

# World experience of finding foreign investments as the crucial key to economic development in Ukraine

Світовий досвід пошуку іноземних інвестицій як ключовий фактор економічного розвитку України

Gleb Fedorov

## Key words:

*investments, foreign investments, investment process management, investment climate, investment activity, state regulation.*

## Ключові слова:

*інвестиції, іноземні інвестиції, управління інвестиційним процесом, інвестиційний клімат, інвестиційна діяльність, державне регулювання.*

**Problem setting.** The need to maintain the positive dynamics of economic growth achieved in recent years, as well as further structural reforms in Ukraine, demonstrate the relevance of finding potential sources of investment resources. World practice convinces that in the absence of their clear structure, due to quantitative and qualitative indicators, it is impossible to achieve the required level of development and dynamism of investment processes.

In the face of the outflow of investment capital, given the lack of security guarantees for an investor and the high degree of risk, the global trend to reduce bank lending is an additional factor inhibiting Ukraine's economic development. The massive outflow of deposits, significant internal imbalances in banking institutions and the increased access to world financial markets do not allow lowering rates on loans and their availability for small and medium-sized businesses.

**Recent research and publication analysis,** which initiated the solution to this problem. The question of the formation of the favorable investment climate is constantly in the field of scientists. Studying the formation of a favorable investment climate enables to more effectively use its investment potential and successfully implement its own European integration strategy.

The problems of attraction and regulation of foreign direct investment in general, as well as in the context of globalization and integration processes in their writings, were studied by foreign scholars such as J·Daning, J·Keynes, A·Marshall, J·Mill, T·Ozava, R·Mirdala, M·Porter, L·Pelttek, M·Rogalsky, P·Samuelson, L·Torou, P·Fisher, M·Friedman, D·Holland, G·Hanson. Among Ukrainian researchers, this issue was covered by V·Budkin, A·Davydychenko, O·Gavryliuk, P·Gaiducky, S·Gutkevich, E·Grebennikov, D·Lukyanenko, S·Zaharin, I·Ivanov, V·Lyubimov, O·Kazakova, N·Makarius, Y·Mahogon, V·Marcin, V·Melnik, A·Nosova, T·Matsibora, A·Nava, A·Poruchnik, S·Pisarenko, O·Rogach, V·Fedorenko, A·Filipenko V·Khotta, O·Shnirkov and others.

**Identification of previously unsettled parts of the general problem to which the article is devoted.** However, despite the well-founded interest in creating a favorable investment climate, it will allow the best use of all the positive effects of foreign investment for the development of investment infrastructure, improving business climate, ensuring sustainable economic growth and raising the living standard of the population.

**Paper objective.** The purpose of the paper is to summarize theoretical, methodological and practical foundations for the formation of a favorable investment climate for the Ukrainian economy.

## Paper main body.

Worldwide practice shows that the effective use of the potential of foreign direct investment is an effective means of economic development on the basis of intensification, modernization of production, introduction of innovations, increase of resource efficiency and application of modern management.

An innovative way of developing an economy of any country is impossible without attracting foreign investment. Foreign investment provides not only an inflow of additional capital, but also a transfer of the modern technologies, management methods, know-how, which positively affects the development and quality of business processes, improving product quality, ensuring high efficiency of the economy and quality of life of the population. Particular role in the intensification of investment activity in Ukraine should be played by attracting foreign direct investment on mutually beneficial terms, primarily with a view to implementing joint projects for solving the problems of structural transformation of the economy, introduction of new technologies and increasing the competitiveness of Ukrainian goods. Therefore, studying the directions of improving the processes of attracting foreign investments into the Ukrainian economy and increasing their volumes is a very topical issue.

The attraction of foreign investment plays a leading role in the development of the national economy. The attraction of funds from foreign investors promotes the investment process, the introduction of new technologies, the use of advanced foreign experience, the development of small and medium-sized businesses, the growth of investment potential of territories, etc.

The term "investment" comes from the Latin word "invest", which means the investment of funds. In a broader perspective, investments represent the investment of capital in order to further increase it. As the results of the development of many countries (US, Germany, France, Great Britain, etc.) show, it was precisely the foreign capital that has played a significant role in the development and restructuring of the economy as a catalyst for investment activity.

Potential foreign investors, before investing, analyze in detail and comprehensively the degree of attractiveness of a country, a region, enterprises and organizations in order to reduce risks. For them, the main features of the attractiveness of investment can be as follows:

- features and availability of the local market;
- Favourable legislative environment and degree of protection of foreign investors in the country;
- a potential labour market (availability of skilled labor and its value);
- legislative regulation of possibilities for export of invested capital and profits;
- intellectual property protection;
- political stability;
- favourable investment climate;
- foreign economic policy (quotas, customs barriers, etc.).

Conformity of the investment object with the main attributes of attractiveness can be achieved by the creation of certain mechanisms that will regulate investment activity and its development. It is created by the legislative basis and implementation of the basic principles and principles of foreign investment.

Recently, scientists, businessmen, and lawmakers have noted that so far in Ukraine, the necessary and transparent conditions for attracting foreign investors have not been created. It is also appropriate to use the results of a study by the European Business Association (EBA), which conducted a study on investment attractiveness of Ukraine. The analysis shows that the index of investment attractiveness index in Ukraine at the end of 2017 was 3.03 points on a five-point scale (Likert scale). In the first half of 2017, the index left the negative plane for the first time since 2011. In the first half of 2017, the index was 3.15 points. While in 2016 it was 2.88 and 2.85 points in June and December respectively [8].

It is noted that the beginning of this year was quite successful for many. Among the positive signals was the Government's special attention to the development of innovation, IT and creative economy, partial expansion of production capacities, opening of additional research centers and terminals, expansion or consolidation of networks, etc.

Among the main positive results, the respondents at that time also called openness of the state data, gradual deregulation, marked development of electronic services (in particular, electronic VAT refund system), simplification of the procedure for obtaining permits for construction, a moratorium on inspections, relaxation of currency control, introduction of the institution of private performers, adopting a squeeze-out law, etc. In addition, Ukraine has obtained a visa-free regime, which became a marker of the development of our country according to the European model.

It should be noted that in the second half of 2017 in Ukraine there was a series of positive changes that the business says. In particular, in June-December, respondents from the index noted the following "victories": automatic refund of VAT; the "mask show stop" law; non-binding stamp; increasing opportunities for electronic payments; Steps towards increasing electronic document flow; medical reform, etc. [3].

At the same time, Ukraine can potentially be one of the leading countries in attracting investment. The country is rich in natural resources, skilled and cheap labor, has significant scientific and technical potential, has an infrastructure, a powerful production base, a huge domestic product market and successful integration into the global financial and commodity market. However, Ukraine has a rather negative investment image due to political factors, so it remains incomprehensible that the state has made tangible steps in the direction of integration into the world economy in recent years.

Ukraine, as a potential investment market, has focused on the attention of world institutions of diverse perspectives aimed at informing the world community about the investment attractiveness of Ukraine on the basis of its research.

The World Bank Group Business Team conducted research on indicators such as business registration, construction permits, connection to the energy supply system, property registration, lending, investor protection, tax payment, international trade, contract enforcement and insolvency [5, c.284]. In addition to the unfavorable position of Ukraine in Doing Business and in other ratings, its own experience of foreign investors is an integral factor in shaping the investment attractiveness of our country. The countries in the top 10 Doing Business rankings receive 50 times more foreign direct investment than those in the last dozen. In the Doing Business 2017 rating, Ukraine ranked 80th among 190 countries.

The main possible obstacles to attracting foreign investments to the Ukrainian economy are:

- there is no system for assessing the investment climate in the country and its individual regions: foreign investors are guided by the assessments of numerous consulting firms that regularly monitor the investment climate in many countries of the world, including Ukraine. However, estimates of the investment climate provided by foreign experts at their regular meetings, held outside Ukraine and without the participation of Ukrainian experts, appear to be insufficiently reliable and possibly biased;
- political instability: the investor will feel uncertain when the political course of the country changes quite often. It is unknown what kind of policy will be implemented by the new government, and Ukraine's weak economy can not always offer such fast and high profits to risk capital;
- Underdevelopment of the market infrastructure of international business in Ukraine: insufficient number of relevant experts, auditors and consultants constrains the increase of foreign capital inflows;
- instability of the tax policy: the high level and a large number of taxes deprive the state of competitive advantages in attracting foreign investors. One of the most acute issues is the timely repayment of VAT paid by the tax authorities before. The conditions of taxation of innovation and investment activities do not stimulate its development.
- imperfect legislation, which is manifested in insufficient legal protection, in particular, in relation to payments to the budgets of all levels and centralized funds of special purpose, as well as in the long process of registration and obtaining the necessary certificates, in an imperfect system of cases in commercial courts and in the timely execution of their decisions; in the absence of an effective mechanism of legal protection of investors from debtors and ill-fated partners. All this was the reason for the exit from the Ukrainian market of many powerful companies;
- customs barriers: a large number of complaints among foreign business circles is the work of customs services, which is mainly due to the volatility of legislation and the corruption of these structures. High rates of import duty when receiving foreign investments into Ukraine, misunderstandings with the customs authorities in determining the customs value of goods, the method of charging customs duties and excise taxes, delaying goods for a few days, all this makes deliveries both to Ukraine and abroad, fewer and less attractive in the eyes of Western businessmen;
- absence of effective insurance system: insufficiently developed mechanisms of state insurance of foreign investments;
- a high rate of inflation in the country;
- Unreliability of the banking system: Ukrainian banks have lost the trust of foreign creditors, and also that the head;

- the unreliability of the banking system: Ukrainian banks have lost the credibility of foreign creditors, and, most importantly, the trust of the citizens. Lending to legal entities and individuals by banks is limited, and the volume of deposits held on the accounts of Ukrainian banks has decreased significantly.

Here it is worth recalling the world experience of attracting foreign investment. So in France, state regulation of the economy is a thoroughly thought-out system of strategic indicative planning, price management, labour remuneration control, and encouragement of competition. The main direction of the regulation of the investment sphere in this country is the tax policy. The functions of state regulation of the economy, including planning, make it possible to coordinate the activities of the state and private business, which leads the French government directly to manage almost half of the gross national product.

The experience of the US investment shows that the investment activity of the state is largely limited to specific sectoral or regional programs: military-space, infrastructure development at the national level, environmental, and disaster management. The government influences the investment market through the system of government orders and controls the implementation of the environmental, sanitary and hygienic standards, safety regulations, etc. The local authorities of the states carry out independent investment activity as customers for construction of various objects of infrastructure and housing stock.

In the state regulation of the US investment market, the main mechanisms are tax and depreciation and financial and credit policy. In the investment process, private firms-customers and contractors carry out their activities on the basis of general norms operating in the economy, primarily tax and depreciation legislation, as well as environmental, sanitary and hygienic and other standards. There is no national legislation regulating the investment process.

The considerable interest is Sweden's experience in using the state system of tax incentives on investment reserves. Under this system, firms were allowed to deduct up to 40% of non-taxable commercial income in investment reserves. The formation of investment reserves contributes to accelerating scientific and technological progress.

Tax policy is effective only if it is used as a means of stimulating production, which accordingly expands the tax base. Formation of tax policy in Ukraine under the new economic conditions should be made taking into account the peculiarities of economic management in the country during the transition period. The current economic situation in Ukraine requires the use of effective investment process regulators to intensify investment activity. Adoption of laws and other regulatory acts regulating investment activity is one of the most important conditions for the implementation of state investment policy. The legal framework of this policy regulates investment activity in various forms. As a subject of the investment process, the state regulates the investment process in the following main forms: allocation of priority investment objects; tax regulation of investment activity; implementation of the appropriate depreciation and credit policy; examination of investment projects.

In Ukraine, in the sphere of investment activity, there is a gradual formation of the market organizational structures. New institutes that regulate or provide foreign economic activity are formed and operate. These are such structures as the Office of Foreign Economic Relations, the State Export-Import Bank, the Customs Committee, the monetary and economic regulation, the Ministry of Finance, departments and services of other departments. The Agency for International Cooperation and Foreign Investments was transformed into the National Agency for Reconstruction and Development, and the League of Enterprises with Foreign Investments operates.

In many countries, government agencies delegate to the self-regulatory organizations the functions of control of the securities market. For example, in the United States, the control over the circulation of the securities on the stock market is delegated by the Securities Commission to registered stock exchanges, oversight of the circulation of securities on the over-the-counter market is transferred to the National Association of Securities Traders.

It is worth pointing out that one of the sources of investment resource formation should be the saving of the population. In order to use this source, it is necessary to solve the problems of compensation of contributions and to carry out a series of measures to revive confidence in the banking system. In this case, personal savings are a stable and reliable source of increasing - is a cumulative value. But in the conditions of the inflationary economy, the process of increasing accumulation and reducing the purchasing power of the population can be observed, which, of course, affects the profit and investment process of both individual structures and the state.

The measures under consideration, including planning, are widely used in the practice of developed market countries. For example, in France there is a five-year plan. It is worth mentioning that in this country the share of

the state sector of the economy exceeds 40%. In Germany, the share of public sector accounts for 28% of investments, of which 3% are federal and 25% – land investments. Under market conditions, planning is qualitatively different from the state plan development plan. The plan includes the strategic and most expedient investment investment directions.

Public investment management should be based on national non-legislative plans. Regardless of the ownership of the company involved in the implementation of such plans, will receive loans and certain benefits. Indicative plans establish recommended indicators of scale and structure of investment activity: government orders for the commissioning of fixed assets are determined; the limits of state centralized capital investments are established; the directions and purpose of the use of reserves of investment resources are determined; outlined the priority directions of the use of decentralized capital investments; state incentives for implementing planned proposals are determined.

The main feature of the modern state investment policy is the creation of conditions for the expansion of extrabudgetary sources of financing of the capital investments and attraction of investments of own and foreign investors into the economy of the country on the basis of further improvement of the regulatory and legislative framework and state support of effective investment projects. State regulation of the investment process is carried out in order to implement economic, scientific and social policies.

**Conclusions of the research and prospects for further exploration in this direction.** The main role in the process of increasing the foreign investment attractiveness, and able to determine the perspective directions and objects of foreign investment throughout the country. Investment attractiveness is an indisputable factor in the stable socio-economic development of the region and the country. The practice of countries with a developed market economy convinces that the taxation system is the main regulator of the state's influence on the activities of economic entities, the determination of the proportionality of production, exchange, distribution and consumption of labor products. It stimulates business activity, investment initiative of commodity producers and increase overall economic efficiency.

Flexibility of the tax system makes it possible annually to refine tax rates and implement tax policies in line with changing economic conditions. At the same time, the tax rules remain stable, which is the legal protection of taxpayers. The main tax regulators of investment activity of economic entities in the state are privileges in respect of income tax.

Unfortunately, Ukraine is not a state with a favorable investment climate. One of the main factors influencing this fact is the imperfect legislation. It is not so important for an investor to know about privileges or simplified terms of investment, as about the reliability of legal regulation of their activities. In order to activate foreign investment activity, an investment policy with a more clear mechanism of implementation at the state and local levels is required. A general strategy of foreign investment development is needed that would determine the priorities of foreign investment on the basis of a stable and promising economic effect.

## Summary

The article considers the main aspects of the formation of the favourable investment climate for the provision of economic development processes, examines the foreign experience of attracting foreign investments, identifies the forms and directions of the economic regulation of attracting foreign investments within market conditions. The article lists the main problems that prevent effective mechanisms of attracting foreign investments into Ukraine.

## Анотація

У статті розглянуто основні аспекти формування сприятливого інвестиційного клімату для забезпечення процесів економічного розвитку, досліджено зарубіжний досвід залучення іноземних інвестицій, встановлено форми та напрямки економічного регулювання залучення іноземних інвестицій у ринкових умовах. У статті перелічено основні проблеми, що перешкоджають ефективним механізмам залучення іноземних інвестицій в Україну.

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**Gleb Fedorov,**

*post-graduate student of regional development and local self-government department  
of Kharkiv Regional Institute of the National Academy  
for Public Administration under the President of Ukraine*