

**ANALYSIS OF CURRENT INVESTMENT STATE IN UKRAINE****Somchenko V. V., Tkachuk O. O.***Zaporizhzhia National University*  
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**Key words:**investment; foreign direct investment;  
investment climate, investment activity.

It is determined that foreign investment is a vital element in the national economy. At the present stage of economic development of Ukraine, the problem of attraction is of particular relevance. For now, attracting foreign investment is a basic condition for forming a competitive model of the national economy. It is revealed the government of the country should take appropriate measures to create favorable conditions for the development of investment activities. Investigating the nature of foreign direct investment, various economic approaches to their interpretation by domestic and foreign scientists, as well as the legislation, were considered. Having researched the scientific achievements of domestic and foreign economists, the essence of the concept of «investment» was defined by the author, which is proposed to be considered as tangible and intangible capital invested in the objects of investment activity from abroad in accordance with the current legislation, provided long-term economic interest. It was determined that the Government's competent policy on attracting the necessary volume of foreign investments will ensure stable economic growth and will have a positive impact on the level of development of the country as a whole. The dynamics and tendency of direct investments in the country, their sectoral and geographical structure are analyzed. The factors of positive and negative impact on the investment climate in the country are substantiated. The suggestions for improving the conditions for the implementation of investment projects are presented by the author: improving legislation, ending the war in eastern Ukraine, political and economic stability, combating the shadow economy etc. The use of aforementioned suggestions will lead to the elimination of negative tendencies of deterioration of the image of Ukraine as a reliable business partner.

**АНАЛІЗ СУЧАСНОГО СТАНУ ІНВЕСТИВАННЯ В УКРАЇНІ****Сьомченко В. В., Ткачук О. О.***Запорізький національний університет*  
*Україна, 69600, м. Запоріжжя, вул. Жуковського, 66***Ключові слова:**інвестиції, прямі іноземні інвестиції,  
інвестиційний клімат, інвестиційна  
діяльність.

У статті встановлено, що іноземні інвестиції є життєво необхідним елементом національної економіки. На сучасному етапі економічного розвитку України проблема залучення набуває особливої актуальності. Наразі залучення іноземних інвестицій є основною умовою формування конкурентної моделі національної економіки. Виявлено, що уряд країни повинен вжити відповідних заходів, щоб створити сприятливі умови для розвитку інвестиційної діяльності. Досліджено природу прямих іноземних інвестицій. Розглянуто різні економічні підходи до їх тлумачення вітчизняними та зарубіжними вченими, а також у законодавстві. Дослідивши наукові підходи вітчизняних та зарубіжних економістів, автори визначили сутність поняття «інвестиції», яке запропоновано розглядати як матеріальні і нематеріальні капітали, що вкладаються в об'єкти інвестиційної діяльності з-за кордону відповідно до чинного законодавства за умови довготермінового економічного інтересу. Визначено, що грамотна політика Уряду щодо залучення необхідного обсягу іноземних інвестицій забезпечить стабільне економічне зростання й позитивно позначиться на рівні розвитку країни взагалі. Проаналізовано стан інвестиційного клімату в країні за 2010-2019 рр., динаміку й тенденцію надходження прямих інвестицій у країну, їхню галузеву й географічну структури. Обґрунтовано фактори позитивного й негативного впливу на інвестиційний клімат у країні. Наведено пропозиції щодо поліпшення умов для реалізації інвестиційних проєктів, використання яких приведе до усунення негативних тенденцій погіршення іміджу України як надійного бізнес-партнера.

### Statement of the problem

Ukraine has been in a state of market transformation, when the capacity to use its own resources to fund the national economy is extremely limited. Under conditions of economic crisis the intensification of investment processes should be the primary objective of Ukrainian foreign policy, because Ukraine would not be able to emerge from present crisis using only its own financial resources. Foreign direct investment would facilitate and accelerate the transition to a competitive economy. In view of the aforementioned, it can be concluded that foreign direct investments serve as a fundamental pillar of the economic system and its malfunction would make impossible a subsequent development of the national economy.

### Analysis of recent studies and publications

As we can see from the recent academic publications, some research on how to attract and use foreign investment has been carried out by such domestic and foreign economists: Dunning J. H. [1], Hymer S.H. [2], Herzanych V.M. [3], Danilov O.D., Vdovychenko A.M. [4], Kozyk V.V. [6], Lesechko M.D. [7], Reverchuk S.K. [11], Rohach O.I. [12], Svystun L.A. [13], Teslia S.M. [14] etc. However, much still remains to be studied.

Thus, S. Hymer [2] in his works distinguished foreign direct investment from portfolio investment for the first time.

As claimed by Herzanych V.M. [3], during the whole period of foreign investment in the economy of independent Ukraine problems and shortcomings, specific to this process, remained almost unchanged, and distinctions related largely to the abolishment and resumption of preferential terms for attracting foreign investment.

Danilov O.D., Vdovychenko A.M. [4] emphasize that in view of such a state of affairs, it is obvious to focus attention of the state on innovative activity in industries of the highest technological modes. And this should take place not only in the form of funding, but also special scientific and educational programs that really work, which will allow Ukraine to keep up with the global development of science and technology at least.

### Objectives of the article

The purpose of the article is to study the concept of «investment», to analyze current state of investment attraction to Ukraine and its amount, to analyze the geographical structure of foreign investment, to determine the influencing factors for an investment climate in the state and to make proposals on its improvement.

### The main material of the research

The creation of a competitive economic model depends to a great extent on the amount of foreign investment, as well as on the intensity of international capital movement. In a broad sense the term “investment” means a long-term investment in different sectors of the economy for a certain period of time with the aim of making profit and achieving individual goals of investors as well as positive social effect [11]. In the 60’s 21stcent. The theory of Foreign Direct Investment (FDI) began to develop. Studying the essence of Foreign Direct Investment, it is worthwhile to consider different approaches to its definition given by domestic and foreign scientists as well as by law.

Different definitions of Foreign Direct Investment are presented in Table 1.

Table 1 – Definition of the concept of “Foreign Direct Investment”

Author	Definition
S. Hymer [2]	<i>FDI</i> – is a term that describes the operation of obtaining physical assets abroad, in which the current control remains with the multinational company in its homeland.
S. Teslia [14]	<i>FDI</i> – these are tangible and intangible capital that the state, company, entrepreneur invests in other enterprises abroad to obtain entrepreneurial profits, subject to long-term economic interest and the right to participate in management decisions.
Law of Ukraine on the Regime of Foreign Investments [8]	<i>Foreign investment</i> – these are the values invested by foreign investors in objects of investment activity according to the legislation of Ukraine for the purpose of receiving profit or achievement of social effect.
O. Rohach [12]	<i>FDI</i> – these are real investments in enterprises, equipment, land, technology or services that create the material basis for business expansion beyond national borders.

Having studied the recent academic publications by domestic and foreign economists, we propose to consider Foreign Direct Investment as tangible and intangible capital invested in objects of investment activity from abroad according to the legislation of Ukraine subject to long-term economic interest.

At current stage of economic development of Ukraine the problem of attracting foreign investment is of particular

relevance. For now, attracting foreign investment is a basic condition for forming a competitive model of the national economy. The government should take appropriate measures to create favorable conditions for the development of investment activity.

The state of investment climate in the country is analyzed using the dynamics of foreign direct investment for the period from 2010 to 2019 (Table 2).

Table 2 – Direct investment to Ukraine (share capital) for 2010 – 2019 (million USD)

Years	FDI to Ukraine	Growth/Decline for the year	FDI from Ukraine	Balance
2010	38992,9	-	5760,5	33232,4
2011	45 370,0	+6377,1	6402,8	38967,2
2012	48 197,6	+2827,6	6435,4	41762,2
2013	51 705,3	+3507,7	6568,1	45137,2
2014	53 704,0	+1998,7	6702,9	47001,1
2015	38 356,8	- 15347,2	6456,2	31900,6
2016	32 122,5	-6234,3	6315,2	25807,3
2017	31 230,3	-892,2	6346,3	24884
2018	31 606,4	+376,1	6322,0	25284,4
2019	35 809,6	+4203,2	6272,7	29536,9

On the basis [10]

From Table 2 it can be concluded that due to the unstable political and economic situation in the country, there is no system in the dynamics of investment. During 2010-2014, the situation gradually improved due to the increase in FI, but during 2014-2016 there was a sharp decline in the volume of involved FI due to the beginning of the hybrid war in the country. At the end of 2016, there was also a decrease in the volume of attracted FI by 892.2 million dollars. At the end of 2019, there is a positive trend due to the increase in FI of 4203,2 million dollars, compared to 2018. In general, over the last 10 years, the largest volume of attracted FI was observed in 2014, but over the past 5 years, the country has not approached the above-mentioned maximum volume of involved FI.

It is reasonable to analyze the geographical structure of FDI attracted to the country. The geographical structure of attracted foreign investment is presented in Figure 1.

According to the State Statistics Service of Ukraine as of December 31, 2019, the main investor countries are: Cyprus, which has invested 10368,9 million USD in the economy of Ukraine, i.e. 40%; The Netherlands - \$ 8301,4 million USD, i.e. 32%; Switzerland - \$ 1714,5 million USD, i.e. 7%; Great Britain – 2060,6 million USD, i.e. 8%; Austria - 1249,4 million USD, i.e. 5%; Russian Federation – 783,3 million USD, i.e. 3%; France – 845,5 million USD, i.e. 3%; Hungary – 380,7 million USD, i.e. 2% [10].

In Ukrainian economy, investments from Cyprus have the largest share. It should be claimed that Cyprus is an offshore zone with very low tax rates. Owners of Ukrainian capital use companies from Cyprus to optimize taxation, that is Ukrainian capital makes up the majority of foreign investment from Cyprus.

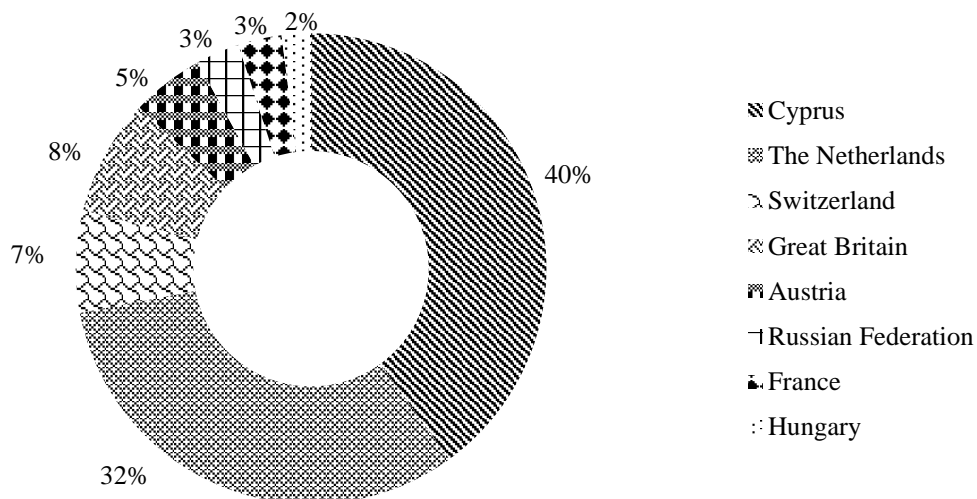


Fig. 1. Structure of countries investing to Ukraine as of 31.12.2019  
On the basis [10]

It is reasonable to analyze the distribution of FDI by type of economic activity. The areas of economic activity in

relation to which the largest amounts of foreign investment were directed are presented in Figure 2.

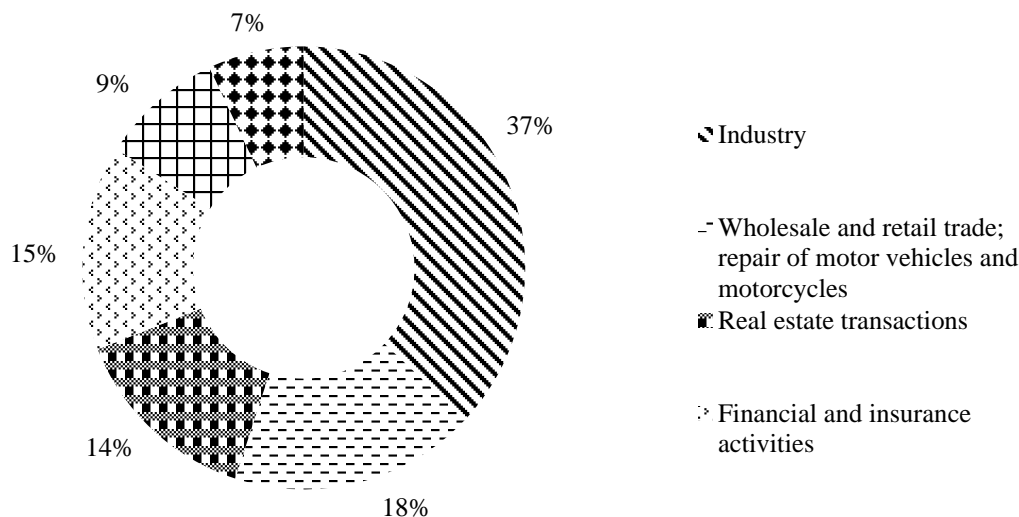


Fig. 2. Distribution of FDI by type of economic activity as of 31.12.2019  
On the basis [10]

According to the State Statistics Service of Ukraine as of December 31, 2019, the greatest interest among foreign investors was aroused by industry, where 11595,9 million USD were invested, which accounts for 37% of total investment and has the largest share. Foreign investors were also interested in the following areas of economic activity: wholesale and retail trade; repair of motor vehicles and motorcycles – 5662,5 million USD share capital, i.e. 18%; real estate transactions – 4495,7 million USD share capital, i.e. 14%; financial and insurance activities – 4557,3 million USD share capital, which is 15%; manufacture of food products, beverages and tobacco – 2844,3 million USD share capital, i.e. 9%; professional, scientific and technical activities – 2223,0 million dollars USD share capital, accounting for 7% and others.

Thus, foreign investment is most often directed to the sectors of the national economy that are already developed. When making decisions about investing, investors are guided by certain factors that may affect the increase in the value of invested capital. The positive and negative factors that affect the investment climate in the country are detailed in the materials of the European Business Association (EBA), on the basis of which we can judge the investment attractiveness of the country. Every six months, the European Business Association compiles an index of the country's investment attractiveness. Mark 3 is considered neutral, marks above 3 are considered a positive shift, indicators below 3 are considered negative.

The dynamics of the index of investment attractiveness of Ukraine for 2010-2019 is shown in figure 3.

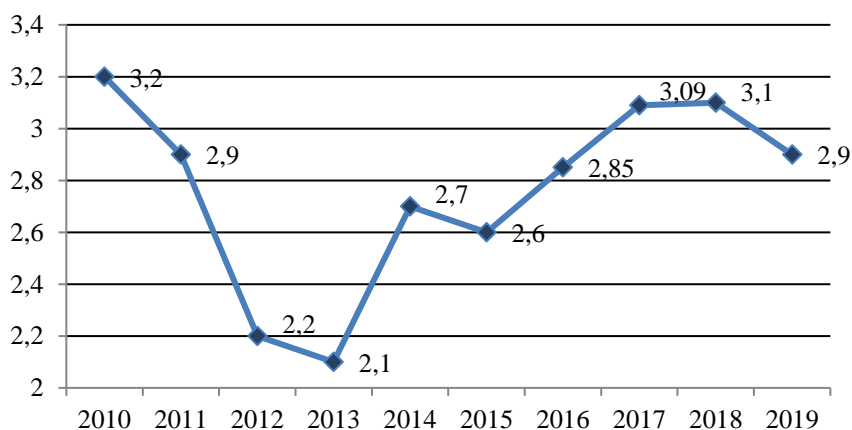


Fig. 3. Index of investment attractiveness of Ukraine for 2010–2019  
On the basis [5]

As we can see, in 2019 the index of investment attractiveness of Ukraine reached 2.9 on the Likert scale, which is considered a negative indicator. Based on research, the EBA identifies a number of reasons that negatively affect investors' willingness to invest, including: corruption and inefficient judicial system (inability to protect property rights or resolve business disputes fairly), land allocation and VAT refunds, as well as overcoming technical barriers to trade and customs

procedures [5]. In our opinion, the high level of corruption, vagueness and non-transparency of legal norms, which can be interpreted ambiguously, as well as the practice of frequent changes in legislation, have always scared away potential investors from the Ukrainian economy.

That is, the Government needs to create appropriate conditions for the implementation of investment projects. The «Ukraine – 2020» Sustainable Development Program

envisages a number of positive changes towards improving the investment climate. According to the Decree of the President of Ukraine «On the Strategy of Sustainable Development «Ukraine – 2020»» effective protection of private property rights, including by the judiciary; introduction of stimulating mechanisms of investment activity, based on the best world practice are provided [9].

In our opinion, considerable attention should be paid to such a direction of improving the investment climate in Ukraine as investment protection. Since 2014, a hybrid war against our state has been going on in eastern Ukraine. Due to the threat of military action, investors are reluctant to invest in the Ukrainian economy. It should be claimed that losses from hostilities fall into the category of «non-commercial risks» that are not insured by commercial insurance companies, which significantly spoils the investment climate in the country. In our opinion, it is reasonable to create state independent insurance companies to minimize such risks that are not covered by commercial insurance. Also, in addition to military threats, investment needs to be minimized macroeconomical and political ones.

## Conclusions

Thus, foreign investment is a determining factor that affects the level of development of the country. Attracting the required amount of foreign investment will allow us to move to a competitive model of the national economy. According to the data obtained during the study, we see that in the national economy there is no system for attracting foreign investment. The largest increase in direct investment was observed in 2014, when 53704,0 million USD were invested in the national economy. It should be noted that over the last 5 years the country has not managed to approach the above-mentioned volume of attracted direct investments. The main investor country in 2019 was Cyprus, which invested 10,368.9 million USD in Ukraine's economy, which is 40% of the total amount invested in the economy of Ukraine. Foreign investment is most often directed to already developed industries. Thus, 1595,9 million USD were invested in Ukrainian industry, which accounts for 37% of total investment and has the largest share.

The study provided an opportunity to define a number of conditions that will improve the investment climate in the country: improvement of current legislation, the end of the war in eastern Ukraine, political and economic stability, the fight against the shadow economy.

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