the basis of high-tech production, it is necessary to develop solutions to increase the investment attractiveness of the IT sector and scientific activities in Ukraine.

Conclsions. Based on the analysis of Ukraine's investment attractiveness, the following steps can be taken to improve it:

1. Implementation of reforms, especially in the areas of the judiciary and private property, as envisaged by international agreements on financial assistance to Ukraine, which will bring

Ukraine's legislation and market regulation closer to EU standards and increase investors' confidence in protecting their rights.

2. Focusing recovery projects on high-tech production, which will facilitate the creation of products with higher added value and open up more opportunities for attracting investment in the economy.

3. Taking into account a sustainable approach to economic recovery, which will take into account economic, social and environmental development, meet modern standards of building economies of developed countries and, accordingly, increase the investment attractiveness of Ukraine for foreign investors.

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