

CHALLENGES IN ATTRACTING FOREIGN INVESTMENT TO UKRAINE DURING MARTIAL LAW

In today's world, attracting foreign investment is becoming increasingly critical for sustaining the economy and opening up new opportunities in trade and technology. However, investment in Ukraine is impeded by several significant challenges. In general, foreign investment requires a stable economic environment in any country. An equally important condition for attracting investment is the security situation in the country. Currently, Ukraine is in a state of constant danger due to regular shelling, infrastructure destruction, as well as problems with corruption and low levels of trust in the government and the regulatory framework. Nevertheless, Ukraine remains an attractive investment destination for foreign investors.

Despite the war, analysts predict that Ukraine's investment potential remains substantial. Although 26% of its territory is currently occupied, the majority of the population continues to live, work, make plans, and pay taxes [1]. The largest volume of foreign direct investment in the national economy was recorded in 2021, amounting to \$6.687 billion. In addition, at the beginning of 2022, a significant portion of previously concluded investment agreements was canceled due to full-scale military aggression, and foreign governments requested the return of foreign assets and reinvested funds. At the same time, Ukraine's investment attractiveness index initially dropped to 2.17 points out of a possible 5 in 2022 due to the outbreak of full-scale war. Subsequently, some improvement was observed, and the index rose to 2.48 points, matching the 2020 level. This recovery was linked to expectations of stabilization in the country and the receipt of significant financial support from international partners. However, by 2023, the index had declined slightly again, standing at 2.44 points [2, p. 142]. Overall, the war has significantly affected our country's investment climate. Under these conditions, the state was forced to resort to extreme measures, specifically, to impose restrictions on investment inflows and capital movements. During 2022–2023, fluctuations in investment inflows were observed. Despite the stabilization of the economic situation in Ukraine and a certain improvement in the flow of investments, due to the general instability of the state and various spheres of public life, the investment attractiveness index remained low.

One of the biggest factors hindering the growth of foreign investment is corruption at all levels of government, which reduces confidence in Ukraine as a potential investment partner and as an environment for business development. Added to this is the vagueness of legislation, which complicates understanding the specifics of doing business in Ukraine, as well as frequent changes to regulatory and legal acts, leading to legal conflicts. Other challenges include problems that investors encounter:

- Sector-specific challenges – low competitiveness and the shadow economy. Outdated technologies, low labor productivity, and insufficient access to financing have hindered the development of many sectors. The large share of the shadow economy reduces tax revenues to the budget and creates unequal competitive

conditions for legitimate businesses. Insufficient integration into global value chains means that Ukrainian enterprises have limited access to international markets.

- Political risks – war with Russia, domestic political instability. Constant threats from Russia created geopolitical risks and deterred investors. Frequent changes in government, protests, and social tensions destabilized the situation in the country.

- Social and cultural factors – low financial literacy, cultural barriers. A lack of understanding of investment practices among the population made it difficult to attract investment. Different business cultures could create communication difficulties between investors and local enterprises [3, p. 56].

During the period of the full-scale invasion, Ukraine has suffered significant losses in investment resources and projects, which have had a negative impact on the country's economic situation and employment rates. In particular, there have been job losses, an intensified “brain drain” due to forced migration, as well as the closure or relocation of businesses and the suspension of investment activities. Furthermore, the decline in investment activity has slowed the growth of certain economic sectors, reduced output, and decreased revenue to the state budget. Despite this, Ukraine retains the capacity to restore its investment attractiveness thanks to international aid, the economy's gradual adaptation to martial law conditions, and opportunities for post-war reconstruction.

Nevertheless, Ukraine offers foreign investors a wide range of instruments for investing in its economy. Today, the country is able to offer promising sectors with high added value, whose products can be competitive in global markets. In 2023, 10 priority sectors were identified that deserve investors' attention [4, p. 137]. Among them are:

- Energy (investment potential – \$177 billion). Ukraine is actively developing electricity generation and “green” hydrogen production, is already collaborating with international partners, and is receiving support from international organizations. Within the framework of the EU Hydrogen Strategy, Ukraine is a key partner in the field of renewable hydrogen.

- Logistics and infrastructure (\$123 billion). The country's unique geographical location makes it an important transit hub. Due to the war, this sector is in urgent need of investment for recovery and development.

- Defense and industrial complex (\$43 billion). This sector is the foundation of national security and a guarantee of future stability.

- Agricultural sector (\$34 billion). Thanks to its fertile black soil, Ukraine is known as the “breadbasket of Europe.” Investments are possible in both the production and processing of agricultural products [4, p. 137].

Despite certain obstacles to investment activity in Ukraine, there are still quite promising sectors for investment.

Thus, attracting foreign investment to Ukraine under martial law is accompanied by significant risks and restrictions. At the same time, provided that effective reforms are implemented, international support is maintained, and the country's image is improved—in particular by reducing corruption and ensuring the effective functioning of the judicial system—Ukraine has significant potential for the resumption of investment activity.

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