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THE INFLUENCE FOREIGN INVESTMENTS ON ECONOMIC GROWTH

The article examines the theoretical and practical aspects of the impact of foreign investment on economic growth. The article substantiates the influence of investment activities, in particular, investments from abroad as one of the essential tools for forming and increasing the state's competitiveness. For Ukraine, the issue of attracting foreign investments is becoming more and more relevant and is significantly important in the future perspective of economic development and post-war reconstruction. The main goals of the article are to determine the trends of foreign investment in Ukraine, to substantiate the impact of foreign investment on the national economy, and to determine the priority directions for improving the mechanism of attracting foreign investment. The subject of the research is the current state of attracting foreign financial resources to Ukraine and methods of improving the mechanism of attracting foreign investments. The methodological and theoretical basis of this scientific research is official statistical data and economic works of domestic and foreign scientists. The positive and negative factors of attracting foreign investments are characterized. The sectors in which the greatest attraction of foreign investments is taking place have been determined. The dynamics of attraction of foreign direct investment in the economy of Ukraine is analyzed. Investing countries, which are the largest investors in Ukraine, have been identified. The need to stimulate foreign investment has been identified. The necessity of attracting foreign investment in the conditions of martial law is substantiated, based on which a list of factors that negatively affect the investment attractiveness of Ukraine on the international market is formulated, according to which the priority directions for improving the mechanism of attracting foreign investment are systematized. The results of the study are the identification of the role of foreign investment in the economic development of Ukraine and the determination of directions for ensuring this growth and specific methods of stimulating foreign investment.

Keywords: financial globalization, economic growth, foreign investments, investment potential, investment activity, capital.

Fig. - 1, Tab. - 2, Ref. - 12

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ВПЛИВ ІНОЗЕМНИХ ІНВЕСТИЦІЙ НА ЕКОНОМІЧНЕ СЕРЕДОВИЩЕ

У статті розглянуто теоретичні та практичні аспекти впливу іноземних інвестицій на економічне зростання. Охарактеризовано позитивні та негативні фактори залучення іноземних інвестицій в фінансово-економічну систему країни. Проаналізовано динаміку залучення прямих іноземних інвестицій в економіку України. Визначено країни-партнери, які є найбільшими інвесторами та залучають фінансові ресурси у соціально-економічний розвиток України. Оцінено інвестиційний потенціал України за допомогою індексу інвестиційної привабливості України, згідно даних European Business Association. Обґрунтовано необхідність залучення іноземного інвестування в умовах воєнного стану на основі чого сформульовано перелік факторів, які негативно впливають на інвестиційний привабливість України на міжнародному ринку, відповідно до чого систематизовано пріоритетні напрями удосконалення механізму залучення іноземних інвестицій.

Ключові слова: фінансова глобалізація, економічне зростання, іноземні інвестиції, інвестиційний потенціал, інвестиційна діяльність, капітал.

Рис. - 1, Таб. - 2, Літ. - 12

Formulation of the problem. In the context of a market-oriented economy, the ascendancy of financial globalization assumes heightened significance, epitomizing the unencumbered and efficacious transnational movement of capital across diverse countries and regions. It profoundly shapes the tenets of the global market, constituting the bedrock of the institutional framework that governs worldwide finance and orchestrates global economic strategies. This phenomenon, entwined with economic globalization, encapsulates the intricate dynamics of capital flows, encompassing both direct and portfolio investments.

The paradigm of foreign direct investment (FDI) emerges as an important component within the ambit of financial globalization. FDI represents the enduring commitment of non-resident enterprises to the tangible assets of a domestic economy, with a pronounced emphasis on organizational structures and the creation of enterprises. Particularly salient in the context of developing economies, foreign direct investment assumes an unparalleled stature as an optimal mode of capital infusion. Its protracted investment horizon facilitates the realization of expansive projects, while concurrently ushering in cutting-edge technologies, innovative business management methodologies, and other transformative elements. In essence, foreign direct investment stands as a linchpin for catalyzing progressive economic development in emerging markets.

In the prevailing circumstances, the sustainable socio-economic advancement of the nation, both at macro and micro levels, is intricately linked to the status of investment allure. The procurement of additional capital in the guise of investment financial resources plays a

pivotal role in directly influencing the support of the business sector and fostering the development of economic sectors, thereby extending financial support to both well-established and lesser-known segments of the national economy. The magnitude of acquired financial resources significantly shapes economic growth, with foreign investments serving as the primary source. Financial transactions involving the transference of financial resources from one nation to another, aimed at establishing enduring mutually beneficial relations and consequently attaining a positive financial outcome in the form of profit, delineate the economic rationale of foreign investment.

Against the backdrop of martial law, the financial and economic landscape of the country exhibits volatility and an acute reliance on external financial assistance. Consequently, the exploration of avenues for soliciting foreign investment gains paramount importance in ensuring the sustained functionality of the national economy during periods of martial law and in financing post-war reconstruction, thereby rendering the matter increasingly pertinent.

Analysis of recent research and publications. The exploration of foreign investment and its ramifications on the national economy constitutes a well-explored area within the scholarly community, garnering attention and scrutiny from researchers. Various dimensions of foreign investment have engendered lively debates, subsequently becoming focal points in diverse scientific publications. Notably, the foundational literature on this subject draws from the contributions of esteemed scholars such as Vengurenko T., Verbytska G., Maiorova T. V., Stashchuk O., Khomenko I., Volynets L., and others.

Furthermore, it is imperative to acknowledge that within the framework of assessing the adaptation and metamorphosis of the financial and economic framework of the state amidst martial law conditions, coupled with the imperative to secure additional financial resources for sustaining economic functionality and facilitating post-war recovery, certain aspects of foreign investment remain inadequately explored, warranting further investigation and analysis.

Formulation of research goals. The primary objectives of this article encompass the identification of trends in foreign investment within the Ukrainian context, the substantiation of the influence exerted by foreign investment on the national economy, and the delineation of priority areas conducive to enhancing the mechanism for attracting foreign investment.

Outline of the main research material. Foreign investment constitutes a substantial resource for the advancement of the country's socio-economic system, playing a pivotal role in enhancing the competitiveness of the nation's economy within the global arena. Undoubtedly, investment potential stands as a primary and integral element crucial to the country's sustainable development. Consequently, the augmentation of the nation's investment attractiveness, coupled with the distinctive characteristics of economic activities, shapes the trajectories of socio-economic development.

Similar to any intricate economic phenomenon, foreign investment manifests both positive and negative impacts on the evolution of the national economy. Noteworthy advantages associated with the attraction of foreign investment encompass:

- Amplification of real capital investment, fostering economic development, and ameliorating the country's balance of payments.
- Mobilization and utilization of national savings to execute effective projects.
- Engagement of national capital, bolstering the financial market by channeling its resources towards production purposes.
- Escalation in employment levels and enhancement of workforce qualifications.
- Diversification of the product range.

- Expansion of exports and augmentation of foreign exchange earnings.
- Elevation of the standard of living and purchasing power of the population.
- Advancement of infrastructure and services.
- Intensification of competition in the national economy, mitigating monopolization.
- Augmentation of confidence in the country, thereby attracting new foreign investors

[4].

Conversely, the negative consequences stemming from the attraction of foreign investment include the repatriation of capital, deterioration of the current account within the balance of payments, and a potentially alarming escalation in the dependence of the national economy, undermining its economic security. Foreign investors may exhibit disregard for local conditions and peculiarities, leading to possible deformation of the structure of the national economy. This can result in a surge in social tension, particularly attributed to higher wages at foreign enterprises, environmental degradation resulting from the relocation of "dirty" production to the country, and the inappropriate utilization of local resources [4, p. 246].

Subsequently, our initial focus centers on the metrics comprising the Investment Attractiveness Index of Ukraine. This index is discerned by the European Business Association through surveys conducted among representatives of the business sector. Notably, a score falling within the range of 3-4 points is deemed average and neutral, signifying potential promise for further drawing foreign investment. Conversely, a score of 1-2 points signals low prospects for attracting additional financial resources and a lack of interest from investors. On the other end of the spectrum, a rating of 5 points serves as a pivotal indicator denoting a high level of interest from foreign investors [11].

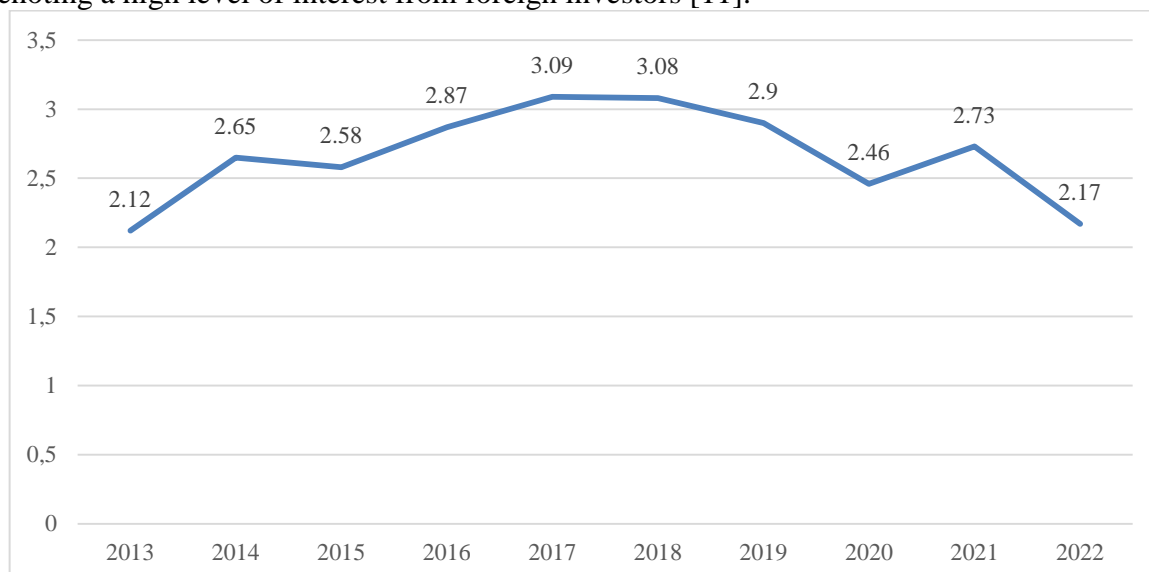


Figure 1 - European Business Association's Investment Attractiveness Index of Ukraine in 2013-2022 [11]

As a result, relatively positive indicators were discernible in 2017-2018. However, in 2019, the index experienced a decline to 2.9, attributed to the impact of the Covid-19 pandemic and overarching quarantine restrictions. In 2021, Ukraine secured the 64th position out of 191 countries in the World Bank's Doing Business ranking, a standing notably lower than that of nearly all European countries. Following a period of relative stability in 2021, the year 2022 witnessed a pronounced downturn in the index, precipitated by the onset of a full-scale invasion. Owing to the economic risks arising from the imposition of martial law, foreign investors have opted to suspend the attraction of financial resources to the Ukrainian

economy. The discernible dynamics of foreign investment are encapsulated in Table 1.

Table 1 - Dynamics of foreign investment in 2018-2022 in UAH billion [3]

Indicator	Year				
	2018	2019	2020	2021	2022
1	2	3	4	5	6
Capital investments in the economy in UAH billions	578,7	624,0	419,8	474,4	390,9
Nominal GDP for the year in UAH billions	3558,7	3974,6	4194,1	5459,6	5191,1
Share of foreign investment in GDP, %	16,5	15,6	10,0	8,6	7,5

Throughout the scrutinized period, the volume of investments directed toward the Ukrainian economy exhibited fluctuations. The noteworthy decline in attracting investor financial resources in 2020, amounting to 204.2 UAH billion, was primarily instigated by the pervasive impact of the COVID-19 virus, which, in turn, led to a partial suspension of investment activity. Similarly, the year 2022 is marked by a significant reduction in capital investment, witnessing a decrease of 83.5 UAH billion compared to the preceding year. This downturn is attributed to the unstable financial and economic situation in the country precipitated by the full-scale invasion from the aggressor nation. Under these challenging circumstances, the imperative to attract foreign investment takes on heightened significance as it becomes a pivotal priority for establishing the financial groundwork necessary for Ukraine's post-war reconstruction.

The breakdown of foreign investment by economic sector in 2022 is delineated as follows: industry - 39%, trade - 18%, real estate operations - 14%, financial and insurance activities - 13%, information and telecommunications - 8%, and professional, technical, and scientific activities - 8% [3].

Table 2 - Foreign direct investment in Ukraine in 2012-2022 in USD million [3]

Year	Foreign direct investment in Ukraine		Foreign direct investment from Ukraine		Balance	
	USD Million	Increase/decrease over the year	USD Million	Increase/decrease over the year	USD Million	Increase/decrease over the year, %
1	2	3	4	5	6	7
2012	8401	1194	1206	1014	+7195	2,6
2013	4499	-3902	420	-786	+4079	-43,3
2014	410	-4089	111	-309	+299	-92,7
2015	-458	-868	-51	-162	-407	-236,1
2016	3810	4268	16	67	+3794	-1032,2
2017	3692	-118	8	-8	+3684	-2,9
2018	4455	763	-5	-13	+4460	21,1
2019	5860	1405	648	653	+5212	16,9
2020	-868	-6728	82	-566	-950	-118,2
2021	6687	7555	-198	-280	+6885	-824,7
2022	190	-6497	159	357	+31	-99,5

Examining the trajectory of foreign direct investment from 2012 to 2022 reveals a distinct pattern: a pronounced decline in investment occurred from 2013 to 2015, attributable to the outbreak of the military conflict in eastern Ukraine. Subsequently, until 2020, the

volume of foreign direct investment experienced frequent fluctuations, with a renewed downturn in 2020 due to the adverse impact of the COVID-19 pandemic. In 2022, the escalation of war in Ukraine further exacerbated the situation, resulting in a mere USD 190 million in investment.

It is noteworthy that notwithstanding the prevailing financial instability, foreign investors continue to allocate funds to Ukraine. Notably, in 2022, the most significant contributors to Ukraine's economy were Cyprus (30.6%) and the Netherlands (20.4%). Over recent years, there has been an upward trend in investment from the United Kingdom and Switzerland, while investments from Poland, France, and other countries have also shown an increase. However, it is essential to acknowledge that European countries, as a whole, do not attract substantial investment resources to Ukraine's economy. The full-scale invasion and the imperative to support Ukraine were pivotal factors contributing to the decline in investment activity among European investors in 2022.

Emphasizing the current exigency, Ukraine finds itself in a critical need to attract additional financial resources in the form of foreign investment. This imperative arises due to direct losses to Ukraine's economy from hostilities, including the destruction of residential and non-residential buildings and infrastructure, amounting to USD 143.8 billion (as of May 2023). Furthermore, Ukraine's reconstruction requirements are estimated at USD 41.1 billion [6, 7].

The imperative for Ukraine's economic recovery hinges on the successful attraction of foreign investment. Consequently, the Government has formulated a National Strategy for Increasing Foreign Direct Investment in Ukraine until 2030. This strategic framework serves as an operational action plan encompassing both cross-sectoral and sectoral incentives tailored to augment foreign investment [5].

It is essential to acknowledge the inherent complexity in forecasting scenarios for changes in economic growth and foreign direct investment in Ukraine amid martial law. The intricacy arises from the heightened risk of uncertainty, with these indicators significantly contingent upon the duration of active hostilities—an element that remains indeterminate. In light of this, our focus will be on identifying the factors exerting a negative impact on the formation of Ukraine's investment attractiveness to foreign investors. Additionally, we aim to substantiate priority areas for enhancing the mechanism designed to attract additional financial resources in the form of investments.

Presently, the impediments to the inflow of foreign investment into Ukraine, particularly from developed nations, encompass a multifaceted array of factors:

- The ongoing military and political situation stemming from the full-scale invasion and active hostilities.
- Instability and uncertainty in legislative actions, coupled with frequent changes in tax policy.
- Challenges related to logistics and export-import operations.
- Economic system instability under martial law, resulting in a decline in the competitiveness of Ukrainian goods and services in the international market.
- Escalating pollution of the ecosystem, diminished soil fertility, and landmines pose significant concerns.
- The inconvertibility of national currencies.
- Commercial and legal complexities, compounded by a notable deficiency in market information and other related challenges.
- The pervasive high level of corruption, acting as a deterrent to potential foreign financial investors.

–A convoluted bureaucratic mechanism, accompanied by challenges in obtaining permits and licenses [9, p. 57].

The amalgamation of the aforementioned factors collectively diminishes the investment attractiveness of Ukraine for foreign investors. The prevailing military and political instability introduces an element of uncertainty that renders foreign investors cautious about committing resources to the country. Widespread corruption across various levels of Ukrainian society and within the government poses a significant impediment, elevating business risks and costs, thereby dissuading foreign investors. Inadequate regulation of the tax system contributes to tax uncertainty, imposing additional administrative and financial burdens on businesses. The overall unstable economic environment, coupled with bureaucratic obstacles, further impedes the development of investment activity in Ukraine.

After examining the factors influencing the decline in investment attractiveness, the following recommendations are systematized and substantiated to enhance investment appeal and augment the volume of investment resources:

1. Formulate a legislative framework designed to mitigate corruption and enhance investor rights, encompassing both domestic and foreign investors. This framework should be founded on principles that ensure insurance provision, bolster security, and furnish state protection guarantees to foreign investors.

2. Align the justice system with European standards to instill confidence and transparency, fostering an environment conducive to investment.

3. Separation of Political and Business Interests: Implement measures to separate political and business interests, thereby reducing the influence of oligarchic structures and promoting fair competition.

4. Tax Burden Reduction: Implement measures to decrease the tax burden, particularly when funds are reinvested in the national economy. Introduce tax privileges, such as exemptions for investment activities contributing to the restoration of areas affected by military operations.

5. Logistics Route Development: Undertake continued efforts to establish new and alternative logistics routes to facilitate efficient trade and commerce.

6. Risk Identification and Elimination: At the state level, actively promote the identification and elimination of potential investment risks, enhancing the overall confidence of investors.

7. Streamline Administrative Processes: Develop a simplified administrative mechanism to obtain the necessary certificates and licenses, streamlining bureaucratic processes for foreign investors and facilitating the commencement of their activities [10, p. 8].

In our assessment, the aforementioned areas identified for enhancing the mechanism to attract foreign investment in Ukraine are deemed promising and hold the potential for significantly improving the efficiency and effectiveness of the country's investment potential. Moreover, they are anticipated to contribute to the more effective utilization of the foreign financial resources that have already been attracted.

Conclusions. Foreign investment constitutes a crucial component of Ukraine's economic growth. However, due to the imposition of martial law and the resulting deterioration in the investment climate, there has been a notable decline in the influx of foreign direct investment into the Ukrainian economy. Simultaneously, the Government has initiated the planning of an action plan and a mechanism to augment the volume of attracted investments. This involves creating favorable conditions, albeit within the constraints imposed by the current state of war, with a particular emphasis on implementing reforms closely tied to economic and investment activities.

By undertaking these measures, Ukraine aims to move closer to leveraging its investment potential optimally and successfully. This study underscores that foreign investment plays a pivotal role in supporting the functioning of Ukraine's economy under martial law, facilitating the post-war economic recovery, and enhancing the standard of living and quality of life for the population. For Ukraine, foreign investment serves as a fundamentally important additional source of financial resources, significantly contributing to the restoration and augmentation of fixed assets, the execution of investment plans and programs, and the provision of resources for innovative economic development.

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