

FOREIGN INVESTMENT AS A FACTOR OF ECONOMIC REVIVAL OF THE STATE

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Abstract. The article examines the current state of attracting foreign investment in recent years. The dynamics of foreign investment are presented, and monitoring of attracting foreign investment into the economy of Ukraine is carried out. The sectors of the national economy of Ukraine that attract the most foreign investment are characterized. The reasons that have a negative impact on the volume of their attraction are substantiated. The focus is on the key factors influencing the attraction of foreign investment, the investment field, and a favorable investment climate. *Methodology.* The sectoral structure of the distribution of foreign direct investment and their distribution by type of economic activity are studied. It is established that in terms of sectoral attractiveness, the priority areas for investment are industry and agriculture. The necessity of attracting foreign investment in modern conditions is substantiated, the main problems of foreign investment inflow are outlined and the main ways of solving them are proposed. The role of foreign investment in the economic growth of Ukraine is considered, factors that provide a positive impact on the investment climate and problems of forming a favorable investment environment are identified. Investments, including foreign ones, are not only a mechanism for development, but also a way of regulating the economy through capital transfers. *Results.* The purpose of the article is to analyze foreign direct investment as a factor of economic growth of the state. At the current stage of market development, foreign investments are the main source of obtaining the latest competitive technologies. At the same time, the chances of applying best practices in the field of obtaining new technologies and cash circulation during a protracted crisis are increasing. *Practical implications.* Therefore, among the problems that require immediate resolution, one of the first places is occupied by the problem of lack of investment resources in the Ukrainian economy and the creation of favorable conditions for their accumulation. *Value / originality.* It is worth noting that the processes of economic growth are determined by the volume and growth rates of investments, their structure and qualitative characteristics. It has been proven that for the full operation of enterprises and business structures there is a need to finance their current activities, introduce new technologies, insure existing risks, and develop trade and transport infrastructure.

Keywords: foreign investment, investment activity, capital investment, foreign direct investment.

JEL Classification: E22, O16

1. Introduction

In today's realities, the issues of attracting financing for entrepreneurship, business development, and balance of payments optimization remain relevant. Ensuring the financial stability of economic activity has always been important for the corporate sector, small and medium-sized businesses, and the state as a whole. Despite the challenges and threats, the key priority for Ukraine is to attract investment and close and effective cooperation with the private sector as the basis for Ukraine's sustainable recovery from the full-scale invasion. The strategic goals of the country's

socio-economic development can be realized through investments, their volumes, and their allocation to the development of priority areas and sectors of the domestic economy.

To operate properly, enterprises and business structures need to finance their current operations, introduce the latest technologies, insure existing risks, and develop trade and transportation infrastructure. An important trend will be investments aimed at restoring and innovating production facilities for processing, industrial storage, and deep processing of both agricultural products and by-products of

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industrial enterprises. At the same time, emphasis should be placed on taking into account reserve capacities for the production of food, environmental and bioenergy products, and higher value-added consumer goods, which is crucial for the country's revival.

Attracting foreign investment is of great importance for Ukraine's economy, and therefore considerable attention has been paid to research in the field of foreign investment as a factor in the country's economic revival.

The theoretical, methodological and informational basis of the study is formed by the works of scientists who in their scientific works pay considerable attention to the problems of foreign investment, are the subject of fundamental scientific research by such scientists as: V. Gayets, O. Gudzynsky, T. Mayorova, M. Denysenko, V. Lukyanchenko, I. Nazarenko, Y. Olvinska, N. Kovalchuk, S. Tsivkach, B. Danylyshyn and other scholars. However, today there are scientific studies that remain the subject of scientific debate and research.

The purpose of the article is to determine the current state of attracting foreign investment, its dynamics, the reasons that have a negative impact on the volume of capital investments attracted, and to substantiate economic measures to attract investment as a factor of the economic revival of the State.

2. Investments as a Driver of the Economy

Ukrainian business, which in today's realities operates mainly in a "problematic field", overcoming challenges and problems, continues to work and develop even in the face of a full-scale invasion. Effective work, achievement of the greatest positive results and normal functioning of the state economy is possible with investment activity. It is achieved by increasing the volume of realized investment resources and their most efficient use in priority areas of material production, as well as in social facilities. Investments are intended to raise and develop production, increase its capacity and technological

level, develop and produce new, high-tech products, form the production potential on a new scientific and technical basis and determine the country's competitive position in global markets. Investments are a driver of economic development.

During the hostilities on the territory of Ukraine, financing is a crucial issue, so we believe it is worth analyzing the dynamics of attracting foreign direct investment from countries around the world (Direct investments (share capital) (2014-2022)), which helps to implement large projects and use the latest technologies. The political and economic realities in Ukraine largely restrain certain negative phenomena, ensure the creation of favorable conditions for development, progressive effective changes, and improvement of the quality of economic activity (Table 1).

The processed data of Ukrainian statistics show that during 2017-2021, the main investors in the Ukrainian economy were: Cyprus and the Netherlands, the volume of investment averaged 75662.6 million US dollars and 31548.8 million US dollars, respectively (excluding the temporarily occupied territory of the ARC, Sevastopol and part of the anti-terrorist operation zone). Further political turmoil had a negative impact on investment activity (Table 2).

Analyzing the volumes of foreign direct investment presented in Table 2 for 2014-2022, it is worth paying attention to changes in the direction of their decrease, which is due to global economic reasons. From 2014 to 2015, there was a rapid decline in the volume of investment attraction, the obvious reason being the military conflict in Ukraine, and until 2020, there were frequent fluctuations in the volume of foreign direct investment, and in the same year, due to the COVID-19 pandemic, the indicators again became negative, and in 2022, due to the war in Ukraine, the volume of investment amounted to only 190 million US dollars.

Due to a certain time lag, only in 2021 is there the most positive dynamics of accumulated foreign investment in the national economy, but it should

Table 1

Inflow of foreign direct investment from countries around the world into the economy of Ukraine, 2017–2021

million USD

Country	Years				
	2017	2018	2019	2020	2021
Austria	1099,9	1038,8	1150,0	1641,0	1733,0
United Kingdom	1947,0	1944,4	2131,0	2953,0	2539,0
Netherlands	6028,4	6395,0	7118,2	10005,0	10011,0
Germany	1564,2	1682,9	1701,4	2758,0	2634,0
Cyprus	8785,5	8932,7	9542,1	14958,0	16722,0
France	615,6	723,4	744,4	1048,0	1066,0
Total investment from all countries	31230,3	31606,4	32911,0	33363,0	34705,0

Source: Systematized according to (Direct investments (share capital) (2014-2022)) and the results of the author's generalizations

Table 2

Foreign direct investment in Ukraine in 2014-2022

million USD

Years	Foreign direct investment in Ukraine		Foreign direct investment from Ukraine		Balance	
	million USD	increase/decrease for the year	million USD	increase/decrease for the year	million USD	increase/decrease for the year
2014	410	-4089	111	-309	+299	-92,7
2015	-458	-868	-51	-162	-407	-236,1
2016	3810	4268	16	67	+3794	-1032,2
2017	3692	-118	8	-8	+3684	-2,9
2018	4455	763	-5	-13	+4460	21,1
2019	5860	1405	648	653	+5212	16,9
2020	-868	-6728	82	-566	-950	-118,2
2021	6687	7555	-198	-280	+6885	-824,7
2022	190	-6497	159	357	+31	-99,5

Source: Systematized according to (*Direct foreign investments in Ukraine. Ministry of Finance, 2023*) and the results of the author's generalizations

be noted that Ukraine has not reached the level of foreign investment in the national economy in terms of volume that was before the start of the full-scale invasion Figure 1.

In general, the volume of foreign direct investment in Ukraine is low. They cannot provide a solution to the problems accumulated in the economy, which are primarily related to its raw material orientation and sectoral inefficiency. Unlike developed countries with modern technologies and infrastructure, transition countries, including Ukraine, need to invest more in their formation and development (Sokolovska, 2021). In terms of the sectoral structure of the distribution of foreign direct investment in Ukraine by type of economic activity, according to the analytics, we can affirmatively state that industry occupies a leading position, accounting for 55% of the structure,

agriculture – 15%, banking and trade – 9%, real estate – 5%, transport – 2%, construction – 1%, and other – 4% of the total structure.

3. Favorable Investment and Government Support for Economic Growth

The full-scale invasion of Ukraine was a significant blow to investment, as was the invasion of 2014 (FDI fell by about 30% in 2014). In 2021, the inflow of investments revived somewhat, but the year 2022 was marked by a certain negative impact on both political and economic developments in the country (Table 3).

It should be noted that in Ukraine, some foreign direct investment has its own specifics, which consists in the return to the state in the form of investments of capital previously withdrawn abroad and the



Figure 1. Dynamics of Foreign Investments in the National Economy of Ukraine 2014-2022

Source: (*Direct foreign investments in Ukraine. Ministry of Finance, 2023*)

Table 3

Foreign direct investment in equity, as of December 31 of the respective year

million USD

Years	Direct investments in Ukraine, million USD	Debt instruments, million USD	Equity instruments, million USD	Equity instruments, % of direct investments	Debt instruments, % of direct investments
2014	49835	40961	8874	82,2	17,8
2015	43780	35562	8218	81,2	18,8
2016	45195	37054	8141	82,0	18,0
2017	45179	36310	8869	80,4	19,6
2018	44009	35391	8618	80,4	19,6
2019	54209	41662	12547	81,1	18,9
2020	52541	37600	14941	71,5	28,5
2021	65746	47796	17950	72,6	27,4
2022	50986	40966	10020	80,3	19,7

Source: Systematized according to (*Direct foreign investments in Ukraine. Ministry of Finance (2023)*) and the results of the author's generalizations

reissuance of debt into equity. Debt reissuance operations were carried out for the purpose of additional capitalization, the need for which was caused by the adoption of the NBU resolution on the minimum amount of authorized capital in the context of the banking system cleanup (Lyakh, 2019).

Regarding the effectiveness of attracting foreign direct investment in Ukraine's economy, B. Danylyshyn summarized: "for 9 months from the beginning of 2021, the payment of income from direct investment in favor of non-residents amounted to almost \$ 11 billion, of which \$ 5.2 billion were paid dividends, \$ 5.2 billion were reinvested income, and \$ 0.6 billion were interest payments in favor of foreign direct investors" (Economic truth. Direct investments in Ukraine: record for recent years, or low, 2021).

Analyzing the approaches of scientists, we agree that most of these funds, dividends and deductions from income and interest are related to investments of previous periods. That is, quite large sums were invested in Ukraine in previous years. Foreign businesses brought them into the real sector of the economy, which resulted in new jobs and an increase in GDP. According to statistics from the Ministry of Finance, in the first quarter of 2022, foreign direct investment suffered a significant decline, but in the second quarter, the recovery began, and the international community and foreign partners began to invest in Ukraine's economy.

However, one of the main problems of the Ukrainian economy is the low return on investment and its inefficient distribution (Table 4). An analysis of foreign investment by type of economic activity leads to the conclusion that most foreign direct investment goes to developed areas of economic activity (Fedorova, Ogorodnyk, Rusal, 2020).

Despite the full-scale invasion and significant destruction, due to high investment risks, Ukraine still has advantages that are significant for potential investors: round tripping operations were carried out (residences sending funds abroad, which are then returned to the country in the form of foreign direct investment) through Cyprus, the Netherlands, Switzerland and Austria.

A gradual revival in the dynamics of foreign investment is observed in 2023, which is presented in Figure 2.

Starting from the second half of 2022, the Ukrainian government has been encouraging foreign investors to invest in the state's business, and a new countdown of economic recovery has begun.

As of today, the National Investment Council office has been created to support foreign investments, which ensures the development of institutional capacity and investment attraction. It is a specially formed body for dialogue between business, international investors and official state authorities in Ukraine. This main message is very important, most importantly, during the war the government and the Verkhovna Rada

Table 4

Foreign Direct Investment in Ukraine during 2022-2023

million USD

Years	Foreign direct investment in Ukraine		Foreign direct investment from Ukraine		Balance	
	million USD	increase/decrease for the year	million USD	increase/decrease for the year	million USD	increase/decrease for the year
2022	190	-6497	159	357	+31	-99,5
2023	4095	2943	6	-523	+4089	556,3

Source: Systematized according to (*Direct foreign investments in Ukraine. Ministry of Finance (2023)*) and the results of the author's generalizations

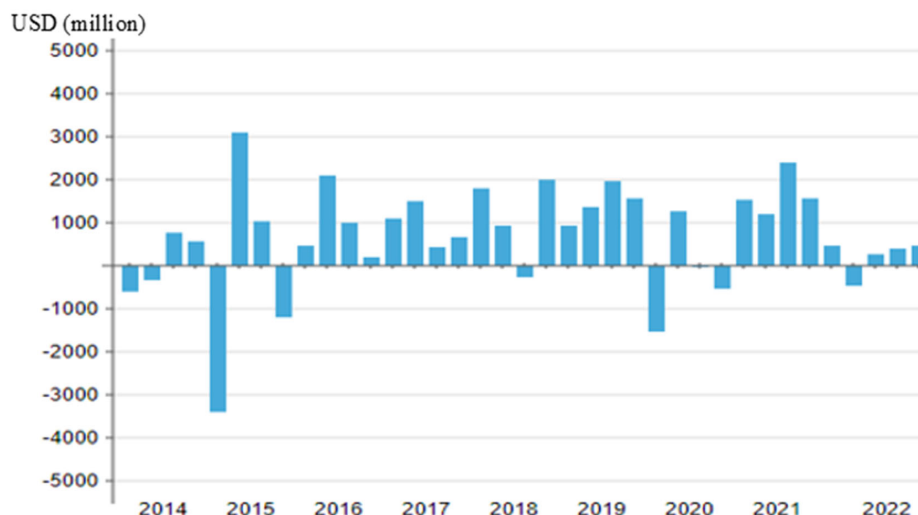


Figure 2. Dynamics of foreign investments in the national economy of Ukraine 2022-2023

Source: (Direct foreign investments in Ukraine. Ministry of Finance, 2023)

of Ukraine did not stop working on investment incentives (Cabinet of Ministers of Ukraine, 2023).

It is important for investors to identify those sectors of the national economy that have the potential for further development. Investing in sectors with high development potential becomes more attractive for investors, since they already have a material and technical base, qualified personnel and sales systems. When choosing priority sectors, one should take into account their impact on the development of other sectors of the economy and the possibility of risk diversification. These measures, together with a favorable investment climate and government support, can contribute to increasing the volume of foreign investment in Ukraine. The promising (priority) sectors of the economy, investment and support at the state level of which will contribute to economic growth, include:

With the assistance of the government office for attracting and supporting investments UkraineInvest (Cabinet of Ministers of Ukraine, 2023), the lion's share of funding was provided within the framework of a grant to support processing enterprises, which is implemented by the USAID Program "Competitive Economy of Ukraine" in partnership with the Ministry of Economy of Ukraine. We believe that given the large number of applications and significant interest from processing enterprises, it would be appropriate to make a decision to increase the amount of funding, including the grant. After all, the total amount of funding and the number of grants of the program to support innovative transformation and development of Ukrainian enterprises was planned to be about 25 grants.

Considering the message of the Minister of Economy Yu. Svyrydenko: "The development of Ukrainian

producers and attracting investments in the real sector is a priority of the Ministry of Economy. Our strategy is processing and development of high-tech industries. We must increase the share of processing in the GDP structure from the current 10% to at least 20%, because there are no examples of successful raw material states. Raw material is often, on the contrary, synonymous with poverty" (Agravery.com, 2023).

It is grants that will be able to support business centers in their activities, which will subsequently give impetus to the modernization of production, optimization of production lines and processes with the reduction of manual labor with the creation of new, qualified employees and jobs in a synergistic combination with the effective use of resource potential, will lead the Ukrainian market into the export channel. Today, specific investment projects aimed at creating favorable conditions for attracting significant investments to Ukraine are the production of building materials, agroprocessing and logistics.

According to the research of the executive director of UkraineInvest S. Tsivkach, it is advisable and necessary to attract foreign investors to the Ukrainian economy in: agrotech – technological opportunities for the development of agriculture, the pharmaceutical sector – there is a great prospect of transferring it to a more technological level, capable of creating conditions for the production of more capital-intensive drugs and the involvement of higher technologies (Cabinet of Ministers of Ukraine, 2023). Today we live in the era of Industry 4.0, which is characterized by a harmonious combination of information technologies and automated production processes and equipment, software systems and various types of communications, the formation and use of Big Data, the presence of the Internet of Things, the use of

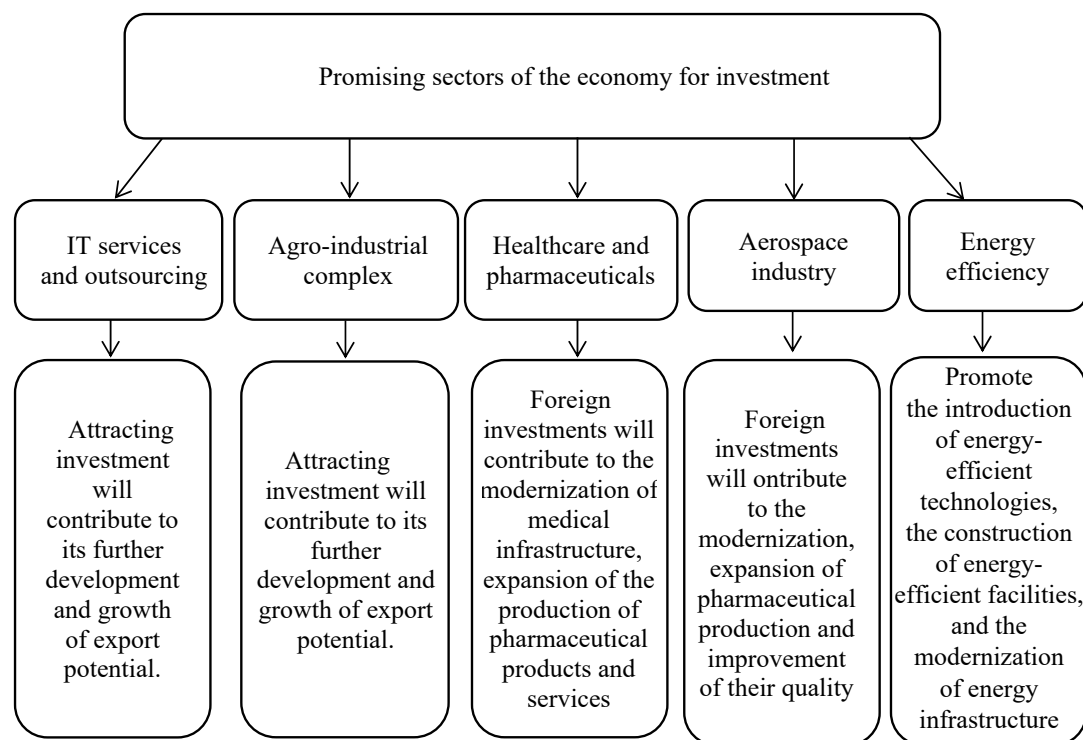


Figure 3. Investment-attractive sectors of the economy for foreign investors in the medium term

Source: Summarized by the author according to (Lyakh, 2019)

cloud technologies, and the activities of Smart Factories. (Zelisko, Halimon, Hu Sunjie, 2022). Therefore, it is a powerful and decisive step forward that Ukraine has presented a powerful and comprehensive plan for the country's recovery. The implementation of this strategy is designed for 10 years and has received positive assessments and support from international partners.

Ukraine has set itself an ambitious, but quite realistic goal: to make the leap from a transitional (transit) economy to a developing economy by 2032.

To attract foreign investors to the Ukrainian economy, a unique electronic platform, Advantage Ukraine, has been created, which collects more than 500 investment projects and opportunities in various sectors of the economy.

Each potential investor, having registered on the platform, will receive comprehensive information about investment opportunities, specific projects and benefits that will be obtained from investing in the economy of Ukraine.

For the successful implementation of investment and economic growth programs, the Ukrainian Government, together with international financial institutions and governments of other countries, uses tools to reduce the risks associated with a full-scale invasion: it works to improve access to capital by providing grants or loans, supporting entrepreneurship, including by reducing administrative

barriers, increasing the efficiency and transparency of regulation. Programs and accompanying incentives and incentives for the development of the private sector are also being implemented, as are financial support programs that have already proven themselves among the business community – the eWork grant program, the 5-7-9 affordable lending program, stimulating the construction sector through the eOselya affordable mortgage program, and the trendy program for the development of industrial parks, which involves attracting 50 million USD in investments, investment projects with significant investments, the development of the agricultural sector with a focus on the production of products with high added value, and the development of energy-saving processing, which is extremely important for the revival of the country.

4. Conclusions

Today's realities, economic and political challenges are the obstacles that complicate and impede more effective attraction of foreign investment to Ukraine. The main problem of investment today is the decline in demand for manufactured products, low solvency of the population in the domestic market, and lower export prices on global commodity exchanges. Other negative factors include political and economic instability, corruption at the state and

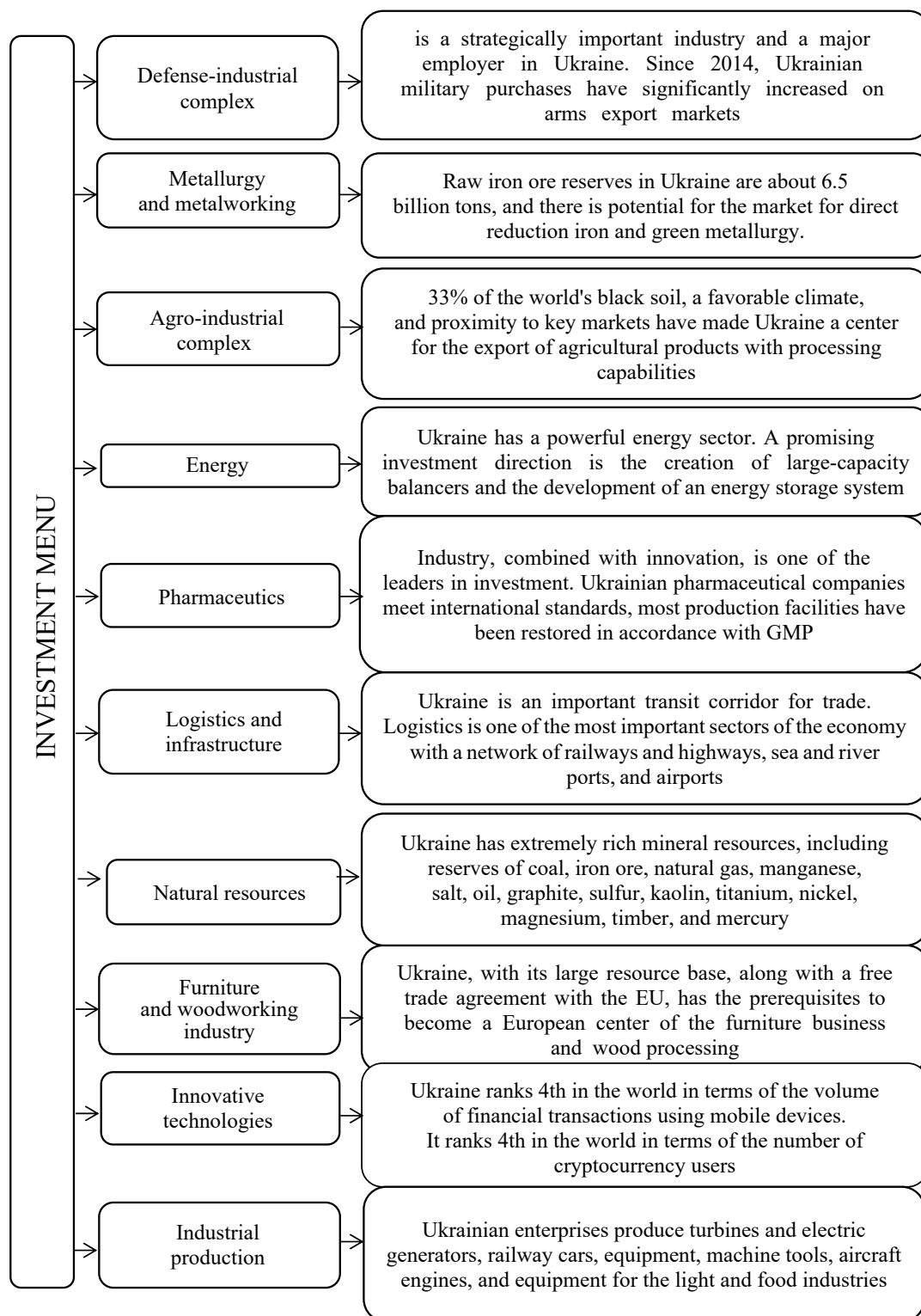


Figure 4. Advantage Ukraine projects of economic revival of Ukraine

Source: Systematized by the author according to (Advantage Ukraine, 2024)

household levels, inefficient public administration, and an imperfect organizational and legal framework. All of this affects the prospects for attracting investment to the country as a whole and to the regions in particular.

Today, Ukraine continues to attract new sources of foreign investment that ensure the development of certain industries and the creation of new, innovative industries, which will improve the country's economic situation in the future. Specific investment projects to

create favorable conditions for attracting significant investments to Ukraine include the production of construction materials, agro-processing and logistics, and it is advisable and necessary to attract foreign investors to the Ukrainian economy in the pharmaceutical sector, as there is a great prospect of moving it to a more technological level, which is the key to producing more capital-intensive drugs and attracting high technologies.

Investment activity is a certain engine and priority condition for the progressive stable development of the state, which is able to attract

financial and material resources and foreign investors, as well as to use them rationally in priority sectors of the economy. The volume of attracted investments is one of the criteria for the efficiency of its functioning. They can provide solutions to the problems accumulated in the economy, which are primarily related to its raw material orientation and sectoral inefficiency.

The creation of innovation zones in Ukraine will help to rapidly attract additional foreign investment in economic recovery and further economic growth in Ukraine.

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