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ATTRACTION OF FOREIGN INVESTMENTS AS AN ELEMENT OF ECONOMIC DIPLOMACY

ЗАЛУЧЕННЯ ІНОЗЕМНИХ ІНВЕСТИЦІЙ ЯК ЕЛЕМЕНТ ЕКОНОМІЧНОЇ ДИПЛОМАТІЇ

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The present article provides an analysis of the processes and features of attracting foreign direct investment as an important element of economic diplomacy, with a view to increasing the attractiveness and competitiveness of the country. This study examines the international experience of attracting foreign capital, with particular reference to the American, European, Asian and Arab investment models. An analysis of global foreign direct investment in 2023 was conducted, including the inflow of foreign investment in the top twenty countries. The article goes on to consider the economic diplomacy practised by a number of countries, including the United Kingdom, paying particular attention to the challenges currently affecting the investment attractiveness of Ukraine. It is noted that despite military threats, Ukraine has the potential to attract investment in strategic sectors. The authors propose mechanisms for intensifying investment processes in Ukraine within the framework of economic diplomacy, including improvement of legal regulation, development of public-private partnerships, and introduction of risk insurance mechanisms to increase trust on the part of foreign partners.

Keywords: economic diplomacy, foreign direct investment, investment attractiveness, investment project, mechanism for attracting foreign investment.

Стаття присвячена дослідженню процесів та особливостей залучення прямих іноземних інвестицій як важливого елемента економічної дипломатії, що сприяє підвищенню привабливості та зміцненню конкурентоспроможності країни. Розглянуто роль економічної дипломатії у створенні сприятливого інвестиційного клімату, розширенні торговельно-економічних зв'язків та активізації міжнародного співробітництва. Проаналізовано міжнародний досвід залучення іноземного капіталу, зокрема американську, європейську, азійську та арабську моделі інвестування. Методологічну основу дослідження становлять системний підхід, порівняльний аналіз

міжнародних практик залучення інвестицій та аналіз базових засад, що стосуються економічної дипломатії. Доведено, що для створення сприятливого інвестиційного клімату потрібно застосовувати заходи економічної дипломатії, зокрема комплексну політику держави, яка охоплює надання податкових та митних преференцій, спрощення адміністративних процедур, розбудову сучасної інфраструктури та розширення міжнародної співпраці. Проведено аналіз глобальних прямих іноземних інвестицій у 2023 році, зокрема приплив іноземних інвестицій у двадцяти країнах-лідерах. Розглянуто практику економічної дипломатії окремих країн світу, зокрема Великої Британії. Окрема увага приділена сучасним викликам, що впливають на інвестиційну привабливість України. Зазначено, що попри воєнні загрози, Україні володіє потенціалом для залучення інвестицій у стратегічні галузі. Запропоновано механізми активізації інвестиційних процесів в Україні в контексті економічної дипломатії, серед яких удосконалення правового регулювання, розвиток державно-приватного партнерства, запровадження механізмів страхування ризиків для іноземних інвесторів для підвищення довіри з боку іноземних партнерів. Практична цінність статті полягає у визначенні пріоритетних заходів політики залучення прямих іноземних інвестицій як напряму економічної дипломатії, що можуть бути використані у процесі реформування економічної стратегії України та інтегрування до глобального інвестиційного простору.

Ключові слова: економічна дипломатія, прямі іноземні інвестиції, інвестиційна привабливість, інвестиційний проєкт, механізм залучення іноземних інвестицій.

Formulation of the problem. In the contemporary global context, foreign investment is recognised not only as a form of international economic relations and a source of economic development, but also as a pivotal element of economic diplomacy. Economic diplomacy, in its capacity as a crucial mechanism of public administration, serves to enhance the competitiveness of nations in the context of globalisation processes and the intricate challenges posed by the international environment. The role of economic diplomacy is multifaceted, encompassing the development of interstate trade and economic contacts, the expansion of domestic product markets in the global context, the attraction of foreign investment, the intensification of international innovation and technological cooperation, the deepening of multilateral economic cooperation, and the facilitation of cooperation with international organisations.

Analysis of recent research and publications. The Public Diplomacy Strategy of the Ministry of Foreign Affairs of Ukraine sets out among the objectives the dissemination of information and promotion of Ukraine's investment, tourism and export potential through the utilisation of public diplomacy tools and means. The dimensions of the work of public diplomacy actors in the field of economic diplomacy are defined as follows [1]: 1) the dissemination of information to international business circles and potential foreign partners regarding investment and export opportunities, positive results of economic reforms, and the improvement of business conditions in Ukraine; 2) the conducting of information campaigns and events with the aim of creating and maintaining a positive tourist image of the state, as well as other

measures approved by the general directives of economic diplomacy departments.

Yu. Fedotova highlights the interconnected nature of economic diplomacy and business, asserting that contemporary economic diplomacy is distinguished by the involvement of national business representatives in decision-making processes concerning the utilisation of specific levers by governments. Consequently, the position of the private sector can exert influence on negotiation processes, thereby shaping the country's standing on the global stage [2].

In their work, N. Levchenko and L. Antonova explore the nexus between economic diplomacy and the broader context of world order and national security. They contend that within academic discourse, economic diplomacy is predominantly regarded as a means, a tool, and an activity primarily employed by state structures. However, the true essence of economic diplomacy is most fully revealed in its role as a unifying force in the foreign economic sphere. This unification, as the authors argue, occurs through the collaborative efforts of both state and non-state actors. The primary objective of this coordination is to ensure the stability, international order and national security of the state in the face of the perpetual transformational shifts occurring within the global economy [3]. In another study, O. Mamalyha combined economic diplomacy with decision-making processes at the level of governments or international organisations, emphasising the need for its use in international business [4, p. 111].

Identification of previously unresolved parts of the overall problem. In the context of the significant role of economic diplomacy in attracting and utilising foreign direct investment, it is imperative to examine the distinctive

characteristics and mechanisms that facilitate the attraction of foreign capital to the economies of the world's leading nations. This is particularly relevant for Ukraine, as it is anticipated that the country will undergo a substantial reconstruction process in the aftermath of the war initiated by the Russian aggressor. This reconstruction is poised to have a profound impact not only on modern Europe but also on the global landscape. The scale and complexity of modernisation processes necessitates substantial financial resources, which, it is anticipated, will exceed the capacities of domestic resources alone as well as of those resulting from the assistance of international partners. Consequently, the need to attract foreign private investors is paramount. This objective, however, is rendered challenging by the ongoing military invasion, which hinders the ability to effectively engage with potential investors. Nonetheless, it is crucial to commence preparations for the attraction of foreign investment in the present context.

Formulation of the goals of the article (Setting objectives). The purpose of the present article is to examine the processes and specific features of attracting foreign investment by different countries of the world as an element of economic diplomacy, in order to find opportunities to use the positive global experience.

Presentation of the main research material. In accordance with established global practice, the state assumes responsibility for the establishment of a number of economic incentives, the provision of political, economic, defence and environmental guarantees, and the supervision of foreign investment. State supervision of foreign investment is guided by the principle of mutual responsibility between foreign investors and relevant state authorities [5]. This principle is manifested in the following ways:

- observance and respect for the basic rights and freedoms of foreign investors.
- provision for liability for violation of legislative norms or provisions of international agreements.
- encouragement of foreign investors to invest in priority projects and programmes.
- improvement of legislation on foreign investment.

International experience demonstrates several models that describe a comprehensive set of tools to influence foreign investment processes. These include the American, Asian, European and Arab models [6].

The American model involves the use of tax instruments and liberal macroeconomic measures. Foreign investors are created qualitative preconditions for participating in strategic alliances with local companies in strategic innovative industries, while more favourable conditions may be applied at the level of individual states.

The European model is characterised by the convergence of tax policies and tax systems of the EU countries, common tax standards and control principles, including harmonisation of tax benefits and tax exemptions, established tax burden limits, proportional distribution of tax shares, tax competition, unification of tax authorities, and consistency of legal regulation.

The Asian model synthesises elements of both the American and European models, offering a moderate tax burden, elevated corporate taxation, a substantial role for tax incentives in implementing economic policy measures, low value-added tax, and close collaboration between state and private investors.

The model of Arab countries involves the gradual elimination of the dominant role of the state, with the concomitant redistribution of its role in relation to the private sector, thereby facilitating the latter's growth.

In the global practice, foreign direct investment policy is prioritised in terms of its impact on productivity and innovation. The general principles encompass the successful implementation of strategic directions and the promotion of coordination and coherence of policies on investment, innovation and the development of small and medium-sized enterprises. Additionally, national and international regulations are oriented towards creating a favourable business environment for productivity growth and innovation through foreign direct investment. The level of knowledge intensity of investments, productive capacities and the innovation potential of the national economy are also increased, and simplification is pursued. The implementation of such measures by countries is evidenced by the existence of national strategies and plans, the activities of control and coordination bodies, policy dialogue and policy impact assessment, a regulatory framework for investment, competition policy and protection of intellectual property rights, incentives for knowledge-intensive investment, training and professional development services, investment promotion and follow-up support,

information services, networking and knowledge exchange, etc. [7, p. 52].

International experience offers three key approaches to attracting foreign investment [8, p. 200–204]:

1) Processes of liberalisation of capital flows (the so-called open window principle), based on simplification of the existing rules of control over the implementation of capital transactions and attracting foreign investors by their clarity;

2) Monitoring of foreign capital to combine the attractiveness of capital transactions and to track the main directions of capital flows, which helps to take appropriate measures in case of threats to the economic security of the state.

3) Targeting of foreign investment, when the state not only creates attractive preconditions for foreign capital, but also sets specific goals for the volume, geographical and sectoral characteristics of foreign investment.

In the process of attracting foreign investment, the concept of a mechanism for regulating and attracting foreign direct investment is becoming increasingly important. It is viewed as a set of certain measures and instruments aimed at stimulating the inflow of investment into the country's economy and optimising the investment process (rationalising their structure, forms and compliance with the country's needs and strategic priorities). The components of the mechanism for attracting foreign direct investment encompass institutional and legal aspects, financial and credit mechanisms, budgetary and tax policies, and territorial and organisational frameworks [9].

When making a decision on investing in the economy of a foreign country, a foreign investor takes into account the following factors [10]:

- the established set of rules and regulations concerning the activities of foreign investors in the country;
- current national standards of treatment of foreign branches;
- efficiency of local markets;
- measures to simplify business processes and operations, including investment promotion, a set of incentives, and improved conditions;
- restrictions on the return of investors' profits in the form of dividends, royalties and other payments to the investor country.

In the contemporary context, the primary function of foreign investment has shifted from the provision of financial capital to the fulfilment of the needs and priorities of the host nation in the domains of new technologies, innovative

solutions, management methodologies, and advanced production methods. The establishment of partnerships and the creation of a conducive environment within the host nation are instrumental in optimising the utilisation of foreign investments.

In 2023, global foreign direct investment experienced a modest decline of 2%, reaching 1.3 trillion USD. The prevailing challenges in the global investment landscape, as evidenced by this decline, are attributed to factors such as economic fragmentation, geopolitical tensions, diversification of supply chains, and a cautious approach by multinational enterprises to expanding abroad. This is further compounded by a 25% decline in the adoption of investment policy measures in 2023. While the majority of these measures were favourable to investors, the overall balance between favourable measures, such as liberalisation, incentives, and facilitation, and less favourable measures (restrictions on entry and operations) remained unchanged. The prevailing barriers were predominantly associated with national security restrictions, while the predominant categories of investor-friendly measures encompassed the facilitation and promotion of investment in both developed and developing countries [11].

In the context of economic diplomacy, a common practice among countries aspiring to attract foreign investment is the establishment of foreign offices by economic agencies, including central banks and investment promotion agencies. A notable example of this phenomenon is the presence of numerous central banks' representative offices in the world's leading financial centres. This phenomenon is evident not only in economically developed countries, such as Germany, Austria, Italy, Japan and Norway, but also in developing countries. Moreover, UNCTAD has observed that foreign institutions hold a dominant share in the ownership of national investment promotion agencies. The practice of some countries, in particular Canada and Israel, provides for the establishment of relevant missions at embassies and consulates [8, p. 23].

Drawing upon the experience of the United Kingdom, this study explores the pivotal role of economic diplomacy in promoting national economic interests within the global market. The primary domains of economic diplomacy in the UK encompass trade policy, the establishment of international norms and standards, the implementation of bilateral

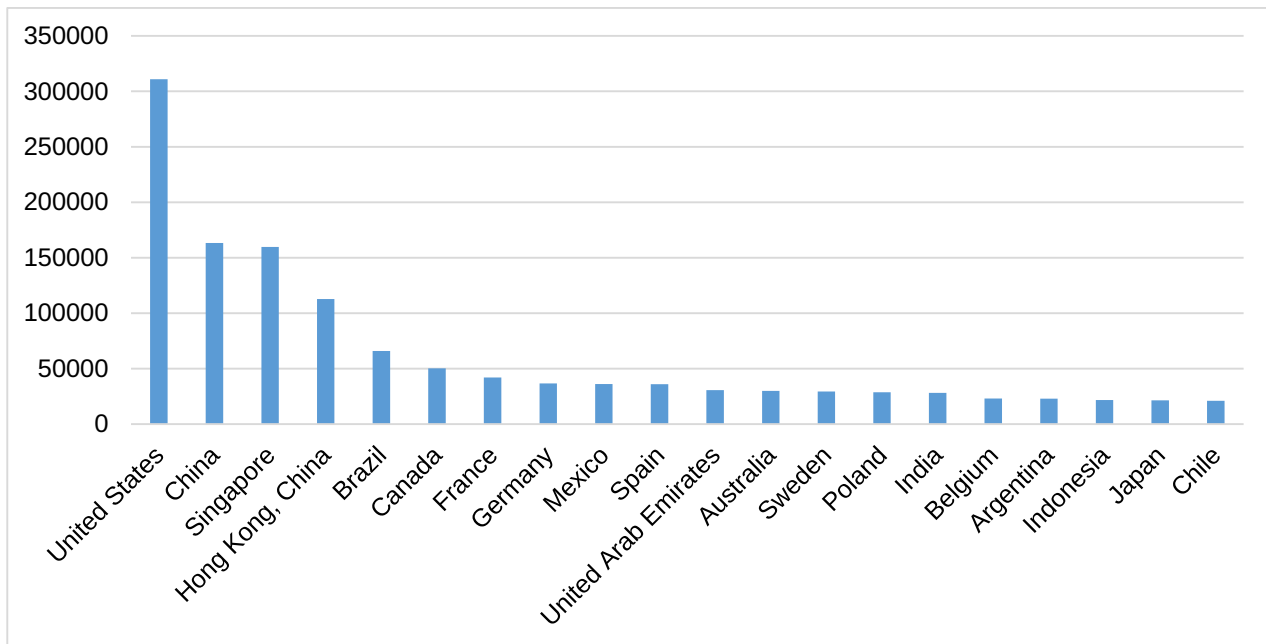


Figure 1. Foreign direct investment inflows, top 20 host economies, millions of USD, 2023

Source: formed on the basis of [11]

and multilateral agreements, participation in international organisations, and economic public administration [12, p. 81].

The establishment of the UK Trade & Investment (UKTI) Government department (Department for Business and Trade (DBT) since 2023) is indicative of this commitment, with the organisation providing comprehensive support to domestic companies engaged in foreign economic activities, as well as to foreign firms investing in the UK economy. The primary objectives of the Department are: to enhance the competitiveness of British companies in the foreign trade and investment sphere; to expand the presence of British companies in the international market through export activities; and to increase the quality of investments flowing into the country's economy [8, p. 45].

Since gaining independence, Ukraine has been unsuccessful in establishing itself as a desirable location for investment, and its role in global investment flows remains negligible. From an objective standpoint, numerous negative factors hinder the attraction of foreign investment to Ukraine. One such factor, which has been evident for an extended period, is the absence of reliable protection and assurance of foreign investments by the state. This encompasses the deficiencies in the judicial and banking systems, which further augment the risk. The most recent factor is military aggression by Russia, which has had a very negative impact on the Ukrainian

economy, including the loss of human life, the forced displacement of people, the destruction of infrastructure and damage to logistics schemes, and the closure of air borders and ports. These factors have had a negative impact on the ability to implement investment projects.

The attraction of foreign direct investment is a significant means of overcoming the crisis, and accordingly, the attraction of investment may encompass the following measures [13]:

1. The enhancement of the attractiveness of the investment climate: the creation of favourable conditions for business operations, the reduction of bureaucratic barriers, the improvement of the regulatory environment, the encouragement of innovation, the support of entrepreneurship.

2. Infrastructure projects: infrastructure is pivotal to the attraction of investment and the stimulation of economic growth. Investing in the construction and modernisation of transportation infrastructure, such as roads, railways, ports, and airports, can attract investors and generate new business opportunities.

3. Human capital development: the investment in the education, training, and skills development of employees can enhance labour productivity and fortify the competitiveness of the economy.

4. Promotion of innovation and research: the support for innovation and research fosters the emergence of new technologies and

products, thereby enhancing the attractiveness of investing in the economy.

5. Support for small and medium-sized businesses: small and medium-sized businesses are responsible for the creation of new employment opportunities and the development of local communities.

Ukraine has identified sectors of potential interest to foreign investors, including the defence industry, metallurgy and metalworking, energy, logistics, infrastructure, manufacturing, pharmaceuticals, innovative technologies, and the IT sector. Despite the significant financial losses incurred due to the ongoing full-scale war, Ukraine stands poised to modernise its armed forces and expedite its integration into the European economic landscape by further liberalising its domestic market to attract investment resources. To this end, Ukraine is implementing a range of measures, including the use of economic diplomacy, the establishment of institutional support for partnerships with leading countries, the introduction of mechanisms to control the reliability of investors and investments, the conclusion of investment insurance agreements in major donor countries, and the creation of financial institutions to insure political and military risks for foreign investors in cooperation with Western partners.

Conclusions. Foreign direct investment can be defined as a dynamic form of international economic activity, and it is considered to be a

key goal of economic diplomacy. Foreign direct investments allow countries to expand economic ties, strengthen competitiveness and attract additional financial resources for development. In global practice, the integration of market incentives with direct and indirect government influence demonstrates a high level of efficiency and helps to increase the volume of attracted investments. Economic diplomacy plays a special role in this process, as globalisation and growing international competition are becoming an important factor in the formation of long-term partnerships between states. In the context of contemporary global challenges, effective economic diplomacy is instrumental in mitigating risks and fostering a favourable image of the country as a reliable partner for investment, thereby influencing strategies for attracting foreign investors. The importance of attracting foreign capital is particularly pronounced in countries grappling with crisis or undergoing post-military reconstruction. Attracting foreign investment through economic diplomacy is a multifaceted process necessitating a comprehensive approach, close collaboration between the public and private sectors, and the utilisation of international economic cooperation mechanisms. For Ukraine, this process is becoming increasingly important, as an effective investment attraction policy will be one of the key factors in economic recovery and integration into the global economy.

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