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## Priorities and Mechanisms for Enhancing Ukraine's Investment Strategy in the Post-War Reconstruction Period

**Abstract**

This article examines the current challenges and strategies for attracting foreign capital to Ukraine's post-war economic modernisation. Russia's full-scale invasion has had a significant impact on the Ukrainian economy, causing widespread damage to businesses and significant shifts in business activity and budget spending. In the face of these difficulties, a sound investment strategy is essential to support the country's future recovery and growth. *Methodology.* This study uses a mixed-methods approach, combining qualitative analysis and quantitative examination of economic and trade statistics, to evaluate strategies for attracting foreign investment and economic modernisation in post-war Ukraine. Traditionally dependent on foreign trade, including with its neighbours (such as Russia and Belarus), Ukraine's economy has undergone significant post-invasion changes, particularly in terms of trade dynamics and sectoral growth. The paper examines the context of Ukraine's trade agreements, its position in global markets and the impact of the war on its external economic relations. The analysis underlines the urgent need to reform and modernise key sectors such as agriculture and energy, and the crucial role of foreign investment in these areas. It underlines the importance of improving the investment climate, fostering competition, encouraging continuous innovation and improving the skills of the labour force in order to create a favourable environment for investment. The article also examines Ukraine's potential as a candidate for EU membership and how this status could enhance its investment attractiveness. It emphasises the need for Ukraine to align itself with European standards and to incorporate provisions relating to reconstruction and rehabilitation into its legal system. The *results* indicate that Ukraine's post-war economic recovery and modernisation depends heavily on targeted foreign investment and alignment with EU standards. The paper provides recommendations for a strategic investment policy, including the expansion of trade agreements, the development of quality infrastructure, the improvement of logistics with the EU, etc. Finally, the publication identifies priority sectors for investment that will lead to a transformative review of Ukrainian legislation and institutions, preparing the country for EU integration. This comprehensive approach and the coordinated support of the EU are crucial for Ukraine's recovery and long-term growth, underlining the important role of investment in achieving these goals. *Practical implications.* This study provides insights into Ukraine's post-war investment strategies and economic policies aimed at sustainable economic reconstruction and growth, improvement of the investment climate in Ukraine, and legislative reforms to ensure economic sustainability.

**Keywords**

foreign direct investment, investment activity, capital investment, Russian-Ukrainian war

**JEL:** E22, G11, F21



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**1 Introduction**

The full-scale invasion launched on 24 February 2022 against Ukraine has had a significant impact on business activity, export earnings and budget revenues, despite continued budgetary spending. The war has led to a significant decline in investment in Ukraine's economy. Many businesses were forced to reduce or stop production processes, and some were destroyed.

Now and during the post-war modernisation, the issue of attracting critical investments, defining priorities and mechanisms of investment strategies is one of the most important issues. It is necessary to have a clear but flexible strategy for economic development and prioritisation of industries, which creates conditions for investment in various sectors of the Ukrainian economy.

In the midst of the war, there was a notable change in the composition of investment. The volume of investment in material production has fallen, while investment in the social and defence sectors has risen. Investment during wartime is associated with increased risk due to the uncertainty of events, possible disruptions in the availability of essential resources and materials, and the potential for damage to infrastructure.

Rapid risk mitigation is critical to achieving investment returns in the midst of war. Foreign investors can provide financial and technological support to help Ukrainian businesses recover and grow. In the midst of war conditions in Ukraine, investment activity plays a crucial role in the recovery of the economy and ensuring its sustainable development. It enables the restoration of damaged resources, the establishment of new industries and the promotion of employment opportunities.

A considerable number of scientific works have been devoted to the problem of attracting foreign capital to Ukraine. It is worth mentioning the works of Ukrainian and foreign scientists, namely A. Nikolsko-Rzhevskiy, I. Pustovarova, V. Movchan, H. Janus, P. Vezeman and many others.

Despite the challenges, it is imperative to invest in Ukraine during times of war in order to facilitate economic recovery and promote sustainable long-term development. Furthermore, government initiatives to implement tax incentives that encourage investment, provide support through grants and loans, and create an appropriate investment climate are crucial.

## **2 Economic Dynamics and EU Integration in the Post-War Period**

Ukrainian society is living through the difficult times of the most destructive war in Europe since the Second World War. The Russian invasion caused terrible devastation in Ukraine, destroying a significant number of vital enterprises. Ukraine should now develop plans to rebuild and modernise the post-war economy in order to attract investment in various sectors of the economy. One of the most important steps is to review government structures to root out corruption and create a modern, effective system of governance. Measures should be taken to restore damaged businesses and infrastructure, diversify the economy, improve the investment climate and the country's attractiveness to foreign investment.

In addition to the essential measures already mentioned, the post-war recovery strategy for Ukraine should prioritise the reconstruction and modernisation of the economy through innovation and environmental sustainability. This should be achieved by using modern methods such as

scientific and strategic foresight in the context of realistic, optimistic and EU-aligned examples. In order to ensure that the recovery process is not only comprehensive, but also future-oriented, these strategies draw attention to the importance of innovative factors and environmental safety in the trajectory of sustainable development (Kharazishvili, Bugayko, Yashchyshyna, et al., 2023).

The very concept of an investment strategy is a set of various long-term goals in the field of capital investments, investments in financial assets, determining the optimal structure of investments, production development, as well as a set of actions aimed at achieving these goals. However, such a division is considered to be quite arbitrary, since numerous economic interpretations of this concept are united by the fact that they include the term "capital". This does not mean that these concepts are identical, because if they were, there would be no need to introduce the additional concept of "investment".

The Ukrainian economy has been dependent on foreign trade for several decades, while enjoying a favourable trade regime with other countries. In recent years, Ukraine's foreign trade has undergone structural changes. Imports from Russia decreased by 47.3%, while exports from Russia increased by 15.7%. In particular, Russia experienced an increase in mineral exports to Asian markets, which amounted to more than 61.2 billion USD (Steinbach, 2023).

During the years of independence, Ukraine has become a major player in the sale of food and raw materials, is well positioned in the global IT services market and is trying to grow despite the terrible war. Ukraine has recently significantly reduced its energy imports and the European Union has become Ukraine's largest trading partner. Foreign trade has been successful in recent years, but the same cannot be said for foreign investment. Ukraine should provide tax incentives and legal protection for investors, but this is a challenge. Problems within the government system and various corruption schemes have already deterred some foreign investors.

To address the difficulties in attracting foreign investment, Ukraine may benefit from examining the fluctuations in FDI and its influence on economic expansion, particularly in the context of post-war reconstruction. The historical impact of FDI on Ukraine's economic growth is crucial. The importance of boosting FDI, especially in high-tech sectors, to rejuvenate the post-conflict economy cannot be underestimated. It is necessary to create a conducive environment for investment, focusing on sectors with the highest potential for expansion and development. It will be essential to improve the legal and fiscal systems to protect and motivate investors (Babets, 2023). These measures will not

only facilitate the revival of the Ukrainian economy, but also ensure its sustainable expansion in the long term.

The full-scale war in Ukraine had a devastating effect on its already weak foreign economic relations. In the spring of 2022, Ukrainian exports of goods halved. This was due to the blockade of the Black Sea ports, which were the main routes for the delivery and receipt of goods. A few months later, the partial resumption of maritime transport of grain, fertilisers and other goods was allowed, but this was not enough for a full resumption of exports. The blockade focused on Ukraine's trade with the European Union, as its share rose to 70% of total exports (Nikolsko-Rzhevskiy, Onisiforov, Pustovarova, Repko, 2020).

In order to determine future priorities, where investments in Ukraine can be concentrated after the war, it is worth paying attention to the development of business communities in Ukraine.

The full-scale war led to a historic change in the relationship between Ukraine and the European Union. A few months after the start of the full-scale war, Ukraine became a candidate country for EU membership, which set measurable and concrete goals for Ukrainian policy for several decades to come and a clear path for future reforms. Russia's war against Ukraine also accelerated plans to develop transport and logistics routes between Ukraine and the EU (Movchan, Kostiv, Polushkin, 2022).

### **3 Emerging Sectors and EU Integration Challenges**

A significant expansion of transport corridors and an increase in the capacity of checkpoints are already planned. Ukraine already has a temporary agreement to improve Ukrainian hauliers' access to European countries. However, although this is a significant breakthrough in logistics, it is still necessary to unblock and free up the sea ports and routes through which the most efficient delivery of goods and raw materials to the EU has taken place, as this route is not only important but also financially profitable. Nevertheless, the improvement of ground logistics between Ukraine and Europe will have a significant impact in the future. In addition, the EU has accelerated its shift towards renewable energy sources, diversified gas imports and increased coal use amid rising energy prices and a reorientation of policy towards geopolitical security (Blondeel, Dupont, Brisbois, Kuzemko, 2022).

Taking into account the already existing losses in Ukraine, the structure of future exports could be as follows: recovery of metal exports; expansion of arms exports; offer of innovative products; expansion of IT business services; restoration of export of a significant share of grain and other agricultural products.

Ukraine will import all petroleum products in the short term as many of its production facilities have been destroyed or damaged. This also applies to various goods that are currently needed on the domestic market and were previously produced by national companies. In the long term, however, energy imports will decline as domestic production of petroleum products resumes after the end of the war. At the same time, the need to import machinery and equipment needed for reconstruction and modernisation will increase. Future trade will be concentrated in European countries, and road routes will play an important role, even if maritime transport is fully restored. Historically, almost all countries that have joined the EU have gone through a difficult period of reconstruction, which is a natural consequence of membership of the customs union.

Promising sectors of Ukraine's economy that will be attractive for investment in the future are: the energy sector, especially green energy, taking into account the risks associated with security, traditional energy sources and various climate commitments; the engineering industry and various equipment, including military equipment, this will be a particularly attractive sector given the development of domestic production according to NATO standards (Vezeman, Kuimova, Vezeman, 2022); information, communication and technology – this sector is attractive even now, during a full-scale war, and will eventually take the central place in the service export sector; the construction industry and building materials, this industry will also become a robust sector for investment, since after the war a complete and large-scale reconstruction and recovery will begin, while there will be a need to build modern infrastructure taking into account EU standards, this industry will be attractive not for a few years, but for decades; food industry and agriculture, these sectors are already competitive and have a specific place on the international market and, as the present shows, have proved to be stable even during the war; the metallurgical industry, which today is largely destroyed, will in the future require significant funds for restoration, as well as the provision of qualified personnel; the pharmaceutical market and the medical industry, the war has already intensified investments in this sector, so it will continue to attract investors (Taran, 2020).

The REPowerEU framework was established in response to Russia's invasion of Ukraine and focuses on rapidly reducing Europe's dependence on Russian fossil fuels, aiming to phase out two-thirds of gas imports by the end of 2022, and includes significant investments in renewable energy and energy efficiency, reflecting a significant shift in European energy policy towards greater environmental sustainability and energy security (Blondeel, Dupont, Brisbois, Kuzemko, 2022).

Ukraine's status as a candidate for EU membership increases its attractiveness as an investment location. However, in order to take advantage of all the opportunities, it is necessary to set clear priorities and, in particular, to solve several problems, namely the protection of property rights, the fight against corruption and ensuring the rule of law, which are deeply rooted in Ukraine. At the same time, it is necessary to take into account the challenges of the war, which involved the displacement of people, the destruction of infrastructure, and the loss and destruction of economic sectors worth billions of dollars.

It should also be borne in mind that investment and trade depend on human capital, as it is a solid foundation for the reconstruction and recovery of core and ancillary industries.

#### 4 Conclusions

Therefore, with the status of a candidate for the European Union, Ukraine must incorporate European standards and integration provisions in every field of activity, including those related to reconstruction and rehabilitation. Membership in the European Union implies many norms and rules that need to be implemented and enshrined in Ukrainian legislation. For effective planning and use of the funds that will be received, it is necessary to ensure the implementation of these rules and regulations in the legislative system.

Indeed, today there is already a set of recommendations related to strategic investment policy.

First, to expand the conclusion of further free trade agreements with countries that have already signed agreements or are negotiating with the EU. Second, it is necessary to continue to rebuild and develop the quality infrastructure, including the restoration of exceptional facilities and laboratories that are currently destroyed due to the war, build new facilities, and build the capacity of Ukrainian civil servants directly involved in quality control.

Third, to develop and improve logistics and transport links between Ukraine and the European Union for various modes of transport. This requires the construction of intermodal transport hubs.

Fourth, to implement the existing opportunities of the EU-Ukraine Association Agreement. Conclude an Agreement on Conformity Assessment and Acceptance of Industrial Products, which opens up the possibility of mutual recognition of food equivalence. Sign special transport agreements that will open up the possibility of continuing to use roads not only in wartime but also in the long term, which will open up access to the EU market for Ukrainian carriers. It is also important to introduce internal market conditions for various services, such as postal, telecommunications, maritime and financial services. Opening up the public procurement market will be necessary and relevant.

Fifth, to join the latest EU sectoral initiatives related to the creation and development of the EU Digital Single Market and participate in the implementation of the EU Green Deal, especially since this industry is highly developed in Ukraine in various sectors.

Sixth, introduce new insurance schemes for risks associated with foreign investment. European experts suggest creating multi-donor funds to cover non-economic risks for foreign investors.

Seventh and most importantly, ensure the completion of reforms related to the rule of law and property rights protection, as this is a top priority for attracting investment not only in the short term, but also for the country's long-term growth.

Summarising the above, it can be concluded that investments as an economic concept are a commodity or a set of commodities invested in business and/or other activities in order to generate profit and/or achieve other beneficial effects. Compliance with these recommendations and the identification of priority sectors for investment will create the basis for a powerful transformation of Ukrainian legislation and institutions during the country's preparation for EU membership. At the same time, the main condition for the implementation of all recommendations is the role of the EU, which should coordinate and monitor their implementation. This means technical and financial assistance and full readiness to integrate Ukrainian sectors and spheres, provided by the Association Agreement and other sectoral agreements.

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