THE IMPACT OF FOREIGN INVESTMENT ON UKRAINE'S COMPETITIVENESS AFTER THE WAR

Maryana Kohut

Abstract. The purpose of the paper is to critically analyse and understand how foreign investment can affect and potentially improve Ukraine’s competitiveness in the global market after the war. Methodology. This study aims to analyse the various aspects and dimensions of foreign investment, in particular direct investment flows, and their impact on key sectors of the economy in Ukraine in the post-war period. In addition, it attempts to assess the challenges and opportunities that foreign investment creates in the context of rebuilding and modernising Ukraine’s infrastructure, enhancing its technological and innovation potential, and strengthening its labour force and industrial base. The survey results showed that foreign investment has had a significant positive impact on Ukraine’s economic growth in the post-war period, especially in the restoration of key industries and infrastructure. FDI plays an important role in attracting advanced technologies and expertise to Ukraine, thereby increasing its competitiveness. The document emphasises the need for policy reforms to create a more favourable investment climate, including improved legal protection for investors, anti-corruption measures and increased efficiency of the bureaucracy. The results of the study point to the existing challenges in attracting foreign investment, such as political instability, infrastructure deficit and unclear investment legislation. Finally, the publication forecasts the long-term impact of foreign investment on economic stability and growth trajectory in Ukraine, which leads to cautiously optimistic conclusions. Practical implications. The research aims to provide insights and recommendations on how Ukraine can effectively use foreign investment to rebuild its economy, increase its global competitiveness and ensure long-term sustainable development in the post-war period. The SWOT analysis in this article helps to identify strategic areas for improvement and capitalisation. It can help them formulate policies to improve the investment climate by focusing on strengthening strengths, mitigating weaknesses, seizing opportunities and protecting against threats. Value/Originality. The value and originality of the paper lies in its comprehensive and detailed study of how foreign investment can be a key factor in reforming and reviving Ukraine’s economy after the war. The paper specifically examines the post-war economic landscape of Ukraine, a topic that has not been widely studied. It provides a fresh perspective on the challenges and opportunities for a country recovering from war.

Keywords: foreign direct investment, capital investment, investment climate, international trade, economic development.

JEL Classification: F21, F52, O52, P33

1. Introduction

Foreign investment plays a key role in increasing a country’s competitiveness in the global market. They not only provide the necessary capital for economic development, but also make a significant contribution to technological, industrial and social development.

First, foreign investment contributes to economic growth. It provides additional financial resources that can be invested in critical sectors such as infrastructure, education and health. This in turn stimulates domestic production and increases the overall productivity of the economy.

Another important aspect is technological upgrading. Foreign investors often bring with them modern technologies and advanced management practices that improve the efficiency of local firms and stimulate innovation. This leads to higher quality products, lower production costs and increased competitiveness in international markets.
Foreign investment is also important for job creation. Not only do they provide direct employment, but they also contribute to the development of small and medium-sized enterprises through supply chains and services. This raises overall employment levels and improves living standards. No less important is the impact of foreign investment on infrastructure. Investments in transport infrastructure, energy and communications improve the business environment, facilitate logistics and reduce the cost of doing business (Valenzuela-Klagges, Fuenzalida-O’Shee, 2020).

However, it should be noted that foreign investment can also have negative consequences. In particular, there is a risk of losing control over strategically important sectors of the economy and becoming dependent on external investors.

2. War Impact on Ukraine’s Investment Climate

The war in Ukraine has had and continues to have a significant impact on the country’s investment climate. The hostilities have led to a significant increase in political and economic risk. This applies not only directly to the war zones, but also to the country as a whole. This situation is a consequence of the fact that investors tend to avoid regions with high levels of conflict or war within the country due to potential losses and instability.

The reason for the decline in investment during wartime is, of course, that hostilities can lead to the destruction of infrastructure and the disruption of normal logistics and production chains, which has a negative impact on business operations.

As a result, foreign investors often withdraw or freeze their investments in Ukraine due to increasing risks and uncertainties. On the other hand, post-war reconstruction can attract investment in rebuilding infrastructure, housing, manufacturing and other key sectors of the economy.

Ukraine’s recovery from the war could lead to increased international aid and investment in the future, especially from allied countries and international organisations.

It is worth analysing foreign direct investment (FDI) inflows from 2002 to 2023 to understand economic trends, investment patterns and the overall business climate (Figure 1). FDI is a crucial driver of economic growth. That is why analysing this data over a twenty-year period allows to understand how foreign investment has influenced the country’s economic development, including periods of rapid growth or stagnation.

Based on the data on foreign direct investment (FDI) in Ukraine for the period from 2002 to 2023 (Minfin, 2023; National Bank of Ukraine, 2023), the following conclusions can be drawn.

There are clear periods of growth and decline in investment. For example, there was a significant increase in FDI between 2004 and 2008. This was due to improvements in the investment climate, Ukraine’s accession to the WTO in 2008 and the global economic situation.

A significant decrease in FDI in 2009 (4,816 million USD) can be explained by the global financial crisis, which led to a decline in investment activity at the global level.

Negative indicators in 2015 and 2020 (-458 and -868 million USD, respectively) indicate an outflow
of investment from the country. This situation was caused by political and economic instability, in particular the annexation of Crimea in 2014 and the impact of COVID-19.

The periods after the crises of 2010–2011 and 2016–2019 are characterised by a revival in investment activity, which indicates a recovery in investor confidence and stabilisation of conditions in the country.

The positive figures for 2022–2023 (1,152 and 4,095 million USD) may indicate a certain recovery in Ukraine's economy and investment attractiveness, despite the ongoing hostilities and political instability.

In general, the dynamics of FDI in Ukraine show the sensitivity of investment activity to external and internal shocks, including global economic crises, political instability and regional conflicts or wars. This sensitivity highlights the need for sound economic policies and a stable political environment to attract FDI. It also underscores the importance of Ukraine's ability to adapt quickly to changing global and local economic conditions. The resilience of the investment climate in Ukraine also depends on effective crisis management strategies and the ability to mitigate the risks associated with such shocks (Lehkostup and Sainchuk, 2022). In addition, this situation requires diversification of investment sources and sectors to reduce dependence on specific external markets or industries. Strengthening institutional frameworks, improving regulatory policies and ensuring transparency and good governance are essential to reassure investors and sustain FDI inflows. Finally, improving infrastructure development and human capital can also play an important role in making Ukraine more resilient to external and internal shocks, thereby stabilising and potentially increasing foreign investment over time.

3. Challenges and Opportunities for Post-War Recovery

Overall, the war in Ukraine poses significant challenges to the investment climate, while opening up new opportunities for post-war recovery and development. The key to restoring the country's investment potential is to stabilise the situation and develop effective recovery and development strategies. In today's realities, it is advisable to conduct a SWOT analysis of Ukraine's investment attractiveness.

A SWOT analysis of Ukraine's investment attractiveness is important because it allows the government and business community to identify the key strengths and weaknesses of the country's economy. Such information provides a basis for developing effective investment attraction strategies and will allow Ukraine to prepare for and adapt to changing market conditions.

Thus, SWOT analysis is an important tool for assessing Ukraine's investment attractiveness, allowing the country to focus on its strengths, minimise its weaknesses, seize opportunities and avoid potential threats.

The SWOT analysis of Ukraine's investment attractiveness is presented in Table 1.

This SWOT analysis highlights the key factors to consider when assessing Ukraine's investment potential. It is important that the government and the business community work together to minimise weaknesses and threats, and effectively exploit existing strengths and opportunities.

Based on the SWOT analysis, several conclusions can be drawn about the current situation in Ukraine and its potential for future development:

<p>| Table 1 |</p>
<table>
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<tr>
<th>SWOT analysis of Ukraine's investment attractiveness</th>
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<tr>
<td><strong>Strengths</strong></td>
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<tr>
<td>1. Ukraine is home to a highly skilled workforce, especially in sectors such as IT and engineering.</td>
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<td>2. The country boasts some of the most fertile soils in the world, making it an excellent location for agricultural activities.</td>
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<td>3. Ukraine's strategic location between Europe and Asia enhances its trade and logistics capabilities.</td>
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<td>4. The country has a strong industrial base with well-developed sectors, including metallurgy, machine building and chemicals.</td>
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<tr>
<td><strong>Opportunities</strong></td>
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<td>1. Initiating a land market opens up new prospects for agriculture.</td>
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<td>2. Strengthening economic ties with the European Union enhances integration.</td>
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<tr>
<td>3. There is room for growth in renewable energy sources, including solar and wind power.</td>
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<tr>
<td>4. There is a growing need for IT services and software development.</td>
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</tbody>
</table>
1. The launch of the land market in Ukraine opens up significant opportunities for agriculture, and the country's potential for renewable energy development, especially solar and wind, is noteworthy. These sectors are promising areas for investment and development.

2. The strengthening of economic ties with the European Union indicates a positive move towards greater economic integration, which could benefit various sectors of the economy. In addition, the growing demand for IT services and software development highlights Ukraine's strengths in the IT sector, positioning it as a competitive player in the global technology outsourcing market.

3. The ongoing war and vulnerability to international economic fluctuations pose significant challenges. They not only affect the stability and security of the country, but also create some uncertainty in the investment climate. In addition, underdeveloped infrastructure in the transport, energy and communications sectors remains a significant obstacle.

4. Challenges such as high levels of corruption and complex bureaucratic processes make it difficult to do business in Ukraine. These factors can deter potential investors and complicate operational processes for businesses.

5. Ukraine faces fierce competition from other countries with similar conditions and offerings, especially in attracting foreign investment. To stand out, Ukraine needs to capitalise on its unique strengths and effectively address its domestic challenges.

In summary, Ukraine has significant potential in various sectors, including agriculture, renewable energy and IT, but it must overcome internal challenges and external competitive pressures. Efforts to increase stability, simplify bureaucratic processes and improve infrastructure will be crucial to realising its full potential and attracting more investment.

4. Post-War Ukraine

Ukraine could become an attractive destination for foreign investment after the war ends for several reasons. Consider the main ones:

1. Post-war reconstruction. After the cessation of hostilities, there will be a significant demand for rebuilding and restoring infrastructure, which opens up a wide range of investment opportunities in the construction, transport, energy and telecommunications sectors.

2. Government investment incentives. To attract foreign capital, especially in vital economic sectors, the government can introduce a variety of incentives, including tax reductions, financial subsidies and additional benefits. In addition, these initiatives may include regulatory reforms and assistance in navigating the local business environment to further encourage foreign investment.

3. Workforce strengths. Ukraine boasts a large labour force that is skilled in areas such as IT, engineering and manufacturing. Labour costs are competitively lower than in many other European countries. In addition to this, the workforce is not only skilled but also adaptable and fluent in several languages, which increases its attractiveness on the global market (Tymo, 2022).

4. Strategic geographical advantages. Ukraine's location at the crossroads between Europe and Asia offers significant strategic advantages for trade and transit. This positioning not only facilitates access to diverse markets, but also potentially turns Ukraine into a key logistics hub, increasing its attractiveness for international trade and supply chain operations.

5. Global support and assistance. Ukraine is likely to receive significant support from global institutions and Western governments. This support may take various forms, such as cash assistance, loans and direct investment. In addition to financial support, it may also include technical assistance, exchange of experience and partnerships in key development projects, which would further strengthen Ukraine's international relations and economic stability.

6. Improving the regulatory environment and transparency. The government has an opportunity to accelerate changes aimed at improving the business environment. This includes creating reliable legal safeguards for investment and intensifying efforts to fight corruption. Such improvements will not only increase the country's attractiveness to investors, but will also contribute to a more stable and transparent business environment, which will contribute to sustainable economic growth and investor confidence.

7. Innovation and technological progress. Ukraine has the potential to become a centre of excellence, especially in areas such as agricultural technology, information technology and renewable energy. This potential is underpinned by a growing research and development sector, cooperation with international technology communities, and a growing focus on clean and sustainable technologies, positioning Ukraine as a key player in global innovation trends.

8. Investment prospects in agriculture. The opening of the land market offers attractive prospects for investment in agriculture and related sectors. This step not only opens the way for direct land acquisition, but also encourages investment in agribusiness, sustainable farming practices, and agricultural technology development, which increases the overall attractiveness of Ukraine's agricultural sector to global investors (Chapliak, 2022).
5. Findings

To take full advantage of these opportunities, it is vital to create a stable and predictable environment. Confidence in the future can be enhanced by implementing effective public policies that provide both legal and economic security for investment. This includes strengthening the rule of law, creating transparent and efficient regulatory frameworks, and fostering a business-friendly climate that minimises red tape. In addition, proactive measures to maintain political stability and consistent economic policies will further reassure investors. Building a strong institutional base and promoting good governance practices are essential to creating a sustainable and investment-attractive landscape. These efforts should be complemented by an ongoing dialogue with the business community and international partners to continuously align policies with evolving market needs and global standards.

6. Conclusions

Due to the ongoing hostilities and constant attacks on civilian and industrial infrastructure, the prospects for attracting investment to Ukraine remain limited. Only investment projects in the regions bordering Europe, focused on logistics, exports of Ukrainian food and imports of necessary resources, are realistically possible.

At the same time, Ukraine's IT sector continues to demonstrate resilience. In 2022, despite the war, the investment company Horizon Capital, together with the International Finance Corporation (IFC) and other financial institutions, created a 200 million USD investment fund to support Ukrainian startups (National Bank of Ukraine, 2023). It is important to note that many Ukrainian IT companies work with clients abroad and are not dependent on local conditions. This has allowed many of them to relocate their employees or even entire offices outside of Ukraine to avoid military influence.

However, despite these circumstances, the IT industry is likely to remain the main beneficiary of investment in 2023. The sector will continue to receive funding as long as the hostilities do not seriously affect its operations and capabilities.

Thus, foreign investment is absolutely essential for Ukraine, as it plays a crucial role in shaping the country’s competitiveness. They stimulate economic development, increase production efficiency, create jobs and improve infrastructure. However, to maximise the benefits, it is important to ensure that foreign investment is managed in a balanced manner that takes into account national interests and sustainable development goals.

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Minfin (2023). Direct foreign investments in Ukraine. Available at: https://index.minfin.com.ua/ua/economy/fdi/


Received on: 19th of February, 2024
Accepted on: 29th of March, 2024
Published on: 30th of April, 2024