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ECONOMIC AND POLITICAL DEVELOPMENT OF UKRAINE: IMPORTANCE OF FOREIGN DIRECT INVESTMENT

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The purpose of this paper is to give an overview of the economic and political development of Ukraine, as well as to explain why foreign direct investment is important for Ukraine’s economy. This study applies the qualitative method in order to investigate the issue and is based on both primary and secondary data. Qualitative interviews represent the primary data sources, conducted with individuals who are either investors or have high expertise of the topic. News articles, previous research papers and literature are used as a secondary data source. The results show that the biggest challenges in political development of Ukraine lie in the continuous war with Russia. Nevertheless its important to keep in mind that countries like Ukraine can only be rebuild with the help of foreing investors as they allow the transfer of technology – particularly in the form of new varieties of capital inputs – that cannot be achieved through financial investments or the trade of goods and services. FDI can also promote competition in the domestic input market. For that reason it is important to examine existing policies as well as look for new ways of increasing the foreign investment flow.
Key words: foreign direct investment, reforms, economic development, political development, Ukraine
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1 INTRODUCTION

As a country on the “borderland” between Western Europe and Russia, Ukraine has witnessed many different crises and reforms over the past decade: the disintegration of the Soviet Union in 1991, Orange Revolution in 2004, Majdan revolution in 2013, annexion of Crimea and large scale invasion in 2022. This article was completed before the start of the war in 2022 and does not, therefore, take the war into account.

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The disruption of commercial and production networks associated with the events in Ukraine over the last few years, affected the development of Ukraine's economy (Brown, Earle, and Telegdy 2006). The impact, political instability, and disruptions in Ukraine can be seen in the example of the automotive industry. Between 1960 and 1994 Ukraine's national cars, called "Zaporozhets" constituted one of the main sources of profit for Ukraine. Due to the disruptions and political instability over the past years, Ukraine's automobile industry declined and by the end of 2017, could only produce 1600 cars (Gnutzmann-Mkrtchyan, 2017).

In 2014, Ukraine experienced acute political and economic challenges, which led to new elections, changes in government and the restructuring of new political relationships with the western world. The Free Trade Agreement with the European Union allowed Ukraine to participate in the western business world and make investment in Ukraine more attractive to foreign direct investment. Today, many manufacturers from Japan and Germany produce parts of their cars in western Ukraine, turning the region into an integral part of Europe's vehicle industry. Nearly every car made in Germany has parts which were made in Ukraine (D'Anieri, 2016). To become even more open to the outside business world, Ukraine tried to improve the functioning of its economic institutions and the implementation of structural reforms, which allow Ukraine's economy to align with market prices. Moreover, many key instruments were provided to combat corruption within the country (D'Anieri, 2016).

Ukraine's open attitude towards business, its adoption of new technologies and know-how did not only help the country's automobile industry, but it also introduced transformation to other sectors. Such positive examples can be seen in agriculture and information technology. Within just a decade, Ukraine has become one of the leading exporters of grain. With more than 100.000 Microsoft certified software professionals, the IT sector has turned into one of the largest software development industries in Europe (Konings, 2003).

Despite positive development in some sectors, today, Ukraine is still considered to be a transition country, as some of the transformations which took place in the past quarter of the century still have a significant negative effect on growth. Foundations of the a new economy are still not strong enough to absorb the economic outcome of FDI, making the country less attractive in the eyes of potential investors (Kharlamova, 2014).

Nevertheless, the experience of the automotive industry shows that it is possible to overcome these challenges and achieve economic success. With the 'lesson-learned' from passed transformations, Ukraine has the potential to narrow the gap between its capabilities and the global requirements of foreign direct investment to make the investment in the country attractive (OECD, 2005).

To ensure a positive environment for business partners outside Ukraine and become a prosperous country, more needs to be done. This paper gives an overview of the main events and transformation processes present in Ukraine's current economic situation and explains why foreign direct investment plays a crucial role in Ukraine's economy.

2 FOREIGN DIRECT INVESTMENT: DIFINING THE CONCEPT

Foreign Direct Investment is a phenomenon in which a production or business investment is undertaken on foreign territory. The investment is either made by means of a company buyout or business expansion, e.g., by building a manufacturing or production station in a foreign country. Generally speaking, FDI refers to the inflow of capital from abroad and is usually preferred over other forms of external finance, since it doesn't necessarily create a debt for the host country, but still provides advantages, depending on the foreign project's performance. It, moreover, benefits both sides as it improves international trade, helps companies expand their market shares, transfers the knowledge and skills of their employees, and shares their technology.

Foreign Direct Investment gained popularity after the Second World War. According to economists, open trade, and the possibility to exchange products became very important for most countries, whereas the need for businesses to adopt a global mindset and enter different markets became a strong motivational factor for direct foreign investment.

The process of globalization intensified the importance of collaboration between international companies, which, in turn, offered huge opportunities for most developing countries to reach economic growth faster by bringing in new knowledge, technology and involvement in international production and trade networks. Some of the developing countries started to see FDI as the only way to achieve economic development and started to liberalize their investment regimes in order to attract more FDI, which would allow them to derive maximum benefits from the presence of the multinational enterprises in their country (Athukorala, 2003).

The importance of FDI can be seen through such channels as technological transfer, knowhow and new skills, an increase in production as well as export and import processes, resulting in general economic growth (Borensztein, De Gregorio, and Lee, 1998).

On the other hand, not all scholars agree on the positive effects of FDI. Gorg and Greenwood (2002) argue that FDI may crowd out local enterprises and harm the national economic development and, thus, has mostly negative effects. Lipsey (2002) concludes that the effects of FDI in general depend on the nature of the sectors as well as the behavior of the foreign country and its openness to attract and absorb the effects and use them to their own purpose. Hirschman (1958) furthermore, found that sectors such as agriculture or mining have only limited positive effects on the host country.

The effects of FDI for multinational corporations are diverse as well. Literature describes mostly positive effects on multinational companies as investment in a foreign country helps them expand their market shares, acquire new customers and expand their employees' knowledge, all of which contributes to making the companies competitive against other multinational corporations.

The motivation for companies to invest in another country are diverse. According to Kindleberger (1969) foreign investment can only take place if:

- the proposed investments are economically viable for the company.
- the market in the home country is imperfect.

Understanding the effects of foreign direct investment for both parties has consequently become a critical topic in policy circles. In the face of so many opportunities and benefits, both developed and developing countries have tried to significantly reduce the barriers to FDI over the past past years and offer special incentives such as reduced taxes.

3 THEORETICAL BACKGROUND

Foreign direct investment became one of the most important sources responsible for sustainable growth in developing countries. It supports them by providing new employment, technological progress, and improved productivity.

The major motivational factors for Multinational Enterprises (MNEs) to invest in developing countries are covered in the four main theories:

- Production cycle theory,
- Perfect capital or exchange market theory,
- Internationalization theory,
- Eclectic paradigm.

The product life cycle theory (PLC) finds its roots in Vernon's theory (1966). According to him, the product life cycle consists of four stages: the introduction (the product gets introduced to the home market), the growth of a product, maturity and finally, the decline (the product needs to be taken out of the assortment). When the product reaches the third stage, maturity, companies start looking for other opportunities to promote a product, usually by investing in another country. Since cost is an important factor here, businesses are mostly interested in developing countries, where the cost of the product, employment and production is overall lower than in their home country.

The exchange market theory, introduced by Cushman (1985) states that countries with a weaker currency attract more FDI, since production materials bought in the host country are cheaper in comparison to the home country. This theory can also be found in the work of Aliber (1970). However, it can only be applied in the case of a developing country. An investment made between two developed countries, where the currencies have equal strength, cannot be supported by such a theory.

According to the internationalization theory, developed by Hymer (1972) international companies invest in a developing country for two reasons: to reduce competition and to use the company's specific advantages. Even though the relocation of its activities to an international market might have disadvantages and is connected to additional costs, MNEs see the opportunity of not sharing the market with their competitors and using the imperfections of the market to their own advantage. The same explanation can also be found in the work of Buckley and Casson (1976).

According to Dunning (1977), the founder of the eclectic paradigm, MNEs take three aspects into consideration before FDI: ownership advantages, location advantages, and internationalization, which is also known as the OLI Theory in literature. "O" from Ownership advantages. The ownership advantage refers to the control over a company's resources when it invests in another country. This might be expressed in the ownership of natural or intangible assets such as patents or trademarks and technology, which helps businesses compete with other MNEs. "L" from Location advantages. Location advantages appear mostly in the form of lower taxes, operating and production costs as well as affordable employment costs. "I" from Internalization. Finally, the internationalization theory states that the greater the net benefits of internalizing cross-border intermediate product markets, the more likely a company will engage in foreign production itself, rather than license the right to do so.

4 DATA AND METHODOLOGY

The research objective of this study is to analyze the importance of FDI in Ukraine. This chapter concentrates on giving an overview of the methodology used to analyze the stated problem. In order to investigate the importnace of FDI, the study executes secondary and primary data collections. Information gathered from the secondary data was sourced from existing literature, studies, economic journals and various newspapers articles and serves as background knowledge for this study.

Due to a relatively scarce amount of research on challenges and opportunities for FDI in Ukraine, a qualitative approach was regarded useful as it emphasizes words rather than numbers and focuses on specific situations or individuals (Maxwell, 2005). Furthermore, qualitative research enables the insightful investigation of the research objects as empirical data can be investigated with guidance from literature and helps to approach an in-depth analysis of a defined phenomenon (Berger-Grabner, 2013).

The chosen methodology consists of in-depth interviews which enable grasping the field of the topic in more detail and gaining additional information along with its background and justifications (Berger-Grabner, 2013).

The empirical data was gathered from 25 different in-depth interviews with different respondents who have connections to foreign investments in Ukraine. The participants were either founders, co-founders or supported and worked in the process of investment in Ukraine. The interviewees were between 30 and 70 years old. All of the interviewees were not related to one another and operate in different sectors such as the bank industry, retail, media, agriculture and the consulting sector.

The interviewees were sourced via a Google search using key words such as “FDI in Ukraine”. Social media, such as Facebook and Linkedin also served as a source of recruiting interviewees. Furthermore, the search was expanded through contacting organizations, such as UkraineInvest, which provide potential FDI with business information concerning investments in Ukraine.

Foreign direct investors who fulfilled the inclusion criteria for participation in the interview were asked via e-mail to participate in the interview. The e-mail correspondence included a brief description of the study and the personal motivation for researching this topic. Interviewees were invited to voluntarily contribute and were not forced or manipulated to participate in the process in any way.

The interviews started at the end of November and lasted until February 2020. They mainly occurred on-site, but occasionally were carried out via Skype. Each interview lasted between 30 and 60 minutes. The data analysis was done in two steps, according to Mehmetoglu (2016): data processing and data transformation. While data processing is based on encoding, indexing, sorting and retrieving the data, which can be done either manually or using software tools, data transformation is undertaken by interpreting the data and using secondary data in advance, to ensure a correct interpretation (Mehmetoglu, 2016).

5 ECONOMIC AND POLITICAL DEVELOPMENT

To understand why Ukraine finds itself in the position it is currently in, it is important to give some historical background. For many years, Ukraine was under the control of the Soviet economy, whose roots go back to 1917. Influenced by the Bolshevik revolution and Joseph Stalin’s policies and reforms, Soviet economy aimed to introduce state ownership of the means of production as a part of the five-year plan (Danowitz, 2006).

The hierarchical system in general used to be quite complicated and required a high level of coordination. At the top of the ladder was the power of the party, followed by sector ministries which overlooked state-owned enterprises, such as industrial and agrarian organizations that took orders from their superiors from the so called “Gosplan”, i.e. State Planning Commission (Danowitz, 2006).

The entire money supply was controlled by “Gosbank”, the national bank, which was also responsible for the distribution of money and was the decisive organ for any capital investments in various enterprises. One of the significant strengths of the Soviet economy was the commitment to do research and enhance development. This is the time of many different inventions and important historical moments such as the launching Sputnik, free medical care, education, and transportation systems (Danowitz, 2006).

Nevertheless, despite the theory of "planning output" and beneficiation of the entire population, there were many flaws in the system that would lead the economy to collapse. Since one of the major focal points was leading the development of the military industry (due to the Cold War with the United States), the production of other items fell into the background, which, in turn, led to shortages and deficits. Orders that were given to factories could not always be fulfilled due to a lack of appropriate input materials. The absurdity of the situation lay in the fact that while some factories were forced to stop production for this very reason, others experienced huge surpluses of products. The lack of supervision, communication networks and effective systems to relocate and adjust shortages and surpluses led to inefficiency and the absence of high-quality products or a complete standstill in production. As a consequence, the money that had been divided between households could not be spent on desired products and invested back into the economy, which limited the multiplier effect growth on the national economy (Åslund, 2008).

Foreign investment was almost non-existent as the state currency, which at that time was the ruble, was also not convertible to other currencies. This led to the isolation of the countries within the Soviet Union from the outside world, preventing them from using the comparative or absolute advantage in the production of some products (Brown, Earle, and Telegdy 2006).

In the early 1980s, most states sensed the pressure and stagnation of the economy. As a consequence, Gorbachov, who was the president of the Soviet Union at that time, introduced "perestroika", which aimed to restructure the political and institutional system within the Soviet Union. His plan and intention was to open the economy to international trade, which in his opinion had been isolated from the outside world for far too long, causing difficulties in efficiently setting up joint projects with foreign businesses. As a result, the Soviet Union as such collapsed in 1991 and its member states achieved independence although remaining in close cooperation with Russia (Mau, 1995).

In 1991, Ukraine, Russia and Belarus formed an independent association, known as the Commonwealth of Independent States, to create an official platform of cooperation to revive their economic and political structures towards democratic market economies. The CIS aims to support development and strengthen the friendship between the aforementioned countries. Later, nine other former Soviet countries joined the forum, including Armenia, Azerbaijan, Kazakhstan, Uzbekistan, Kyrgyzstan, Moldova, Turkmenistan, Tajikistan, and Georgia. Together, they constitute the world's fourth largest producer of electrical energy. Similarities among the countries in terms of language, currency, close economic ties between enterprises and identical public infrastructures inherited from the Soviet Union made the new states extremely dependent on one another. Russia's energy supply (e.g. gas) also meant political and economic domination. Just two years after becoming an independent state on August 24, 1991, Ukraine established its own parliament, which is also known as Verhkovna Rada. The

Parliament of Ukraine created a new constitution for the country in 1996, which in many ways reflected the core values of western market economies and democracies. The idea behind the constitution was to provide a more favorable economic environment for foreign investors, such as the right to private ownership of land and assets, transparent law structures and an independent judiciary system. Despite the promising configuration of the political system, some of the principles have not fully been implemented. The enforcement of the law failed for several reasons, such as the untransparent division of political power and corruption among many individuals of the parliament. As a matter of fact, the legislative system has failed to completely pass and implement laws which support the guidelines of the country's constitution. Even though the majority of political leaders agree as to the importance of establishing a favorable environment for foreign direct investment in Ukraine to attract foreign investors, the legislators have had a hard time implementing the necessary laws and business regulatory systems and providing a strong legal framework in the privatization of its state assets (Mau, 1995).

To strengthen the economic relationships with foreign countries, in 1993 Ukraine began to cooperate closely with the US in three main areas of international trade, investment and economic reforms. As a matter of fact, in 1994, the US supported Ukraine by providing the largest American aid program in the world, which helped develop Ukraine's infrastructure in Ukraine and thus support market-oriented export systems (Hamm, Stuckler, and King 2012).

In 1996, Ukraine introduced its own currency, the Ukrainian hryvna. With no clear economic reform agenda on top of corruption problems within the entire country, the government printed money and provided numerous loans to individuals and enterprises. Not having a clear monetary policy led to a significant increase in the money supply and hyperinflation, which first ruined the bank accounts of clients and then led to bankruptcy of the banks themselves. This event shattered the expectations of many people in the Ukrainian government as hyperinflation had a tremendously negative effect on the lifestyles, pensions, salaries, and other social incentives of the Ukrainian population (Radnitz, 2010).

In 1998, after the financial crisis in Russia, Ukraine became even more aware of its responsibility and the need for efficient economic reforms. The country slowly started to recover from the stagnation and in 1994 the government introduced new incentives for foreign and local investors. These reforms resulted in an increase of the value of exports, consumer spending power and a revival of the economy. In 2000, Ukraine experienced the largest GDP increase by 5,8% since its independence. Inflation rates also reached their lowest rate and were expected to decrease further. The Ukrainian currency, hryvna, stabilized in 2000 and equaled between 5.30-5.45 for US$ 1. The decrease in interest rates of Ukrainian banks led to a greater demand for loans, greater purchasing power and an improvement of the economy overall through the multiplier effect. The stabilization of economic factors was reflected in greater industrial outputs, an increase in exports and a higher demand for foreign businesses interested to transfer to Ukraine (Yuldashev, 2019).

Having experienced some positive economic results encouraged most parts of Ukraine to remain economically “pro-western Europe” until the elections in 2004. This presidential election was mostly run by the government candidate and then Prime Minister Yanukovych, whose campaign was supported by the Russian President Putin and his opponent Yushchenko, who aimed to become closer to the European Union. During the campaign, Yushchenko was poisoned by an unknown assailant, while his failure to win the majority was announced. One month later, this turned out to be a politically manipulated lie and the government was accused of holding an undemocratic election. This caused a significant turning point for Ukraine and led to the so-called Orange Revolution. At the beginning of 2005, new elections took place, showing Yushchenko’s clear victory (Kuzio, 2013).

As a pro-European country, Ukraine started the process of joining NATO in 2008, which led to confrontations from the east. Gazprom, the Russian gas company that was supplying Ukraine and other European countries with gas, raised their prices and even halted supplies to Ukraine, which affected some downstream European customers (Kuzio, 2008).

The disputes between the pro-western and pro-Russian parties within the Ukrainian Parliament as well as the rising challenges with the gas supply led to the collapse of the parliament and the election of a new president, Yanukovych, in the first half of 2010. In 2013, he rejected pursuing NATO membership and instead decided to strengthen economic relations with Russia. This led to demonstrations of Ukrainian citizens who favored joining the EU. The protests continued into 2014 and resulted in a stronger and brutal police intervention. At the same time, the eastern part of Ukraine, Crimea, was occupied by the Russian military, stating that this part of Ukraine voted for joining Russia (Bebler, 2015).

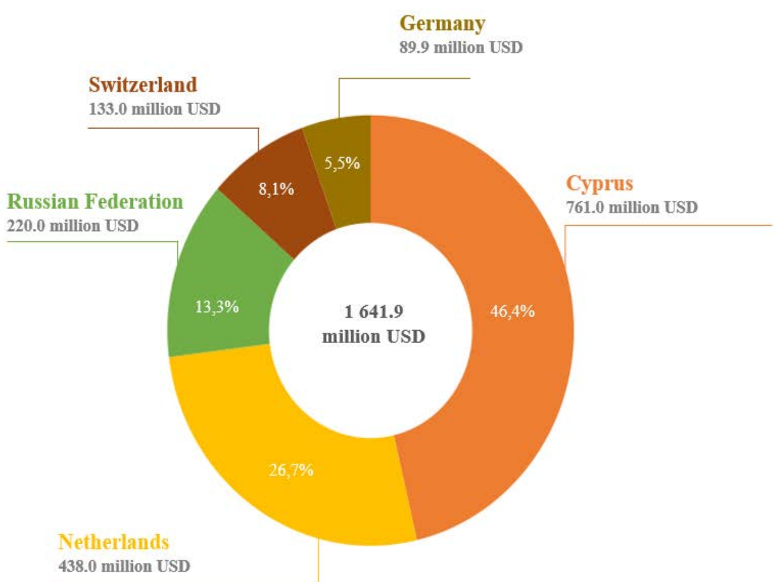
The ‘war’ between Ukraine and Russia continues until today, hindering Ukraine from concentrating on economic reforms included in its constitution.

Over the past twenty-five years, Ukraine has experienced a tectonic shift from a planned to a market economy, from dependency to the Revolution of Dignity, a deep crisis to macroeconomic stabilization (Yuldashev, 2019).

In 2019, over 70% of the population voted for Volodymyr Zelensky to become Ukraine’s new president. The government now aims to start effective anti-corruption measures to ensure the transparency of public finances and expenditures. Moreover, the government plans to improve the educational, retirement and health system in Ukraine. By signing the “Free Trade and Association Agreement” with the European Union, Ukraine aims to integrate itself more into the European supply chains and institutions, which will consequently attract foreign investors to Ukraine (Korbut, 2020).

Foreign Direct Investment is undoubtedly an important factor in stimulating further economic growth in Ukraine. According to UNCTAD's World Investment Report 2020, Ukraine experienced a FDI stock decline in 2018 which is combined with the ongoing conflict in the Donbas region, political instability as well as capital account restrictions (UNCTAD, 2020). As a consequence, Russia, one of the main foreign investors in Ukraine, has withdrawn its assets causing an overall drop of FDI inflows. Nevertheless, the Ukrainian government has been undergoing some positive changes by actively engaging in reforms and making the country an easier place to do business. In June 2018, a new more transparent law was put into effect, ranking the country 64th in the World Bank's Doing Business Index (a seven-fold rise compared to the previous year). As a result, FDI flows to Ukraine in 2019 reached US$ 3.07 billion which shows an increase compared to 2018 (US$ 2.35 billion). The analyses by country show that Cyprus (46.4%) represents the largest investor in Ukraine, followed by the Netherlands (26.7%), Switzerland (8.1%) and Germany (5.5%) (State Statistics Servie of Ukraine, 2019). According to 2019 data, the Russian Federation also remained a major player with 13.3%.

Figure 1: Main source countries of FDI to Ukraine in 2019

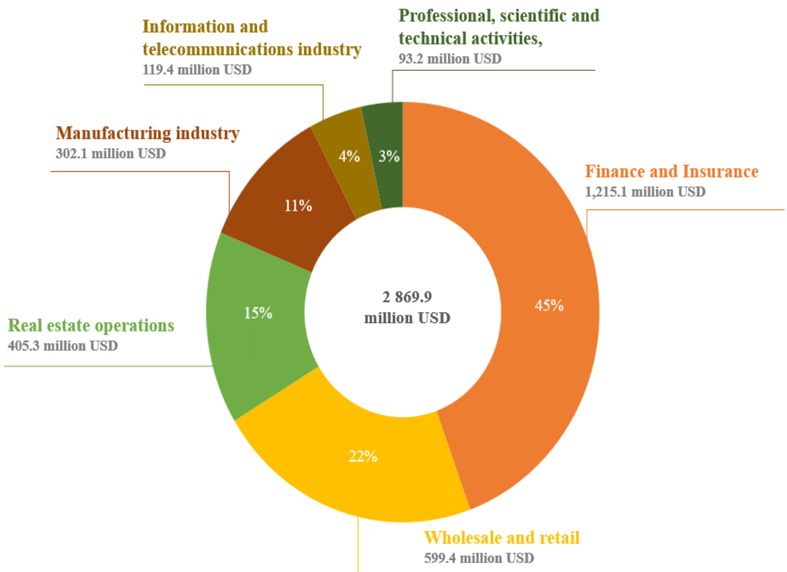


Source: State Statistics Service of Ukraine, 2019.

An analysis of the most profitable investment sectors reveals that in 2019 finance and insurance constituted the main interests of foreign investors. The inward equity FDI stock in this sector was worth US$ 1.215 billion or 45% of the value of the total equity

FDI stock in Ukraine. Also, there have been large investments in the wholesale and retail industry (22%), real estate (15%) and manufacturing industry (11%) (State Statistics Service of Ukraine, 2019).

Figure 2: Inward FDI flow by sector and industry in 2019



Source: State Statistics Service of Ukraine, 2019.

Over the past years, the IT sector, agriculture, and automotive industry have witnessed the most growth, encouraging local and foreign investors to invest more in Ukraine. For instance, the Ukrainian IT industry has experienced a significant 40-fold increase over the last fifteen years, from US$ 110 million in 2003 to about US$ 4.5 billion in 2018, achieving an impressive cumulative average growth rate of 25% (State Statistics Service of Ukraine, 2019).

Historically, Ukraine has been a center for software development, technology solutions for data analysis and processing. A key role here is played by the level of technical skills, offering a high level of innovation technology in the area of Artificial Intelligence, Cyber Security, Big Data Analytics, Blockchain, and FinTech, making Ukraine one of the most important investment destinations in Central and Eastern Europe (Skavronska, 2017).

The agricultural sector appears to be another "export powerhouse". Over the past 10 years, agro and food exports grew by 13% on average. With its attractive land rent prices, extremely fertile soil, competitive wages and logistics, the agricultural sector continues to be a key sector for investment (Skavronska, 2017).

The automotive industry offers another vast and sustainable opportunity for foreign investment. For many years, Ukraine has served as a supplier location for the German automotive industry. Due to its geographical location, skilled workforce and developed infrastructure, more and more foreign manufacturers from Japan, Austria or France are transferring their production capacity to Ukraine, which helps the sector improve and provide a stable business environment for future investors (UkraineInvest, 2019).

The fashion industry is yet another promising sector for investment. Over the past years, numerous global fashion brands such as Hugo Boss, Marks & Spencer, Tommy Hilfiger have opened production facilities in Ukraine (UkraineInvest, 2019). Furthermore, the pharmaceutical sector represents one of the most growing and crisis-resistant industries in Ukraine's economy. Here an enormous investment opportunity is provided by purchasing existing players or building cost-efficient new complexes in Ukraine (Dorovskoi, 2014).

6 On various reforms in Ukraine

Ever since gaining independence in 1991, each Ukrainian government has been addressing the need for fundamental reforms. The latter could not always take place, the reasons being crises, civil wars and other critical events. Since the Revolution of Dignity in 2014, Ukraine has prioritized its need for reforms and macroeconomic stabilization. President Zelensky, elected in the summer of 2019, has committed himself to pursue changes in the economic system, which have been always considered both dysfunctional and detrimental. The reforms play an enormous role in achieving one of Ukraine's important goals, i.e. attracting US$ 50 billion in foreign direct investment within the upcoming five years (Getzner and Moroz, 2020). This section provides six key areas that President Zelenskyy aims to reform.

Judicial Reform. Since Ukraine has been consistently identified as a country with the least trusted state institutions, the transparency and obedience to the law has always been one of the biggest concerns for international investors. The lack of credible judicial reforms as well as the distrust of investors constitute one of the largest obstacles to Ukraine's economic growth.

Every Ukrainian president tried to reform the judicial system, but the ultimate aim of their so-called reforms was often tighter political control over the judicial branch of government. Zelensky's predecessor, Petro Poroshenko, was the first politician to introduce a system of strengthening both the financial and organizational independence of the justice system and remove corrupt judges from it. This process was continued by President Zelensky in 2019. Zelensky furthermore dismissed the High Qualification Council of judges, the body responsible for the attestation and selection of judges to prevent the corruption cycle (Cieślik and Gurshev, 2020).

Law Enforcement. Another important point on the reform agenda consists of the improvement of the police system and prosecution services, which, similarly to the judicial system, also form a part of Ukraine's rule of law architecture. Since 2014, several institutions responsible for fighting the high level of corruption in Ukraine have been established. Key milestones include the creation of the National Anti-Corruption Bureau in 2015, the Bureau of Investigation in 2017 and the country's Anti-Corruption Court in 2019 (Cieślik and Gurshev, 2020).

Anti-Corruption. As a starting point, one of the main achievements in the fight against corruption was the implementation of the "Prozorro" platform in 2016. This hybrid electronic system, which was co-developed by Transparency International Ukraine, government representatives, private actors, and anti-corruption activists, is based on an open-source model which aims to ensure transparency by providing free access to all public purchasing data on all tenders since 2016. This should provide a fair procurement procedure including transparency and effectiveness and bring Ukraine closer to a European and global standard (Zinchenko, 2018).

Agricultural Land Market. Even though Ukraine is considered to have one of the best types of soil for agriculture ("chernozem") in Europe, a lot is left to be desired in terms of land reforms. Ukraine is one of the few countries in the world that actually prohibits the sale of agricultural land due to the fear that private landowners will be exploited by large capitalist farmers, which already seems to be the case with existing leasehold systems. Nevertheless, the potential of the Ukrainian agricultural sector is enormous and proper reforms could push annual grain production from 60-70 million tons to 100 million tons. President Zelensky prioritizes reforming the agricultural sector and allowing investors to privatize land, which has the potential to become a powerhouse for the rest of the economy. In autumn 2019, the first reading of new agricultural land market legislation took place (Nahaylo, 2020).

Healthcare. The inheritance of the Soviet system's free public medicine left Ukraine with a lot of challenges such as budget deficits, pay cuts for doctors, which resulted in poor quality services. After 22 failed attempts over a span of 25 years, the Ministry of Health finally took a democratic and evidence-based approach to reform the health system in Ukraine. The new approach concentrates on the patient's needs. The motto "money follows the patient" means that the state will now only allocate money to hospitals for patients whose needs are documented, instead of financing doctors, hospitals, and beds without proper inspection (Yusiuk et al., 2020).

Decentralization. One of the most successful post-Maidan reform initiatives concerns decentralization, which allows each region to have direct responsibility for its development, as 60% of tax receipts are local. Prior to decentralization, the development and control of the regions, as well as their finances and administration were the responsibility of the central government. By giving each region the authority to make its own decisions, the decision-making process of local authorities regarding their strategic planning became more efficient. This, therefore, should secure and provide financial transparency and, at the same time, reduce corruption within these regions. The legislation was passed in late 2019 and should be completed by autumn 2020 (Oleinikova, 2020).

There is a sense that the areas of the reform mentioned above have brought Ukraine to a turning point. The fulfillment of its laws could improve the outlook for economic growth and encourage locals and foreigners to invest. Nevertheless, a lot of obstacles and challenges still remained, which prevented and still prevent investors from entering Ukraine as an investment country.

One of the most important issues for potential investors in any new market is the stability of the domestic legal and political systems when it comes to the protection or enforcement of rights. Between 2014-2016, Ukraine implemented a wide range of reforms to improve its investment environment. Some of them include signing an Association Agreement with the European Union, which came into effect in January 2016 or other initiatives focusing on reducing administrative burdens and bribery, tax reforms, as well as the establishment of a Business Ombudsman institution, which was created right after the Maidan revolution in 2014 to improve the investment climate (D'Anieri, 2016).

Corruption also, still remains a serious challenge for foreign investors as well as the inadequate enforcement of anti-corruption legislation, which makes it difficult for foreign direct investment to understand the "rules of the game" and enlarges the risks associated with doing business in Ukraine (Egger and Winner, 2006).

The inadequate enforcement of existing legislation due to insufficient administrative and technical capacities of the responsible agencies and institutions still remain to be the major concern of foreign direct investors. As various agencies and individuals from different governmental levels need to be involved in the process of law implementation, a lack of harmonization and a risk of corruption is almost a given (Kokorina, 2008). Improving the quality of the public service is the first key step to ensuring a transparent and reliable system for foreign investors. In 2015, experts from EU-OECD provided Ukraine with methodological support and recommendations of how to proceed by introducing systematic competitive recruitment procedures, a transparent remuneration system as well as bonuses based on individual performance (OECD, 2015).

Other problems exist in the area of land ownership registration and other forms of property. Ukraine, as many other transition economies, has found it difficult to determine a formal ownership registration for land and other properties. Many property titles in Ukraine have not been formalized, which leads to the fact that some of the land cadasters are not yet operational. Therefore, foreign individuals and foreign legal entities are not authorized to own any agricultural land or forests. Even though buying a publicly owned plot is possible, it is still tied to complex procedures or even requires consent from relevant ministries or the Parliament, which again is tied to a long waiting period (OECD, 2005).

In recent years, Ukraine has made some major progress in "registering" property, but according to the World Bank and its studies on "Doing Business", Ukraine still lies far behind average European countries (World Bank, 2020).

Another important issue for foreign investors is the law of expropriation. Even though there have not been a lot of cases in Ukraine, it is still perceived to be a major political risk for foreign investors, as it puts them in the position where the state must be compensated quickly. Another important factor which deters potential foreign investors from investing in Ukraine lies in the privatization law. In Ukraine, a significant number of companies are owned by the state, which is considered to be the largest enterprise owner. Nevertheless, those companies are generally not operated well, as they are organized as "unitary enterprises" (a form of corporation without full legal personality which, among other things, does not have ownership of all its assets and does not have a board of directors). This reduces the competitiveness among other companies due to a lack of transparency and proper auditing standards, not to mention corruption. Due to the SOE Reform Action Plan, corporate governance of such companies might be improved by providing OECD Guidelines which focus on a more transparent and competitive, clear procedure of privatization. The State Property Fund of Ukraine has also put some measures into effect. These include hiring privatization advisors in leading investment banks to provide technical assistance in the privatization of certain large SOEs (OECD, 2019).

Another important factor which makes it difficult to do business in Ukraine may be attributed to the high level of corruption in the public procurement (Cieślik and Gurshev, 2020). Even though legislation on public procurement has been amended many times in recent years, the effect on the levels of corruption was still minimal. In the previous four years, the abuse in tenders for public procurement has led to a reduction of the country's GDP by 6-7%. In response to that, a number of actions have been taken, such as "e-procurement", introduced by the Public Procurement Law in 2014. E-procurement provides an option to carry out procurement procedures in an electronic format to make the process fast, easy, and transparent (Kovalchuk, Kenny, and Snyder 2019).

Since 2016, Ukraine has had to put more than 70 investment treaties into effect. These treaties form a part of the international investment agreements with partner countries and provide a more suitable and trustworthy business environment for foreign investors (i.e. protection against expropriation and discrimination or giving foreign investors access to investor-state dispute settlement mechanisms).

Ukraine still has a long path ahead – with the election of the new president even more treaties, guidelines and laws were provided to ensure the sustainable development of business with foreign investors. According to economic studies, these investment treaties might lead to more FDI flows by reducing barriers and restrictions for foreign investments.

7 RESULTS

This chapter summarizes the empirical results of the analysis of the question, why FDI is important for Ukraine.

One of the most important reasons why FDI matters to Ukraie is the fact that FDI can improve the country's economic development in the long run. The positive economic impact of FDI on a host country is described through by the interviewees such as technology spillovers, human capital formation support, the enhancement of a competitive business environment, contribution to international trade and the improvement of enterprise development. Moreover, FDI can contribute to the environmental condition of a host country by introduction greener and cleaner technologies which lead to more socially responsible corporate policies. Further participants agree that the economic growth of a host country is also achieved through foreign capital flows.

Even though several aspects of FDI lead to the economic development of a host country, which, as a consequence, can alleviate poverty in Ukraine, the exact economic impact of FDI is difficult to measure with accuracy as it varies across countries, sectors and local communities.

Almost all of the participants agreed that Ukraine would enjoy an increase in employment by attracting more FDI in the future. The participants differentiate between direct and indirect effects on employment. The direct impact on employment is explained by the creation of new jobs through the establishment of foreign subsidiaries in the host country or by expanding existing ones. An indirect impact on employment could also be generated if both the foreign company as well as its distributors and suppliers invest in the host country and employ people from that country. However, the number of jobs which can be created in the host country depends on the industry. While some stronger effects could be found for industries such as the automobile industry and food processing, some weaker effects were found for the clothing, electronics, and mechanical engineering sector.

The effect of FDI on employment might also differ depending on how the foreign companies operate in the host country. If a company relocates to another country to pursue import-substituting production and thus take advantage of trade protection, it is more likely that such companies will hire employees who possess better skills or even relocate their current employees as they have the right knowledge. In this case, this type of company operation would not reveal any significant impact on the labor market.

Another important opportunity Ukraine might have as a host country is the fact that FDI facilitates a positive effect on the development of human capital. This aspect is represented and supported by various participants, who explained the positive spillover effect the FDI might have on Ukraine.

One way of how human capital can be improved is that by employing local workers foreign workers will usually provide different trainings which will improve the knowledge of the labor force. Some of the participants even mentioned, that many employees could use the new obtained knowledge to create their own companies and then they will transmit their knowledge to the workers of this new firm, which in turn will contribute to the development of human capital in general.

Another opportunity Ukraine might enjoy as a host country is the fact that the cooperation with international companies gives Ukrainian citizens access to new technologies, new methods of management, managerial skills, and new ways of doing business. By investing in Ukraine, multinational firms are at the same time transferring a certain level of knowhow and technology to the host country, which could not be achieved otherwise. The host country can eventually make use of this technology by incorporating it in a production process to be more efficient.

Access to more advanced technology improves a country's economic performance as it contributes to an increase of the local firms' productivity. They further add that the increased performance of local firms contributes to the growth of the Gross Domestic Product.

By attracting more FDI to Ukraine, not only is the managerial and technological know-how transformed, but at the same time, Ukraine's customers are provided with access to a larger variety of goods and services, which might not have been available there before. As some specific products require specific production and know-how, companies will automatically create a new eco-system, involving suppliers. New market segments will be created, which will contribute to the economic growth.

Another opportunity the participants of the interview saw for Ukraine is the fact that by attracting more FDI and therefore more and more multinational corporations to the Ukrainian market, a certain level of competition might increase, and a more efficient market structure might be achieved. As argued by the participants, this could not only help break domestic monopolies and the oligarchy structure, but, most importantly, force local firms to be more productive and efficient, which as a consequence will contribute to economic growth.

The participants moreover agree that there is a clear link between the increase of FDI and the rapid integration into global trade. Foreign investors also have a higher level of knowledge about internationalization as they underwent several processes and transferred their knowledge concerning marketing, networking and development of international lobbies to local firms which integrated them into their processes as well.

Internationalization and, therefore, integration into the global economy can moreover be achieved by becoming one of the suppliers or subcontractors of the international firm. Contact with a multinational brand is also useful in order to use the same channels this brand has already established in the international market.

Another form of integration into the international market is when FDIs start to include local firms in their strategy.

Some of the participants point out that foreign investors tend to include their suppliers or other partners who might come from the local firms in international networks as they have local knowledge. By doing so, local firms can be involved in the whole international system and network, which will provide them with additional knowhow and a connection to international entities with whom they can exchange other relevant international experiences.

By being actively involved in the global economy, either through foreign investment or by being a part of an international network, Ukraine will have the so-called demonstration effect, which arises when domestic firms copy international competitors unconsciously to become more productive, which can increase the output of production of Ukraine. The global integration of the host country into the capital markets will contribute to the spread of best practices which can be used by the host country itself to become more productive and efficient.

Moreover, because of the "demand" of multinational companies, local entities are sometimes forced to establish a certain infrastructure in order make international trade possible. These infrastructures, particularly transportation, will benefit the international trade of a host country as it will allow more companies to come to Ukraine.

8 Conclusion

The purpose of this paper is to give an overview of the economic and political development of Ukraine, as well as to explain why foreign direct investment is important for Ukraine's economy.

As for the first part of the research quesion – the economic and political development – it can be said that the history of Ukraine as well as the explanation of why Ukraine is in the economic situation it is right now goes back to the year 1917 when Ukraine was part of the Soviet Union and was influenced by the Bolshevik revolution and Joseph Stalin's policies and reforms. During the past several decades, Ukraine has experienced many wars and restructuring reforms which created an unstable situation in the country. Even though in 1991 Ukraine gained independence, it is still dependent on Russian facilities such as energy supplies, which due to the lack of significant structural reforms have made the Ukrainian economy vulnerable to external shocks.

Outside institutions such as IMF have encouraged Ukraine to set measures and scope reforms to foster economic growth. The reforms concerned especially on areas such as fighting corruption, developing capital markets and improving the legislative framework.

Sustaining the reforms which managed to come into force was difficult, if not impossible, due to the Orange Revolution, the constant change of the president and later the war in the eastern part of Ukraine. This instability was the main reason for deterring FDIs.

The status quo of current FDI in Ukraine show that despite some legal and corruption issues, Ukraine remains an attractive investment destination thanks to its large internal market, proven agricultural potential, energy and mineral resources. Several government reforms led Ukraine to jump to 64th place in the ranking of the World Bank's Doing Business Index. The reforms concerned areas such as judicial reforms, law enforcement, anti-corruption, the agricultural land market, healthcare, and decentralization.

An analysis of investors according to the country where their business originates showed that Cyprus represents the largest investor in Ukraine, followed by the Netherlands and the Russian Federation. A study of the most profitable investment sectors showed that the main sectors of foreign investment are: finance and insurance, wholesale and retail industry, real estate and manufacturing industry. The empirical study also revealed that the Ukrainian IT sector is becoming more and more important for investors and has experienced enormous growth over the past fifteen years.

Even though Ukraine could show some progress in economic and political terms during the past several quarters, the fact that Ukraine is currently in a position of transition still creates some barriers, challenges and risks for foreign investors and the internal economy. Nevertheless, continueing in investing tinto the measures to attract the FDI to Ukraine might be an important step for the whole country.

Foreign direct investments are highly appealing for all countries in transition, including Ukraine as they promise economic growth, which couldn't be reached through domestic activities.

The economic development of Ukraine could be especially achieved through the fact that foreign companies create new jobs and more opportunities as they sometimes build new companies. This can lead to an increase of income and higher purchasing power of local people which, in turn, leads to an overall boost of the economy. They, moreover, contribute to the overall development of human capital as they usually provide additional trainings to the employee – best practices can then be passed on to other companies.

Foreign investors also give the society of the host countries access to new management expertise and technology which can also boost innovation within the country. In addition, they provide a wider range of goods and services that were not available to the country before.

The more foreign investors a country has, the higher the competition within the country, which again improves the economy in the domestic market. It also gives Ukraine the possibility to be engaged in international economy and build its own international network, which is necessary to achieve global success.

However, the net benefits from FDI do not occur automatically and their importance differs according to the host country and various conditions. In the case of Ukraine, several measures need to be taken to fully enjoy the opportunities and advantages of FDI.

To conclude, it can be said that Foreign Direct Investment proved to be an important factor in achieving economic growth in Ukraine and bringing the country closer to the European Union. It is, therefore, important to examine existing policies and their gaps and look for new ways of increasing the foreign invest flow in Ukraine in order to ensure a long-term economic boost in the future.

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