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ATTRACTION OF FOREIGN INVESTMENT TO UKRAINE: PROBLEMS AND SOLUTIONS

Foreign investment is extremely important in the process of national economy formation and development, Ukraine being no exception. Its own investment resources are largely lacking. Given the recent developments in the country – such as political and economic upheaval, military operations in the East and the annexation of the Crimea – investment activity in Ukraine has decreased. Foreign capital outflow from the Ukrainian market as well as many investment projects scaling down have also become the nowadays disappointing reality.

This paper aims at identifying current trends of foreign investment in the Ukrainian economy, the rate of Ukraine’s investment attractiveness, and the major ways of solving the problems associated with foreign investment. The main research task is to assess the current state of foreign investment in Ukraine and analyze the main obstacles and problems Ukraine faces while making attempts to attract funds from foreign investors to the national economy.

One of the main problems in attracting foreign investments to Ukraine is low level of international business market infrastructure development coupled with imperfect legislation in the field of investment activity. To stimulate foreign investment activity in this country it is absolutely imperative to work out the investment policy with more specific and transparent mechanism of implementation at both local and state levels.

A number of other uncertainties and risks that are affecting the process of forming a favorable investment climate in Ukraine are as follows: the instability of current economic situation and the problems of legislation in the economic field; insufficiency and inaccuracy of information provided about the state of investment objects; industrial and technical risks; foreign economic risks; uncertainty of interests, behavioral patterns and purposes of investment processes participants; fluctuations in market infrastructure, exchange rates and prices.

The events in the country from 2013 to 2014 have had a dramatically negative impact on the economic situation in Ukraine and significantly changed the direction of foreign economic activity in the country. The deterioration of Ukraine's balance of payments happened due to deployment of an armed conflict in the East, as well as the closure of the Russian market. Since the beginning of 2014, the Ukrainian economy has lost $16048,5 m of investment. At that time, the capital inflow into the domestic economy stood at only $1501,0 m. As of December 31, 2016, the total volume of foreign direct investment (share capital) into the national economy of Ukraine amounted to $37655,5 m, the per capita figure amounting to $884,3 only [2].

Despite the insufficient amount of foreign investment in the Ukrainian economy, according to a survey conducted by the European Business Association (EBA), over the past six years Ukraine's investment attractiveness index has reached its historic
high. So, as of 2017, the value of this indicator was 3.15 points (on a 5-point scale). Compared to last year's figures (2.88 and 2.85 points in June and December, respectively), this is not a bad result, although not high. It should be noted that the last time when index value exceeded the mark of 3 points was at the end of 2011 [3].

Analysis of the tendencies of attracting foreign investments to Ukraine, starting from 2007, shows that their volume still remains insignificant (see Table 1) [2].

Table 1
The aggregate capital of non-residents in Ukraine during the period of 2007-2017 (as of January 1st)

<table>
<thead>
<tr>
<th>Years</th>
<th>Total capital of non-residents, $ mln.</th>
<th>Growth rate up to the previous year, %</th>
<th>Growth rates up to 2007, times</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>21607,3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2008</td>
<td>29542,7</td>
<td>136,7</td>
<td>1,4</td>
</tr>
<tr>
<td>2009</td>
<td>35616,4</td>
<td>120,6</td>
<td>1,6</td>
</tr>
<tr>
<td>2010</td>
<td>38992,9</td>
<td>109,5</td>
<td>1,8</td>
</tr>
<tr>
<td>2011</td>
<td>45370,0</td>
<td>116,4</td>
<td>2,1</td>
</tr>
<tr>
<td>2012</td>
<td>48197,6</td>
<td>106,2</td>
<td>2,2</td>
</tr>
<tr>
<td>2013</td>
<td>51705,3</td>
<td>107,3</td>
<td>2,4</td>
</tr>
<tr>
<td>2014</td>
<td>53704,0</td>
<td>103,9</td>
<td>2,5</td>
</tr>
<tr>
<td>2015</td>
<td>40725,4</td>
<td>75,8</td>
<td>1,9</td>
</tr>
<tr>
<td>2016</td>
<td>36154,5</td>
<td>88,8</td>
<td>1,7</td>
</tr>
<tr>
<td>2017</td>
<td>37325,0</td>
<td>103,2</td>
<td>1,7</td>
</tr>
</tbody>
</table>

As of January 1, 2017, the volume of investments attracted since the start of foreign direct investment in the economy of Ukraine amounted to $37325,0 m with the per capita indicator standing at $876,5. In 2016, foreign investors invested $36154,5 m of direct investment in the national economy of Ukraine. The amount of capital increase for this period stands at $170,5 m.

In general, Ukraine has a number of problems that hinder effective attraction of foreign investment. These problems include the factors listed below:
- instability of the tax policy: significant number and high level of taxation deprives the country of competitive advantages in the process of attracting foreign investment;
- political instability: under the conditions of constant political changes, the foreign investor will feel rather uncertain. Moreover, he will not know what kind of policy will be implemented by the new government. Besides, the “weak” national economy is not always able to offer high and fast earnings to hedge the investment risks;
- imperfect legislation, which manifests itself in insufficient legal protection, in the long procedures for registration and obtaining necessary certificates, in the absence of effective mechanism of legal protection of foreign investors from illicit partners and debtors. It was these conditions that resulted in many powerful foreign companies leaving the Ukrainian market;
- absence of system for assessing the investment climate in the country and its individual regions;
- customs barriers: misunderstanding with customs authorities in determining the method of charging excise taxes, customs duties and customs value of goods, as well as several days delivery delays and high rates of import duties when foreign
investments inflow to Ukraine. All this makes supplies to Ukraine much less attractive in the eyes of foreign investors;

- undeveloped market infrastructure of international business in Ukraine: one of the factors that limits the increase of foreign capital inflows is lack of proficient consultants, auditors and experts;
- high inflation rate in Ukraine;
- unreliable banking system: domestic banks have lost the trust of western businessmen, as well as the confidence of the Ukrainian population;
- absence of effective insurance system: nowadays mechanisms of state insurance of foreign capital in Ukraine are insufficiently developed [1, c. 22-28].

In order to facilitate effective development of Ukrainian economy, it is necessary to attract as much foreign capital as possible, which will, in particular, provide an opportunity to increase the number of jobs and stimulate an increase in production volumes. That is why, in order to improve the investment climate in Ukraine and enhance foreign investment processes it is necessary to introduce the following practices:

- to reform the taxation system: it is necessary to create the system that would guarantee sufficient revenues to the budgets of all levels and create favorable conditions for further integration of Ukraine into the world economy;
- to stabilize the banking system by carrying out a whole range of various activities, such as: creating an effective and transparent legal and regulatory framework for investment activity in the country; working out an effective and flexible NBU policy guarantee appropriate control over banks activities and minimize other entities interference with these activities;
- to ensure improvement of the work of insurance companies: it is necessary to create a national insurance company that would be engaged in underwriting risks of not only domestic but also foreign investors;
- to achieve national agreement between political parties and various social groups on solving national problems of Ukraine's exit from the economic crisis and political instability;
- to develop a special program for the development of free economic zones on the territory of Ukraine, mainly in the form of free customs zones of export production;
- to create institutions that would be involved in mobilizing investment resources for specific, effective investment projects and programs in the most priority sectors of the national economy [4, c. 59–65].

Thus, the state should identify priority sectors of the economy. In today’s Ukraine, the list of these sectors seems to include the field of high technologies, the agrarian sector, the machine building industry, the IT industry, the energy and oil and gas industry. Development and effective implementation of a transparent strategy of attracting foreign investments in these spheres will contribute to further recovery in other sectors.

In conclusion, it’s worth highlighting that introduction of the above ways to increase the level of investment attractiveness of Ukraine will lead to the inflow of foreign investment and, as a result, facilitate successful development of Ukraine’s national economy.
REFERENCES


