Perspectives for Post-war Recovery in Ukraine in the Sphere of Attracting Foreign Direct Investments

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DOI: https://doi.org/10.32782/2707-8019/2023-1-5

Abstract. *This article examines the trajectory and potential resurgence of foreign direct investment (FDI) in post-war Ukraine. The purpose of this study is to determine how geopolitical and economic conditions, external aggression, political instability, and the COVID-19 pandemic have impacted FDI in Ukraine over the past few years. The declining and recovering trends of FDI in Ukraine are examined using historical analysis and a comprehensive review of policies and economic indicators. Regional conflicts and political unrest led to a sharp decline in foreign direct investment in 2014 and 2015, followed by a revival beginning in 2015, with the exception of a brief lapse in 2017. However, the global COVID-19 pandemic again led to a decline in foreign investments, with an increase in 2021 due to improvements in the country's response to the pandemic and its economy. Notably, this increase in FDI was made possible by advancements in shareholder rights protection, open databases for beneficiaries, and simplifying construction permit procedures. The results highlight the effects of war and political instability on the confidence of foreign investors in Ukraine, with the war notably diminishing the investment attractiveness of Ukrainian firms, delaying key reforms, and shifting the geographic focus of FDI. In addition, the harmful effects of the war on living standards have affected domestic demand for goods and services. In terms of its practical value, the article argues that the post-war economic recovery of Ukraine is contingent on creating an environment conducive to direct foreign investment. It promotes the development of investment-attractive projects, particularly in sectors such as ecosystems, energy, agriculture, food, and national industry, while considering ESG sustainability criteria. It emphasizes that the path to recovery requires capitalizing on unique investment opportunities and calls for proactive reform and change management by the political leadership of the country. Consequently, our study provides valuable insights into the potential mechanisms for boosting FDI, ultimately guiding the reconstruction of the war-ravaged Ukrainian economy.*

Keywords: *war in Ukraine, foreign investments, FDI, economic development, investment attractiveness.*

JEL Classification: *E22, G11, O16*

1 Introduction

The full-scale war against Ukraine creates significant challenges for attracting foreign direct investment. Many investors refrain from investing in the country due to the instability and turbulence. This leads to a decrease in the volume of direct foreign investments and, accordingly, to a limited number of opportunities for the development of the Ukrainian economy.

However, government authorities and other stakeholders are taking action to reduce risks and increase the country's investment attractiveness. Ukraine's state authorities are introducing reforms to improve the business climate and reduce corruption.

The investment policy of the state is the research topic of a number of scientists, in particular Blank I., Boyko E., Geets V., Bekhtereva O., Krupka M., Dolishnyi M., Kryshan O., A. Peresada., Danylyshyn B., Bila S., Borshch L., Galchynskyi A., Geets V., Danylyshyn B., Denysenko M., Degtyar A., Koretsky M. This problem is also studied by foreign scientists – Markowitz D., Jonk M., Johnson H., Sharp U., Bailey J., Alexander G., and others.

The purpose of the study is to analyze the prospects for post-war recovery in Ukraine in the field of attracting foreign direct investment.

The object of research is foreign investments.

The subject of the study is the attraction of foreign direct investment in the conditions of the war in Ukraine.

Given the limited domestic sources of financing for the development of various areas of the economy,

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attracting foreign direct investment is an essential source of funding for specific priority projects. The need for financial resources is common in all countries of the world. Despite the existing difficulties and risks at the global and local levels, there are and will be free investment resources that will be directed to countries, industries, and projects that correspond to the choice of investors, taking into account the system of factors affecting the expected results. In addition, it is worth noting that the decision to make investments may extend beyond maximizing the economic effect, despite its importance [2].

2 Foreign Direct Investment Landscape in Ukraine

Foreign direct investment (FDI) is a category of cross-border investment in which an investor-resident of one economy often shows a long-term interest and a significant degree of influence on an enterprise (institutional unit) in the financial or non-financial sectors of the economy located in another economy. Long-term interest means a long-term relationship between a direct investor and a direct investment company with significant influence. Evidence of such relations is the ownership substantial percentage of the company's voting rights or other equivalent assets if the company operates in a different legal structure [11]. Peculiarities of the regime of foreign investment in the territory of Ukraine, based on the goals, principles, and provisions of the legislation of Ukraine, are determined by the Law of Ukraine "On the regime of foreign investment" [6]. In addition, the Law of Ukraine "On Investment Activity" defines the general legal, economic, and social conditions for investment activity on the territory of Ukraine [5].

Foreign direct investment is a crucial element of international economic integration as it creates stable and long-term linkages between economies, and FDI is an essential channel of technology transfer between countries.

During 2014–2015, a set of measures was implemented in Ukraine to create new conditions for conducting business, which should ensure the reproduction of the Ukrainian economy. During 2014, a significant drop in the volume of investments was observed (occupation of the territory of the Republic of Crimea, the beginning of the war in Donbas, and the unstable political situation in the country in general). Since 2015, investments in Ukraine began to grow again (except in 2017, when their value decreased relative to 2016). In 2018 and 2019, we saw a positive trend in increasing the volume of foreign direct investments. In 2019, direct foreign investors from more than 80 countries invested more than USD 3 billion in the economy of Ukraine [3].

In 2020, the rate of decrease of foreign investments in the country fell compared to the previous year. The FDI balance was negative, which indicated the flight of foreign capital from Ukraine and, accordingly, the loss of investment prospectives. This process was related to the negative economic trends that developed due to the quarantine introduced during the COVID-19 pandemic, as foreign investors sought more attractive options for investing funds. Compared to 2020, foreign direct investment increased significantly in 2021, reaching USD 6.5 billion. The reason for this growth was a significant decrease in the spread of the virus, a more or less stable situation, and the revitalization of economic processes in Ukraine [7]. In 2021, Ukraine managed to improve a number of indicators taken into account in the evaluation by the World Bank. Such results were achieved by improving the procedure for the protection of shareholders' rights and open databases of beneficiaries, which contributed to the improvement of transparency in the conclusion of agreements for shareholders and simplifying permitting procedures in the construction process, and shortening the procedure in general.

With the beginning of Russian aggression in February 2022, Ukraine lost the opportunity for economic growth and attracting foreign investment in the business sector for many reasons. The most obvious and primary is the investor's risk of losing the invested funds. Thus, the complex of realized and potential dangers in the functioning of Ukrainian businesses grows and makes it impossible to fully compensate with the help of state funding, and an additional burden on domestic business arises [10].

In 2022, foreign direct investment in Ukraine exceeded foreign direct investment from Ukraine by only $31 million, which indicates the low interest of foreign investors in investing in the country's economy, which is in a state of war. Investors carefully analyze political, economic, and social risks and consider investing in countries with high risks inadvisable, which may lead to the loss of investment profit and the principal amount of investment [4].

3 War-Induced Ukrainian FDI Shifts

Key consequences and risks of the war in Ukraine in attracting foreign direct investment include:

Decrease in investment volumes: War and political instability create a negative image of

Ukraine, reducing foreign investors' interest in investing capital in Ukrainian enterprises.

Increased risks: War and political instability increase risks for investors and reduce the stability of the investment climate in Ukraine. Investors may not see sustainable prospects for the development of enterprises and markets of the Ukrainian economy.

Deterioration of competitiveness: The war leads to a decrease in the competitiveness of Ukrainian enterprises.

Postponement of reforms: The war causes the postponement of reforms significant to investors, such as judicial system reform, anti-corruption reforms, and others. It can negatively affect the investment climate and delay entrepreneurship development in Ukraine.

Change in the geography of investments: The war changes the geography of direct foreign investment in Ukraine. Investors are reducing their activity in the areas most affected by the war, while other regions may experience an increase in investment.

Deterioration of the standard of living of the population: The war leads to the deterioration of the standard of living of the population, which as a result, leads to a decrease in the demand for goods and services of domestic companies and, accordingly, to a decrease in investment in the country's economy.

The future success of Ukraine's recovery and economic development plan will depend on the attractiveness of the conditions for direct foreign capital investment, which can be achieved through the programming and development of an economic development strategy [8].

Ukrainian business already needs to create investment-attractive projects, primarily focusing on ecosystems and energy, which has the potential for export to EU countries. Additionally, investors are still interested in renewable energy sectors, energy resource diversification, infrastructure development, security, climate investment, and the digital economy. Other directions that are considered attractive for investments are the food sector and agriculture since the food security of many other countries depends on the agricultural products of Ukraine, as well as the revival of such branches of the national industry as oil refining, iron ore, and metallurgical industries, oil and gas extraction, engineering, etc.

Furthermore, what is essential, at all levels of management, investment priorities should be reassessed, taking into account ESG sustainability criteria (environmental, social, and governance).

Summing up, currently, the main components of the future recovery and successful development of Ukraine's economy in the post-war period are international support, effective investment policy, modern reorganization, and restructuring of the economy [9]. Official foreign resources for the recovery of Ukraine will undoubtedly be necessary, but it is already clear that more than they will be needed for successful reconstruction.

Therefore, Ukraine's volume of attracting foreign direct investment will be decisive. The war-torn country's reconstruction will open up tremendous and unique investment opportunities. However, they will depend (especially for private capital) on protecting property rights and the existence of at least minimum standards of public services and the business environment. Especially in areas where progress has been insufficient so far, FDI inflows to Ukraine since 2014 have been so low and insufficient. Reforms are only possible with reformers who do not wait for orders from above but implement the necessary changes and build and strengthen the institutions necessary for the system's normal functioning.

As noted above, one of the main reasons why progress in reforms and integration after 2014, despite significant changes compared to previous periods, is still insufficient and does not produce more visible results is the lack of responsibility for reforms on the part of the Ukrainian political leadership [1]. Among the few positive developments that increase investment opportunities are granting Ukraine the status of a candidate for joining the EU and canceling customs duties and quotas for Ukrainian exports.

4 Conclusion

Therefore, direct foreign investments are significant both for enterprises and the state, as they are prerequisites for expanding international cooperation. To date, the war in Ukraine continues to have a negative impact on attracting foreign direct investment to the country. The war has increased political and economic uncertainty, increasing risks for investors. Ukraine bravely fights for its freedom and independence and the rights and freedom of people worldwide. Today, the main task is the victory of Ukraine, the return of territorial integrity and sovereignty. In order to attract foreign direct investment and ensure prospects, it is necessary to solve the problems that hinder the inflow of investment. Because the manifestations of these problems can be extremely negatively perceived by society, experiencing difficult trials due to the war, public authorities and the judicial system must ensure trust, increasing Ukraine's investment attractiveness.

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Дата надходження статті: 28.02.2023
Дата прийняття статті до публікації: 18.04.2023
Дата публікації статті: 28.04.2023