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INVESTMENT IMAGE OF UKRAINE: CURRENT TRENDS

Ukraine is on the way of integration, which requires the use of foreign approaches and priorities for the development of national investment policy of a new generation. Consequently, the investigation of ways to attract foreign capital within the context of present-day trends is urgent.

The following foreign scholars investigated the problems concerning international investment activity: R. Borsuk, Ye. Brigham, A. Razin, P. Fisher, I. Blank, Z. Body. The analysis of measures to attract foreign investments has been made by the next national scholars: Ye. Boyko, V. Voloshyna, Yu. Kovalenko, D. Lukyanenko, O. Mozhovyi, A. Peresada, A. Filipenko. Not so many scientifically grounded practical recommendations are presented nowadays to increase the stimulation and regulation of investment activity within the context of attraction of foreign investments directed to the development of innovative processes in Ukraine.

The term “investment” is connected with the Latin word “invest”, which means “to put into”. The term “investment” is considered by modern scientific literature as the putting of capital into with the aim of further enrichment. In 60-s of the 20th century, the theory of direct foreign investments was developed as a separate sphere of investigation owing to Canadian economist Stephen Hymer, who differentiated direct and portfolio investments. He noted that business management and long-term period are key features, according to which direct and portfolio investments are differentiated [1].

Having analyzed scientific sources, we have summarized approaches to the definition of the essence of “direct foreign investments” (Table 1).

Table 1

Polysemy of definitions of “direct foreign investments”

Author	Concept content
The Law of Ukraine “Regime of Foreign Investments” [2]	It is all types of values put into objects of investment activity by foreign investors.
S. Hymer [3]	Direct foreign investments is the term that describes the operation of receiving physical assets abroad where a current control is made by multinational company in its native country.
MCF and OECD [4]	Investments are considered direct if they are made abroad to widen the production of goods and services, buy of goods for import to the country of base or for export to the Third Countries.
WTO [5]	It is the type of investments, where the resident, investor of a country (host country) allocates its assets in another country (country-recipient) under conditions they receive (keep) control over these assets.
United Nations Industrial Development Organization [4]	Net flow of investments to have impact on company management for a long time (10% from stocks and shares having the right of vote), which is located in another country comparatively with country-investor. They are sum of investments into shares, reinvestment of income, other long-term and some short-term capital flows.
J. Dunning [6]	Investments are made abroad but in country-investor. Control over resources, which are transferred, is under investor. They consist of the set of assets and intermediate products such

	as capital, technology, skills and knowledge in the sphere of management, access to markets and entrepreneurship.
A. Peresada [7]	Direct investments are made as a rule without financial mediators into productive funds in order to have income and manage a company. Sometimes, investor increases direct investments to have a control packet of shares.
O. Rohach [8]	Real investments into companies, lands, equipment, technology and services, which make resource base for business expansion abroad.
S. Teslya [4]	It is tangible and intangible capital, which is invested by country, company or entrepreneurs into foreign companies abroad to get income for a long period and have the right to take part in managerial decisions.

Source: developed by authors according to data [1-8;]

Having examined definitions we should note that direct foreign investments is capital put into a company abroad that supports economic interest for a long period of time owing to investor's control over an object of investment and provides getting income. We should state that in Ukraine, minimal share of a foreign investor is statute capital is not less than 20% [3], in the USA, it is 10%, in EU countries – 20-25%, in Canada, Australia and New Zealand – 50% [4].

Nowadays, new industrial economy of East Asia and Latin America is a striking example. In four countries-members of Association of South East Asian Nations (ACEAH) – Malaysia, Philippines, Indonesia and Thailand – foreign capital flow into some industrial spheres (electronics automobile industry) supported the transformation of the structure of national economy and their specialization from exporters of agricultural products and mineral raw materials to great producers and exporters of final industrial products.

The effect of impact of direct foreign investments on economic development is very important that depends on the level of qualification of human resources in host country. There is a close interconnection between foreign investments and the level of

education of busy persons. We can take Samsung corporation for a sample, which invested US \$ 830 mln. into creating a new production, which is specialized in producing mobile phones and electronic components in 2012 and US \$ 1 bln. in June/2013. It created more than 2000 new places of work and supported getting new knowledge and technologies for host country [9].

We should state that forms and objects of investment do not limit foreign investors. Investments can be made in the form of participation in companies (including their creating), obtaining shares of acting companies, creating subsidiary companies or other separate divisions of foreign legal persons, buying real estate or personal property, funds, right for land and the use of natural resources on the territory of Ukraine, obtaining another property rights, keeping economic activity on the base of agreement about allocation of production, in other forms, which are not forbidden by the Law of Ukraine [10].

Scientists state that the national image supports forming conditions where economy becomes favorable for investments, supports protection of investor from investment risks, stimulates to solve social problems, supports a high level of employment of population, allows renewing of production, modernizing and increasing of the main funds of a company implementing new technology etc. However, unfavorable investment climate depresses economic development, deepens economic, social, institutional and other problems [1].

Ukraine can be a leading European country with direct foreign investments. The following competitive advantages show this [11, 33]:

- a big territory (603 628 km²);
- favorable geographical location (between Europe and Asia, the North and South of Europe) and a border with European Union;
- agricultural prospects (a high fertility, according to it Ukraine has a leading position in the world);
- rich natural resources (coal, iron and manganese, sulphur, mercury, titanium, uranium, granite, marble, mineral salts, gypsum, alabaster etc);
- favorable climate for all business (absence of tornado, tsunami, droughts, dangerous insects, disasters);

- a high level of scientific investigations in many scientific and technological spheres and availability a considerable scientific and technical potential;
- cheap qualified labor force;
- well developed infrastructure – pipelines, transit terminals, railways and automobile roads, electric nets, seaports.

Table 1

Factors forming investment attractiveness at micro level
(countries)

Factors		
Institutional	Economic	Social
<ul style="list-style-type: none"> – national and foreign political stability; – guarantee of rights and freedom of a person; – the level of national impact on economy of a country; – trade policy of the country; – the level of integration of national legislature into the world legal field; – stability of economic and fiscal law; – protection of intellectual property of the country; – custom policy and participation in world organizations; – protection of rights of national and foreign investors. 	<ul style="list-style-type: none"> – common economic assessment and stability of national currency; – rates of increase of GDP; – taxes, tariffs, privileges; – possibility of capital repatriation; – characteristics of banking system and its services in economy of the country; – ecological surrounding: – requirements of standardization, quotas and penalties in economy of the country; – currency and financial risks. 	<ul style="list-style-type: none"> – the level of social public development, social conditions and life of population of the country; – tolerance of society concerning other religions and nationalities of the country; – e level of political activity of the population of the country; – the level of crime-pregnant situation in the country; – e level of the development of trade union movement in the country.

Source: developed by the authors according to the data [12]

However, the majority of competitive advantages stated above, unfortunately caused by achievement of Ukrainian economy and natural possibilities.

We chose the methods developed by European Business Association to make objective assessment of investment attractiveness of the country (Figure 1). The given methods allow defining index of investment attractiveness – integral indication based on characteristics of investment climate as integral political, economic, legislative, regulatory and other reasons that define the level of risk of capital investment and the possibility of their effective use [13].

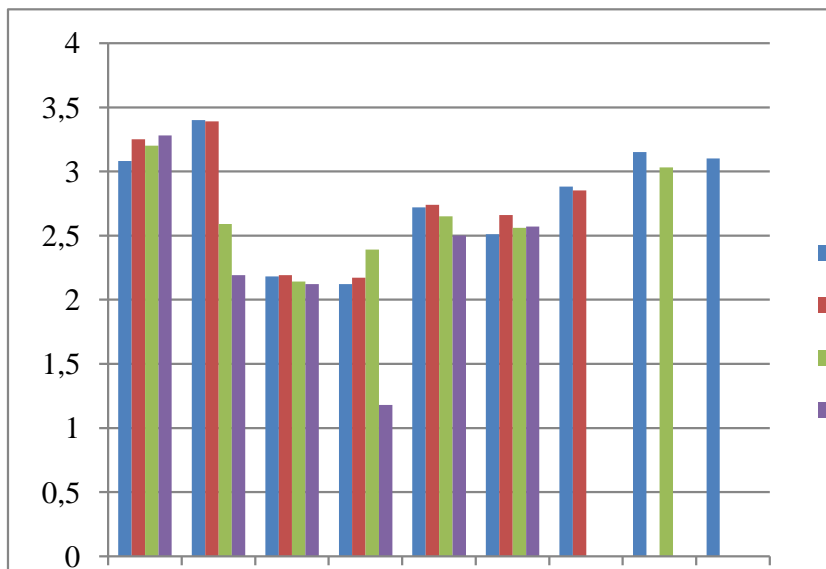


Figure1. The index of investment attractiveness of Ukraine during 2010-2018 (by the quarter) according to the data of European Business Association

Source: developed by the authors according to the data [14]

38% of businesspersons are not satisfied with investment climate. Investors suggest that business surrounding of Ukraine was not changed considerably. The main reasons, which do not satisfy investors are the next: a high level of corruption (46.1%), absence of trust to juridical system (40.6%), absence of land reform (39.5%) and technical barriers in trade (8.6%). Nevertheless, 28% of experts

consider investment climate of Ukraine as attractive and that it has the following positive changes [15]:

- considerable development of electronic services;
- digitalization of economy.

In Figure 2.1., we can see that the lowest level of the index of investment attractiveness is observed in the 4th quarter in 2013 –1.81, and the highest is observed in the 1st quarter in 2011 – 3.43. In the first quarter in 2017, the index left a negative place for the first time since 2011 and achieved 3.15 points. In the end of 2017, the index again fell to 3.03 points according to 5-points scale. According to the last data in the 1st quarter in 2018, the index of investment attractiveness is 3.10 points. According to the methods developed by European Business Association, the index of investment attractiveness has different characteristics depending on the data shown in Table 2.

Table 2

The characteristic of the meanings of the index of investment attractiveness according to the methods developed by European Business Association

Meaning	Characteristic
0-3	Negative
3	Neutral
5	Positive

Source: developed by the authors according to the data [14]

- on the base of expert inquiry of 128 leaders of companies-members of European Business Association, it was defined
- adoption of the Law “On Currency and Currency Operations”;
- adoption of the Law “On anticorruption Law”;
- automatic compensation VAT.

The following main risks prevent capital investment: law rates of reforms, insufficient protection of rights of foreign investors in Ukraine, imperfect legislative base, corruption [15].

The scholars from the Razumkov’s Center made an expert investigation about positive and negative features of image of

Ukraine, which have the considerable influence on investment attractiveness (Table 3).

Table 3

Characteristic of national image of Ukraine

Positive features	Negative features
<ul style="list-style-type: none"> – steady national character; – high level of ethnic culture; – absence of chauvinism and big national ambitions; – prospects of tourist development; – high potential of agro industrial complex; – geopolitical location of the country. 	<ul style="list-style-type: none"> – corruption, irresponsibility, incompetence of national officials; – close nature of state body; – unstable legislature; – delays of making reforms, their discrepancy; – unfavorable investment climate, – advantage of declarations above practical actions; – absence of own policy concerning forming international image.

Source: developed by the authors according to the data [12]

We should analyze investment climate of Ukraine during the last three years investigating positions of the country in international ratings (Table 4).

Table 4

Position of Ukraine in the world ratings

Rating	2015	2016	2017
International Business Compass	79	130	130
Doing Business	96	81	80
The Global Competitiveness Index	79	85	85
Index of Economic Freedom	162	162	166
FDI Index	0.120	0.124	0.124

Source: formed by the authors according to the data [16; 17; 18; 19]

In the rating of the countries according to investment attractiveness BDO International Business Compass (IBC), formed by Hamburg Institute of the World Economy (HWI) together with German

auditor company BDO AG, in 2016, Ukraine fell to 41 position comparatively with the position in 2015 and it has 130 position among 174 countries. In 2017, Ukraine is still at 130, which is explained by its political unstable situation, corruption, unsatisfied state of authority and ineffective regulatory politics [16].

According to the rating of the World Bank Doing Business 2017, Ukraine is on the 80 position among 190 countries of the world according to business performing, it rose in 1 position. Comparing 2015 and 2016, Ukraine improved its positions according to the next indications: registration of a company (from 24 to 20 position), protection of minoritarian stakeholders (from 101 to 70 position), support of fulfillment of agreements (from 93 to 81 position), electric networking (from 140 to 130 position). However, in some spheres indications became worse, in particular: international trade (from 110 to 115 position), permissions for building (from 137 to 140 position), solution of problems with solvency (from 148 to 150 position), taxation (from 83 to 84 position), registration of property (from 62 to 63 position), access to credits (from 19 to 20 position) [17].

According to the Global Competitiveness Index 2017 calculated by using the methods of the World Economic Forum, Ukraine is on the 85 position among 138 countries for two years and it lost 6 positions in 2015. The World Economic Forum stated the next problems in Ukraine: business operations, corruption, political instability, ineffective government bureaucracy, inflation, access to finance, unstable authority position, taxation, currency regulation etc [18].

According to the Index of Economic Freedom 2017, composed by cooperation between The Heritage Foundation and The Wall Street Journal, Ukraine fell in 4 steps comparatively with those in 2016 and in 2015, and it is on the 166 position among 178 ones and it belongs to the group of countries where economic freedom is depressed. The authors of the rating state that even where there are some changes, Ukraine demonstrates the lowest position in economic freedom in Europe during seven years.

According to the Foreign Direct Investment Index, Ukraine improved its positions from 0.120 in 2015 to 0.124 during 2016-2017, but the economy of the country is insufficient open for direct foreign investments [19].

Law positions of Ukraine in examined ratings show unfavorable investment climate and it is the result of worsening of macroeconomic indications. Therefore, extensive complex measures directed to improving of conditions for investors' activity, widening of mechanisms and instruments of investments and realization of investment projects should be preferable for forming favorable investment climate in Ukraine. We suggest that the following steps should be made to intensify investment climate:

1. decrease administrative barriers by liquidation bureaucracy and clear system of business regulation;
2. support of stable legislature in investment sphere;
3. creating modern system of national guarantees to protect foreign investments and regulating commercial disputes between subjects of investment process;
4. implementation of economic mechanisms of risk insurance for foreign investors;
5. stabilization of banking system, prevention of further bankruptcy of financial institutions;
6. reforming of taxation system in Ukraine;
7. support of competitive surrounding.

Consequently, implementation of the stated above measures promotes increasing the level of investment climate, which influences foreign investments and as a result, it supports forming positive investment image of Ukraine at the world field.

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