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FAKULTA MEDZINÁRODNÝCH VZŤAHOV

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**STRATEGIES FOR ATTRACTING
FOREIGN DIRECT INVESTMENT TO UKRAINE.
CHALLENGES, RISKS AND OPPORTUNITIES**

Dissertation

2022

Anna Rivna, MA

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Dissertation

Study program: International Economic Relations
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Supervisor: doc. Ing. Martin Grešš, PhD.

2022

Anna Rivna, MA

*This thesis is dedicated to my parents, Nadiia and Anatoliy
in gratitude for their endless love*

PREFACE

The strongest motivational factor for choosing this dissertation topic is my own cultural and national identity. In 2004, my family and I immigrated to Austria from Ukraine. Adapting to Austrian culture and pursuing a degree in International Business and Export Management at an Austrian university has inspired me to question why some countries, like Austria, are successful and prosperous, while others, such as Ukraine, are falling behind. In summer 2019, I visited Ukraine for the first time after eight years. Even though I noticed some signs of economic recovery, relatively speaking, Ukraine's economic growth amounts to 2.5 percent, which is comparable to a developed economy with slower rates of improvement.

The observations from my visit to Ukraine backed by my knowledge gained from international studies in Austria inspired me to reflect on what countries like Ukraine should do in order to stay economically competitive, and, as a result, positively contribute to decreasing its level of poverty and inequality.

This thesis was completed in August 2021 and does not, therefore, take the war which broke out in February 2022 into account.

ACKNOWLEDGEMENTS

This dissertation, as many achievements in my life, is not a result of my efforts alone. It is the outcome of a supportive group of people who have helped me finish yet another chapter of my academic journey.

I would first like to express my sincere gratitude to the University of Applied Sciences in Burgenland as well as the University in Bratislava. The way the program was organized allowed me to pursue my professional career during my PhD studies.

At this point I would also like to thank Prof. Zavrl for her continuous support, patience, motivation and guidance throughout my PhD studies and research phase.

I would also like to express my deepest gratitude to my supervisor Dr. Martin Gress who, for the past three years, has helped me deliver results and continue my research. I am very grateful for his valuable feedback.

A special thank you also goes to all the interview partners in Ukraine without whom this thesis would not have turned out the way it did. Finding the right people to talk to was challenging for many reasons, however, the chosen interview partners always found time to talk, whether in a taxi on the way to work or while watching their children and balancing their jobs at home. Without their good will and perfect time management this thesis would lack valuable insight.

I would also like to mention Agnes, who has not only been an excellent proofreader during almost my entire academic path, but also a wonderful person who helped me find my voice as a writer time and time again.

I also feel very grateful to my first teacher in Austria – Eveline Haindl. From the very first day of school in Austria since I moved from Ukraine, she inspired me to invest in myself and reminded me of the importance of education.

Thank you to all my friends, especially Rachel Unlayao, who supported me during this journey, reminded me to ‘turn off’ and listened to my ‘I am stuck’ conversations. I could not have done all this without her support. Thank you for helping me to switch off and reminding me to work out, cook, eat, laugh and have fun.

A special thank you goes to my family. My sisters Anastasija and Ekaterina who as my older sisters set an example for me to be good at school and shaped my character and the woman I have become today.

My mom and dad – Nadiia and Anatoliy – words cannot describe how grateful I am for the rest of my life to them, for sacrificing many things in their lives so that I could have the

life I have right now. They have always been a source of love, support and strength for all these years and have encouraged me not to give up and invest in myself.

And last, but definitely not least, I express my gratitude to Ga-Mok Son, for believing in me before I believed in myself. Thank you for cheering me up, being my shoulder to cry on; thank you for your patience and your unconditional love. I promise I will now take all the academic posters off the wall :)

ABSTRAKT

RIVNA, Anna: *Strategies for attracting foreign direct investment to ukraine. Challenges, risks and opportunities.* – Ekonomická univerzita v Bratislave. Fakulta medzinárodných vzťahov; Katedra medzinárodných vzťahov a hospodárskej diplomacie. – Školiteľ záverečnej práce: doc. Ing. Martin Grešš, PhD. – Bratislava: FMV, 2022, 116 s.

Hlavným cieľom práce je identifikovať stratégie na prilákanie priamych zahraničných investícií na Ukrajinu, ako aj opísať výzvy, riziká a príležitosti, s ktorými sa stretávajú zahraniční investori aj Ukrajina ako hostiteľská krajina. Práca je rozdelená do piatich kapitol. Prvá časť je venovaná teórii priamych zahraničných investícií. Druhá časť poskytuje prehľad investičného prostredia na Ukrajine, jej politického a historicko-ekonomického pozadia. Tretia časť práce vysvetľuje metodológiu výskumu. Záverečné kapitoly sa zaoberajú prezentáciou zistení, diskusiou a záverom dizertačnej práce.

Z tejto práce vyplýva, že všetci zahraniční investori zahrnutí do tejto štúdie sa pri vstupe na ukrajinský trh stretli - v určitých aspektoch - s rizikami a problémami. Najväčšie výzvy súvisia s korupciou, nedostatočnou transparentnosťou právneho a súdneho systému, ako aj s neustálou vojnou s Ruskom. Napriek ekonomickej slabosti krajina ponúka atraktívne investičné príležitosti spojené s jej polohou, vysokokvalifikovanou pracovnou silou a otvorenosťou voči zmenám. Keďže priame zahraničné investície sú dôležité pre oživenie hospodárstva v transformujúcich sa krajinách, zistenia predstavujú oblasti na zlepšenie, ako je infraštruktúra alebo právny štát. Práca tiež poskytuje návrhy politík, ktoré by mali pomôcť tvorcom politík preskúmať existujúce politiky a hľadať nové spôsoby zvýšenia prílevu zahraničných investícií.

Kľúčové slová: investičné príležitosti, výzvy PZI, príležitosti PZI, ukrajinské investičné prostredie

ABSTRACT

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The main aim of the thesis is to identify strategies for attracting foreign direct investment to Ukraine as well as describe the challenges, risks and opportunities that both foreign investors and Ukraine as a host country encounter. The work is divided into five chapters. The first part is dedicated to the theory of foreign direct investment. The second part provides an overview of the investment climate in Ukraine, its political and historical-economic background. The third part of the thesis explains the research methodology. The final chapters deal with the presentation of findings, discussion, and the conclusion of the dissertation.

This thesis shows that all the foreign investors included in this study have experienced – in certain aspects – risks and challenges when entering the Ukrainian market. The biggest challenges are connected to corruption, the lack of transparency of the legal and judicial system as well as the continuous war with Russia. Despite economic weakness, the country offers attractive investment opportunities linked to its location, high-skilled workforce, and openness to change. Since FDI is important for boosting the economy in transition countries, the findings present fields for improvement such as infrastructure or rule of law. The thesis also gives suggestions for tactical policies which should help policymakers examine existing policies and look for new ways to increase the foreign investment flow.

Key words: investment opportunities, challenges of FDI, opportunities of FDI, Ukrainian investment climate

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LIST OF ABBREVIATIONS

AI	Artificial Intelligence
APEC	Asian Pacific Economic Cooperation
COVID	Corona Virus Disease
e.g.	exempli gratia
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
i.e.	id est
IMF	International Monetary Fund
IT	Information Technology
MNE	Multinational Enterprises
MNC	Multinational Corporation
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
OECD	Organization for Economic Co-operation and Development
PLC	Product Life Cycle
SOE	State-owned Enterprises
UKRSTAT	State Statistics Service of Ukraine
UNCTAD	United Nations Conference on Trade and Development
US	United States
USD	United States Dollar

INTRODUCTION

Civil wars, violence and poverty in Ukraine have caused several crises over the last ten years, resulting in a negative effect on the country's economy and development. Even though the country's economy has recovered since the civil war in 2013, offering attractive incentives for foreign investment such as cheap labor, a developed infrastructure, e.g., ports, bridges, warehouses, communication systems, etc., the development of foreign economic relations, as well as the establishment of an export-oriented economic model are still questionable and put the country far behind most other countries with a transition economy.

A lot of studies on economic growth were conducted attempting to determine and explain the factors why countries develop differently. Many of these studies examine the effect of FDI on economic growth and view FDI as one of the sources of boosting and influencing a country's economy through factors such as technology transfers, international trade development and contributing to new managerial practices.

For many years, Ukraine's leaders have recognized FDI in Ukraine as the key to achieving robust economic growth. Various governments attempted to promote investment through diverse conferences in which western investors were presented with the benefits of Ukraine's geographical position in Europe as well as the opportunities and patterns of investing in Ukraine's highly educated population and natural resources.

Nevertheless, these efforts had a low level of success since Ukraine has suffered from political inconsistency over the past five years. This factor is reflected in the average investment inflow in the year 2019, which amounted to around \$2.5 billion. In comparison, Poland, a neighboring country whose population is of comparable size, has investment inflows of almost \$16 billion (UKRSTAT, 2019).

Several other factors, such as weak economic growth, unstable political conditions, unattractive tax arrangements and a weak marketplace contribute to Ukraine's disadvantaged position among its neighbors.

In order to understand the reasons behind Ukraine's weak performance and present suitable strategies for attracting foreign direct investment, it is necessary to develop a deeper understanding of the circumstances which contributed to these results, analyze favorable factors for FDI and evaluate risks and opportunities for both parties. This dissertation aims to address these issues in the subsequent chapters and is organized as follows:

Chapter one, the theoretical framework, focuses on the analysis of scientific literature and is organized into three subsections. The first subsection presents the literature review on FDI. It sheds light on the relevant theories of FDI, types of FDI and mentions the positive and negative impacts of FDI for a country and for the investors. The second subsection gives an overview of Ukraine's economy, its history, challenges, risks, and opportunities. In the third subsection, FDI and investment regulations in Ukraine are presented, summarizing the background of FDI inflows in Ukraine throughout history as well as investment regulations in Ukraine in general.

The aim of the thesis is described in **chapter two**.

The **research methodology** as well as the research philosophy, design, and instruments necessary to answer the research questions are described in **chapter three**.

Chapter four, the presentation of findings, focuses on the empirical work, which provides new data and specific interpretations.

In the last chapter, **chapter five, discussion,** the findings are discussed through the prism of existing studies in order to ascertain whether or not the latter apply to the case of Ukraine. This chapter also gives the answer to the research question, lists possible study limitations, and gives suggestions for future implications.

The **conclusion sums up** the initial aims, objectives, and main findings of the study. It furthermore explains the limitations of the study as well as its contribution and gives suggestions for future research.

1 THEORETICAL FRAMEWORK

The main aim of this chapter is to examine previous literature and research done on foreign direct investment in Ukraine.

This chapter is divided into three main sections, each of which relates to FDI in general, Ukraine's economy and the importance of FDI in Ukraine's economy.

The first section defines foreign direct investment through various theories, types and effects it might have on a host country.

The second section provides an analysis of Ukraine's economy and how it reached its current state. Here, an overview of Ukraine's economic and political history is given and the actions which have already been taken to boost the country's attractiveness for FDI are described. The third section links the previous two chapters and examines the importance of and barriers to FDI in Ukraine's economy, followed by suggestions for improvement.

1.1 FDI: Theories and Economic Importance

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, & 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 years and offer special incentives such as reduced taxes.

This effort has been introduced by various trade agreements across the globe, such as the European Union trade agreement, the North American Free Trade Agreement (NAFTA), the Asian Pacific Economic Cooperation (APEC) and the Economic Community of West African States to ensure that goods, services and financial and human capital move across borders and support countries where economic development is needed the most.

As a result, the net inflow of FDI from 1970 to 2015 witnessed a rapid increase from USD 0.498 billion to a value of USD 2.561 trillion.

In 2017, more than half of inflows (47%) were received by Asian countries, followed by Latin America, the Caribbean (23%) and Africa, representing 6% of FDI inflows. The countries with the largest investments were Great Britain, France, China and South Africa (UNCTAD, World investment Report 2018, 2018).

The reasons and determinants of investment in a foreign country differ from country to country. While in various regions of Africa most foreign investors are attracted by the opportunity to expand their markets, find new resources and lower the cost of production, other host countries attract FDI by providing existing infrastructure to make the manufacturing process more efficient than it would have been in the investor's home country (Levine, 1997).

According to UNCTAD (2020), global foreign direct investment witnessed a 23% decline in 2017. Both developed economies and those in transition were particularly hit by this fact, while developing economies remained stable. The decline in value started in 2015 and has continued to fall since then. The reason may be asset-light forms of overseas operations, which are causing a structural shift in FDI patterns. The global rate of return on inward FDI is another major factor. In 2017, the latter fell from 7 per cent in 2016 to 6.7 per cent. In some countries like Africa, the return on investment dropped from 12.3 per cent in 2012 to 6.3 per cent in 2017, which was a direct result of the fall in commodity prices.

The following graph shows the development of the FDI inflows from 2016 to 2017 as per sectors.

Table 1 Value and number of net cross-border M&As, by sector and selected industries, 2016-2017

	Value (billions of dollars)			Number		
	2016	2017	%	2016	2017	%
Total	887	694	-22	6 607	6 967	5
Primary	83	24	-70	206	550	167
Manufacturing	406	327	-19	1 745	1 745	-3
Services	398	343	-14	4 656	4 656	2
<i>Top 10 industries in value terms:</i>						
Chemicals and chemical products	130	137	5	345	322	-7
Business services	75	107	43	1 716	1 817	6
Food, beverages, and tobacco	138	88	-36	200	227	14
Finance	97	59	-39	585	617	5
Electricity, gas and water	66	54	-18	209	171	-18
Machinery and equipment	32	52	63	195	183	-6
Information and communication	24	39	66	618	611	-1

Electrical and electronic equipment	75	26	-66	349	307	-12
Transportation and storage	46	23	-51	293	306	4
Mining, quarrying and petroleum	79	23	-71	138	466	238

Source: UNCTAD, 2018

As far as sectors are concerned, a decrease in all three sectors may be observed. It is worth pointing out that the primary sector experienced a sharp decline of 70 per cent. The largest loss in value at an industry level was registered for extractive industries, food and beverages, and electronics, while the value of net transactions for machinery and equipment, business services as well as information and communication increased.

After providing a general overview of FDI globally, the following chapters concentrate on giving the theoretical background of FDI theories, determinants, and effects on the involved parties as well as the involvement of FDI in the economic growth model.

1.1.1 Relevant Theories of FDI

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.

1) "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.

2) "L" from Location advantages:

Location advantages appear mostly in the form of lower taxes, operating and production costs as well as affordable employment costs.

3) "I" from Internalization:

Finally, the internalization 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.

1.1.2 Motives and Modes of FDI

According to Dunning (1993) the motives of FDI can be divided into four different categories:

- Resource seeking

- Market seeking
- Efficiency seeking and
- Strategic asset seeking

The first, the horizontal FDI is also called the market-seeking FDI. Here, the main reason why a company decides to invest in a developing country is to access and serve the local and global market. It occurs when the same goods are produced the same way in both the host and home country, or the same production process is applied in both countries. This type of FDI can usually be found in the manufacturing sector, where companies horizontally transform their production to the other country. It is also called market-seeking, because by doing so they expand and strengthen their global competitive position. The reasons behind this kind of establishment are diverse: first, by establishing a production plant abroad, the corporation can avoid exporting taxes and tariffs since the production and selling point is located in the host country. Having subsidiaries abroad allows the business to improve its access to the global market and market information in general. Furthermore, it eases the possibility to build alliances between production divisions within the firm, since technical expertise can also be easily shared. By being closer to the customer, better service and product management can be expected (Feenstra & Alan, 2012).

The second form of FDI is resource-seeking FDI, also called the vertical FDI. Here, businesses transfer parts of the production process to a developing country due to easier access to raw materials, labor or other natural endowments such as oil, gas or mineral ores. Car manufacturers in particular use this approach quite often. Volkswagen, Peugeot, General Motors all have subsidiaries and plants in China, for instance, to take advantage of lower production costs and better serve the market in China. Additionally, companies aim to build alliances with other production businesses with the aim of sharing common resources for the production at a lower price. As a consequence, the competitiveness of MNCs can be improved since they can take advantage of the low input costs (Dunning & Lundan, 2008).

While efficiency seeking approach is based on rationalizing production, distribution and synergy-building among geographically dispersed operations, the strategic asset approach aims to capitalize on the advantages of the common ownership of a network of activities and capabilities in diverse environments (Dunning & Lundan, 2008).

The literature on foreign market entry mode is vast. Researchers such as Agrawal et al. (1992); Buckley & Casson (1976); Osland et al. (2001) distinguish in their work between four different entry modes:

- Exporting
- Licensing agreements
- Joint venture
- Wholly-owned subsidiary or sole venture

Other studies such as from Kogut et al. (1988), Woodcock et al. (1994), Nitsch et al. (1996); Bruning et al. (1997) identify and analyze three other choices that foreign firms undertake:

- Greenfield investment
- Acquisition
- Joint venture

Bruning et al. (1997) furthermore combines in his work acquisition with mergers as a distinct entry mode while Barkema and Vermeulen (1998) include joint ventures in the green-field (start-up) category.

Greenfield investment is described in the work of Kogut et. al. (1988), and Görg (2000) as an investment of a company that uses its funds to set up an entirely new economic entity by constructing a new facility, while acquisition involves a purchase of an already existing operation. In the case of a joint venture, both companies combine their assets in a common and separate organization. By doing so both companies enjoy the possibility to find synergies, use common assets and share ownership and control over the new company.

Meyer & Estrin (2001) furthermore distinguish another case of acquisition which is called brown-field investment. Here, the foreign investors buy an existing firm but almost completely replace the plant, equipment, technology, labor and product assortments. As a consequence, the acquired firm undergoes several restructurings and becomes eventually a totally new operation. The mentioned authors found this type of investment especially relevant in Central and Eastern Europe.

Although the identified motives and modes of FDI encompass a broad spectrum of possibilities, only fewer studies address specifically the choice between various form of FDI.

Zejan (1990) describes the importance of the host country's market size, market growth and level of development which might influence the decision of entry mode. Hennart &

Park (1993) point out furthermore to the firm strategies and target market considerations. Similar results could be found in the work of Harzing (2002). Barkema & Vermeulen (1998) found that the diversity of the national markets in which the firm operates as well as its product diversity represent another factor which might influence the entry mode of an investor, while other studies reveal that investment-, industry- and target country-specific variables are responsible for investment choices (Larimo, 2003).

Furthermore Kogut & Singh (1988) discuss distance between home and host countries as well as, language and culture as a major factor for the decision of which entry mode to use. In addition, Head and Ries (2008) discuss distance, different languages and the fact of being a past colonial country as major off-putting factors.

A country's degree of openness to international trade is another vital factor according to various scholars. While some studies consider a higher degree of openness to FDI (Edwards, 1990) positive, others do not see such a positive link (Schmitz & Bieri, 1972).

1.1.3 Effects of FDI on Investors

The effect of FDI on investors is widely discussed in literature. While some studies identified several challenges, companies which invest in other countries also enjoy a number of advantages and opportunities which are summarized in this chapter.

A review of studies revealed that the **level of corruption** and **unstable legal framework** represent other potential risks for FDI (Fedderke & Romm, 2006). Similar topics have been examined in the work of Wei (2000), who concluded that corruption has a negative impact on FDI and prevent investors from investing in a host country with a high level of corruption. Javorcik and Wei (2009) supported these results. Globerman and Shapiro (2002) not only show how important having a low level of corruption is, but they also link the overall quality of economic institutions (or governance infrastructure) with FDI inflows.

Stein & Daude (2002) find no positive correlation between the level of corruption and FDI inflows. Henisz (2000) explores the effect on US multinationals and cannot confirm statistical significance either. Bellos & Subasat (2013) even claim that the high level of corruption might even have a positive effect on FDI. This positive relationship can be explained by the “greasing the wheels” effect, in which countries with a lower corruption level invest in countries where economic institutions are poor. By doing so, foreign investors hope that corruption may at times help them achieve second-best outcomes by

mitigating distortions induced by bad government policies. These findings are also described in the work of Aidt (2003).

Political instability is described as the most important challenge for FDI. Countries with a high level of political instability impose a high risk on the FDI, as it slows down the entire economic growth and puts the investment in a risky position and even prevents future FDI from investing in such countries. This is especially true in the case of developing countries that are going through a transition (Lucas, 1990). Fielding (2003) supported these findings by analyzing Israel as a host country and found a negative link between the intensity of political instability and the effect on foreign investments. Several other studies, such as one by Carmignani (2003), provide a literature survey concerning the negative correlation between political instability and economic performance.

Another relevant strand of literature examines the link between political instability and other important macro and microeconomic conditions. Robin, Liew and Stevens (1996) investigated the negative affect of political instability in terms of asset markets. Another scholar concentrates on the effect political instability has on the behavior of stock markets. Han and Wei, 1996; Bittlingmayer, 1998; and Aggarwal, Inclan, and Leal, 1999 describe that political instability is in many cases responsible for the volatility of the stock market. Other researchers further examine the effect of political instability on foreign exchange markets, which resulted in investors declining the decision to invest in a country with higher political instability as it makes the exchange rate more volatile, making investments more costly for investors (Kutan & Zhou, 1993). Crowley and Loviscek (2002) also report a statistical significance between political instability and a country's currency after having investigated six Latin American countries. Because of the instances of political unrest as well as its impact on the country's currency, the FDI inflow decreased.

In recent studies, Bénassy-Quéré et al. (2007) found that **institutional factors** represent a major challenge to FDI.

The quality of the institutions in the host country has recently gained interest among scholars. The most important argument for FDI is that good governance and institutions which strive for excellent service and quality reduce the transaction costs of investing in a particular country (Brouthers, Gao, & McNicol, 2008). Especially after 1990 many researchers started to investigate the impact of institutions on foreign direct investment,

testing the hypothesis on CEE countries (Kersan-Škabić, 2013; Peres et al., 2018). However, not all of them came to the same conclusion.

Several studies which use panel data analyses do not find any statistically significant impact on FDI inflows (Bayar et al., 2016; Abdella et al., 2017).

Peres et al (2018), however, define the impact of the quality of institutions by measuring the control of corruption and the rule of law as indicators. In their study, they came to the conclusion that institutional quality has a positive impact on FDI inflows in developed countries, while it is not a significant variable in developing countries. Pournarakis et al (2002) support these findings in their research. In their work they pointed out that the quality of the institution as well as the civil and political rights and the freedom of press are prerequisites of attracting and absorbing FDI inflows to CEE countries.

Doytchet et al (2012) describe the detailed impact of institutions on FDI in three different sectors: agriculture, manufacturing, and services. The study was conducted in twenty-one Eastern European and Central Asian countries in the period between 1994-2008. The result showed that the institutional quality of these countries has a statistically significant effect on overall FDI inflows. They, furthermore, described democratic accountability as more important for the agricultural and manufacturing sectors, while the service sector does not seem to be significantly affected by the quality of institutions.

Nevertheless, it is important to point out that FDI effects and determinants can change over time and theories need to be re-examined (Eicher, Helfman, & Lenkoski, 2012).

The research of Mathur and Singh (2013) found that **weak intellectual property rights** impose an enormous challenge for existing FDI and might even prevent future FDI from investing in the countries with a lower level of protection. Especially in the Eastern European countries, weak intellectual property rights are preferred by oligarchs and force foreign investors to invest privately in protection from revenue appropriation. The **power of oligarchs** may be the main reason why many investors do not invest in such countries (Kuznetzov & Kuznetzova, 1996).

Other studies, however, could not find similar results.

A study by Maskus (2000) claims that property rights alone, are not a sufficient factor when it comes to an investment and cannot be considered a challenge for investors. Furthermore, a study by Watkins and Taylor (2010) presents similar results, failing to find support for the hypothesis that stronger intellectual property protection affects FDI inflows. The study further suggests that higher property rights protection might be beneficial for the host

country's development but is not necessarily responsible for the destination's attractiveness, and, according to Glass and Saggi (2002) might even lead to a reduction in FDI inflows. Also, McMillan and Woodruff (2002) state that the ability to access property protection is necessary, but not always sufficient for firms to choose one country over another.

In a recent work by Canals and Sener (2014), the findings suggest that intellectual property right protection is only relevant to the high-tech industry, where the importance of the patents is quite sensitive.

A number of empirical studies found that **language, mentality and culture** impose another important challenge on FDI, as cultural friction may cause cultural shock caused by doing business differently as in the home country. This, as a consequence might hinder relationships (Feils & Rahman, 2011; Makino & Tsang, 2011; Malhotra, Sivakumar & Zhu, 2009; Rothaermel, Kotha & Steensma, 2006; Thomas & Grosse, 2001; Berry et al.)

Other scholars, on the other hand, came to different conclusions. Shenkar (2012), for example, argues that even though culture could impact the decision of FDI, it is important to keep in mind that culture might change over time, and several other determinants might be taken into consideration before an investment decision.

Another risk that comes with the political instability is the **expropriation** of assets and profits, which is very common in countries with a relatively poor legal protection and a high level of political instability.

According to literature, there are two kinds of expropriation: the direct and the indirect. Kobrin (1984) describes the direct expropriation as a process, where the government usually takes control of the capital stock. In addition, expropriation is often associated with such terms as 'dispossession,' 'deprivation' or 'privation'. Minor (1994) furthermore defines direct expropriation as the "forced divestment of equity ownership of a foreign direct investor".

The indirect form of expropriation stands for other forms of change in the institutional environment which reduce the value of an investment. This includes restrictions which complicate the investment process such as excessive taxation, capital controls, manipulation of exchange rates and bribes (Schlemmer-Schulte, 1999).

While there are a number of challenges and risks being listed, it is also important to point out that several researchers also analyzed possible opportunities FDI might have when investing in a country. According to Dunning and Lundan (2008) these opportunities can

be categorized into microeconomic and macroeconomic aspects. While microeconomic aspects cover factors, which are vital for the company itself, such as **ownership advantages**, **cost reduction** and **economies of scale**, macroeconomic aspects involve factors that are market specific. These include barriers to entry, **availability of resources**, political stability as well as country risk and **market size** (Faeth, 2009).

Dicken and Lloyd (1990) highlight the importance of **geographic location** as one of the most important determinants as there is a higher possibility that countries located near other countries will interact with each other economically. This, in turn, will have direct effects on the allocation of investments among those countries.

Another positive effect which was discussed by Duanmu and Guney (2009) is the **market size**. In their work they noted a positive relation between the market size and the readiness to invest. They concluded that market size is the key factor in attracting foreign investments. Zhang (2001) came to similar results in his research.

On the other hand, Kimono (2007) and Hailu (2010) could not find any positive relationships between the market size of source countries and FDI flows. In their studies they took Japan and African countries as an example. Their result confirmed that market size does not exert statistically significant influence on FDI.

Another study by Janicki and Wunnava (2004) was conducted to analyze the determinants within the European Union. They found that the size of the market reflects their theoretical expectations and proved that market size is a significant determinant of FDI among members of the European Union.

Kim and Rhe (2009) explored significant determinants in Asian countries, such as South Korea, and found that South Korean investors prefer larger markets. In addition, Bakir and Alfawwaz (2009) identified the determinants of foreign direct investments in Jordan for the period between 1996 to 2007 and confirmed the importance of the market size as well as its significance which therefore affects the volume of FDI flow.

Furthermore, it is important to point out that the opportunities the investors might enjoy depend on their type of company, the country where they invest and their motives.

1.1.4 Effects of FDI on a Host Country

While the role of FDI as well as its theories and models have been widely discussed in literature, it is worth examining what kind of impact FDI has on host countries.

Literature discusses the impact of FDI in manifold ways.

One of the main discussed advantages of FDI, which can be applied to all the host countries is **becoming more global**. FDI cannot only contribute to productivity and efficiency by bringing in new technology (Carkovic & Levine, 2002), but it indirectly forces the host country to become involved in the global economy, which eventually helps it establish a transitional network. This, in turn, makes the host country more open to trade and contributes to attracting more FDI (OECD, 2002).

Countries that do not practice specific management and governance policies can benefit the most from international MNEs as international companies usually impose their own policies and internal reporting systems when they enter another market. Host companies can, therefore, learn and adopt these procedures, which significantly influences the business environment overall and can in some cases raise corporate transparency and assist in the fight against corruption (OECD, 2002).

MNEs also contribute to higher employment and provide **higher wages and better working conditions**. Girma et al. (2002), Pandya (2010), Hanousek et al. (2011) are examples of studies which analyze the effect of FDI on low- and high-skilled local wages. Mickiewicz, Radošević, and Varblane (2000) further suggest a three-stage model to explain the relationship between FDI and employment. In the first stage, when FDI just enters the host country, the primary goal is to save costs and therefore look for low-cost labor, which at the beginning will result in a small impact. In the second stage, the conditions of FDI activities might improve, the return-on-investment might increase and eventually, in most cases, FDI will set up local subsidiaries, which will increase the demand for diversified skills resulting in a positive impact on the employment situation in the host country. The third stage is characterized by the fact that FDI becomes more globally rationalized, its production becomes more competitive, the productivity and the revenues increase, and the firms are able to pay higher wages, invest in the employees' development, which improves the employment of the host country overall.

The technological know-how as well as international management skills, brought by the international firms to the host country allow other companies to be more productive and efficient which, in turn, helps them increase their competitiveness within the foreign markets, leading to higher productivity and a more efficient resource allocation.

Romer (1993) argues that FDI has an even bigger impact on all the other companies in a developing country. They can benefit from MNEs' international contracts as this increases their chances of gaining access to modern sectors. By getting into more advanced,

international sectors, FDI can indirectly influence and benefit the research and development initiatives of local companies, which, in turn, boost innovation (Dunning, 1993). The empirical theory and evidence concerning the long-term link between technology and economic growth is also supported in the works of Solow, (1956), Easterly and Levine (2001) and Caselli (2004).

However, some empirical evidence does not support the hypothesis that FDI has a positive impact and stimulates **economic growth** and even proves that it will **damage resource allocation** and impact the economy in a negative way due to trade, price and other distortions (Boyd & Smith, 1992). Other studies written by Haddad and Harrison (1993), who analyzed countries such as Morocco, or Djankov and Hoekman (2000), who focused on the Czech Republic, failed to find **technology spillovers** from FDI.

While some economies may enjoy the benefits of FDI, others may suffer from its negative effects. One of the main negative effects discussed in literature is the fact that MNEs might become a **monopoly** in the host country, **preventing local companies from developing** (Agosin & Mayer, 2005). However, this observation seems to be quite controversial as, in his work, Kumar (1991) could not find any examples of negative impacts.

Aitken and Harrison (1999) discuss other negative consequences which lead to the **limitation of domestic productivity**. Since MNEs usually have lower production costs, their production is more efficient than that of domestic companies which simply cannot keep up and eventually are forced to exit the market.

Another negative effect that MNEs have on the host economy is discussed by Lipsey and Sjöholm (2004). In their study, they analyze the **negative wage spillover** caused by MNEs as the high wages they offer attract qualified workers, which results in a struggle to prevent employees in domestic companies from changing to MNE. In response to that, local companies try to keep their wages high as well, which reduces their competitiveness as they usually are not as efficient and productive as international businesses. However, Görg and Greenaway (2001) found that this effect could only be noticed in the countries where the gap between MNE and domestic companies is very large.

When investing in a foreign country, foreign investors usually profit from a cheap labor force, natural resources, and low taxes, which allow them to be more productive and profitable. Nevertheless, the profit generated in the host country is usually paid back to the home country in the form of dividends or royalties. This results in huge **outflows** from the host country, which negatively affect the balance. As a consequence, many countries often

set limits on the amount of money which MNEs can repatriate, often resulting in discouraging future FDI to invest in the host country. Such an effect could especially be observed in the economy of Korea (Billet, 1991).

A number of scholars also discuss the negative impact of FDI on the environment. Since most of the FDIs concentrate on the natural resource sector, in the long run, with no specific regulatory regime, this can lead to **devastating the environment** of the host country (Gray, 2002).

Dunning (1993) further analyzes other negative consequences associated with political, social and cultural aspects. Especially countries that are strongly dependent on multinational enterprises are threatened to lose political sovereignty, since MNEs might sometimes interfere with the political regime or even electoral process of the host country. Many other studies by Evenson and Singh (1997), Abramovitz (1986) and Mayer (2001) have found that the benefits of FDI can only be enjoyed by a host country if it can provide particular policy conditions and possess a certain “social capability” which is adequate to absorb and maximize the benefits of FDI inflows to its economic and social needs.

Narula and Portelli (2004) further state that the power of the impact of FDI on economic growth may depend on a variety of factors. One of the main factors responsible for the absorptive capacity is the quality of institutions in the area of property rights protection as well as the rule of law in general.

The efficiency of FDI in the host country has also been measured by Nair-Reichert and Weinhold (2001). In their studies, which focused on the years between 1971 and 1985, they observed whether FDI and economic growth are correlated in 24 countries. As a result, they stated that countries with a higher openness to trade as well as a high level of efficiency and competition can absorb the benefits of FDI which have a huge impact on economic growth. Similar findings are reported by Kokko (1994) who analyzed the Mexican manufacturing sector and found that the lower the competition in the host country, the less significant the technological spillover effect.

Another important factor of FDI's impact on growth is the level of human capital stock. Keller (1996) for example introduced a model in which he explains that FDI will boost the growth in countries that reached a minimum threshold level of human capital. Similar results are reported by Borensztein (1998) and Xu (2000).

Even though the effects of the FDI on the host country might be contradictory, it is important to point out that countries are not affected (positively or negatively) at the same

level. The reason why some countries are negatively affected depends on the policy and behavior of the governments and institutions of the host country. Thus, it is important to study the effect of FDI on each country individually, so policies and rules as well as the necessary framework can be provided to ensure that the host country is prepared and can absorb the advantages offered by MNEs.

Apart from the positive impact of FDI on the host country mentioned above, a topic frequently discussed in academic literature concerns the opportunities of investing in a foreign country. The theoretical framework for the opportunities of the FDI starts with the concept of ‘the absolute advantage’ suggested by Adam Smith, which is later extended into the comparative advantage in the Ricardian model. Both studies by Rugman and Verbeke (2001), as well as Scott (2000) confirm the model and describe the **increase of competitiveness** the companies experience while investing in another country by boosting their profitability and expanding their market shares beyond the boundaries of their own country.

The advantages of investing in a developing country are not limited to low-cost sourcing, land or capital, as described in the Ricardian model, but they are also reflected in the fact that by investing in a foreign country the companies also develop their **network level** and gain new opportunities by **winning new customers**, which in return increases their competitiveness in the global market (Johanson & Vahlne, 2009).

Ownership-specific advantages such as access to raw materials, capital, technology, and patents, which can be found in the work of Hymer (1960) represent further opportunities and advantages which businesses that engage in international trade might benefit from.

1.2 Ukraine: The Economy and Economic Reforms

Being a “borderland” between Western Europe and Russia, Ukraine has witnessed many different crises and reforms over the past decade. Starting with the disintegration of the Soviet Union in 1992, followed by political inconsistency in 2008, which resulted in the Majdan revolution and the war in Crimea in 2013. 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, & Telegdy, 2006).

The impact, political instability, and disruptions in Ukraine over the past few years 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 the 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 included among transition countries, as some of the transformations which took place in the past quarter century still have a significant negative effect on growth. Foundations of the 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 chapter gives an overview of the main events and transformation processes present in Ukraine’s current economic situation and discusses suggestions to raise the economic growth rate, grow sustainably and build an attractive investment environment for foreign direct investment.

1.2.1 Economic and Political History

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 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 of 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, & Telegdy, 2006).

In 1980s, the majority of 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 were 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 still 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 Verkhovna 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 and thus support market-oriented export systems (Hamm, Stuckler, & 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 since its independence (+5,8%). 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 1USD). 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. Since then, the government has been aiming 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).

1.2.2 Economic Reforms

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 always been considered both dysfunctional and detrimental. The reforms play an enormous role in achieving one of Ukraine's important goals, i.e. attracting USD 50 billion in foreign direct investment within the upcoming five years (Getzner & 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 (Cieřlik & 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 (Cieřlik & 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, 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.

1.2.3 Economy and Unemployment

Before analyzing some of the key domestic economic factors, it is important to familiarize oneself with some general facts and figures concerning the country itself (Kupets, 2006).

Ukraine's population consists of over 43 million people. Area-wise, it is the second largest country in Europe, after Russia. Its strategic position is often used as the cross border between European and Asian markets. Ukraine consists of many ethnic groups, including

73% Ukrainians, 22% Russians and 1% Jews and others. The official language of the country is Ukrainian, although Russian is also widely used. Ukraine is considered to be a highly educated country, 98% literacy rate (Ukraineinvest, 2019).

Its strategic position in Europe, population and natural resources are pillars of hope for economic growth among foreign investors, political leaders and Ukrainian citizens, a fact which is reflected in the table below:

Table 2 Economic indicators Ukraine

Main Indicators	2017	2018	2019
GDP (billions USD)	2 686	3 120	3 678
Inflation Rate (%)	14,5	11	7,9
Unemployment Rate (% of the Labour Force)	9,5	9	8,5

Source: Generated according to the information of the State Statistics Service of Ukraine, 2020

In general, Ukraine presents itself as a reliable, low-risk investment country. Even though the conflict in eastern Ukraine strained relations with Russia and hurt the economy, some signs of stabilization since 2016 could be seen. According to the IMF (2017), the country has made positive steps towards improving corruption, healthcare and the jurisdictional system described above (IMF, 2017).

Since 2017, the Ukrainian economy has shown positive development of the GDP. According to the IMF, the country recorded a growth of 3.2% of its GDP in 2019, which is slightly lower than in 2018 (3.3%). Still driven by domestic demand, household consumption represented almost 70% of the GDP.

Due to the outbreak of COVID-19, which affected the unemployment rate and prolonged the reforms in healthcare, to name only a few consequences, the GDP in 2020 is expected to fall to -7.7%.

Inflation rose from 11% in 2018 to 7.9% in 2019 and is expected to continue to decline in 2020. These numbers show positive development, considering the fact that in 2015, shortly after the annexation of Crimea and the economic crisis associated with it, the inflation rate reached almost 50% (IMF, 2020).

As can be seen in the table above, Ukraine's unemployment rate has fallen to 8,5% in 2019 from 9% in 2018. This number is expected to be even higher by the end of 2020 due to the

effects of the Coronavirus pandemic. It is important to point out, however, that these numbers do not fully represent the real unemployment level as the majority of unemployed people in Ukraine do not necessarily report their status to the government, as there are neither significant benefits nor fines for doing or not doing so (IMF, 2020).

Nevertheless, one could expect that increased FDI inflows are important in developing countries as they help to create more jobs for both skilled and unskilled labor, which as a consequence might reduce the unemployment rate (Habib & Sarwar, 2013).

1.3 Importance of FDI in Ukraine's Economy

Over the last few decades Ukraine has experienced acute political, security and economic challenges - from public discontent over fundamental governance failures, deep-rooted corruption which resulted in the Maidan revolution to urgent changes in the government and revolutionary reforms. Over the past few years, Ukraine has also lost control over parts of its territory and the ongoing military conflict in the east of Ukraine put even more pressure on the economic and commercial relationships with the rest of the world. These changes forced the country to rethink and improve its international relationships in different fields (Getzner & Moroz, 2020).

In 2014, the Free Trade Agreement was signed with the European Union allowing Ukraine to modernize its economy, introduce laws and regulatory procedures, which were supposed to reduce barriers to imports and exports between European countries and make Ukraine a more attractive investment destination (Kuzio, 2008).

Furthermore, Ukraine has made some progress in improving its economic institutions and implementing long delayed structural reforms to improve the business environment by reducing corruption and modifying the banking system (D'Anieri, 2016).

While some companies consider Ukraine an attractive place to invest, others still view it as a risky country to do business in, due to its incomplete transformation to a full-fledged market economy, which is undermined by a constantly high level of corruption, weak institutions, and court system (Getzner & Moroz, 2020).

In order to fulfill its economic aspirations and become an attractive country for foreign investors, Ukraine's economy needs to focus harder on benefits from trade and integrating into the global economy (Getzner & Moroz, 2020). This aspect is also supported by the calculations of the world bank (World Bank, 2017)

which claims that if Ukraine does not continue to take action and will only rely on the “old model of growth”, it will take almost fifty years to reach the current levels of income of its neighboring country Poland, as it can be seen in the figure 1 and 2:

Figure 1 Average annual GDP per Capita Growth 1998-2017 in percent

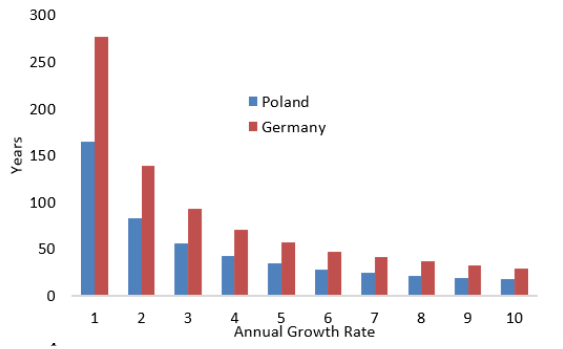
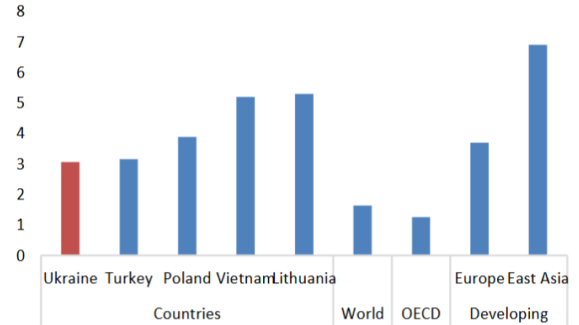


Figure 2 Years needed to close the Income Gap between Poland/Germany and Ukraine



Here, it is important to point out the significance of continuing to facilitate reforms that promote FDI as a factor contributing to economic growth. The importance of direct investment for countries in transition is not only widely accepted in literature (Hardt & Kaiser, 1995), but is also supported by the experience of certain developing countries such as Malaysia, Singapore, Taiwan and Thailand, which achieved fast and lasting economic growth thanks to foreign investment in their economies (OECD, 1998).

This chapter gives a brief overview of the current situation of FDI regulations in Ukraine to help identify the specific gaps and areas for potential improvement. It also focuses on the current state of FDI inflows in Ukraine. The chapter concludes by explaining what is holding Ukraine back from attracting more FDIs and how to boost its economic growth.

1.3.1 FDI Legal Regulations

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).

Nevertheless, corruption 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 & Winner, 2006).

This chapter gives a brief overview of the legal framework for FDI in Ukraine, particularly in regard to investment policies, access to property, privatization and other international agreements. Various gaps and inconsistencies which need to be consolidated will also be presented.

Setting up a business in Ukraine as a foreign investor can be done in different ways. The investor can choose between the following business structures: limited liability companies, joint stock companies, foreign legal entities, representative offices, joint ventures, and individual businesses. The choice of the right legal form depends on the specific situation and the investor’s business needs (OECD, 2005).

A major piece of legislation providing protection and guarantees for foreign investments is incorporated in the “Law on the Regime of Foreign Investment”, which contains the following statements (Decree of Cabinet of Ministers, 1993):

- Protection against changes in foreign investment legislation for a period of 10 years after their introduction (Article 8 of the Commercial Code)
- Protection against nationalization, with the exception of emergency measures (e.g. national disasters or epidemics) and only if based on the decision of the Cabinet of Ministers of Ukraine. In case of nationalization, a foreign investor must be compensated in the currency in which the investment was made or in any other currency acceptable for the investor. Decisions on the requisition of foreign investment and compensation may be appealed in court (Article 9)
- Guarantee for compensation and reimbursement of losses resulting from the action, the omission of the action or improper performance by the state or municipal bodies (Article 10)
- Guarantee in the event of the termination of investment activity to remit the revenues and withdraw the investment without paying export duties within six months after the termination of the investment activity (Article 11)
- Guarantee of repatriation of profits after the payment of taxes, duties, and other mandatory payments (Article 12)

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 ensure 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).

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).

To fulfill these guidelines and “stick to the rules” is quite important to open the market for foreign investors and make it possible for them to invest in Ukrainian companies, which in turn, will result in knowledge-spillovers.

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 (Cieřlik & 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, & 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.

1.3.2 FDI Inflows – status quo

Despite some administrative or legal difficulties, Ukraine still remains an attractive investment destination for numerous reasons: the country has a large internal market, proven agricultural potential, energy and mineral resources. Furthermore, it lies on the crossroads of major transport routes between Europe and Asia (Cieřlik & Gurshev, 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 USD 3,07 billion which shows an increase compared to 2018 (USD 2.35 billion).

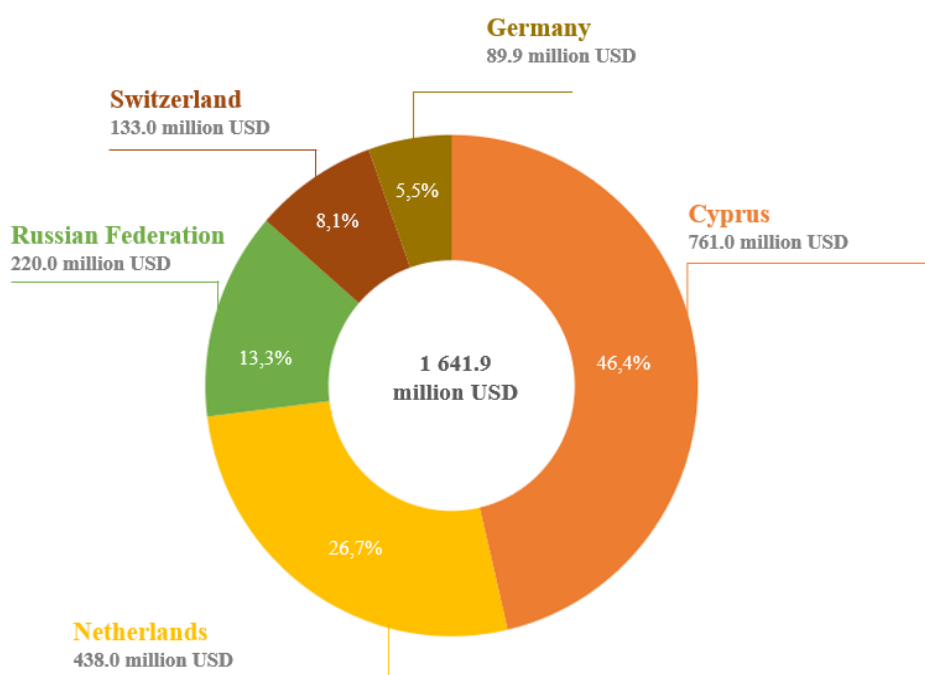
Table 3 Foreign Direct Investment in Ukraine 2017-2019

Foreign Direct Investment	2017	2018	2019
FDI Inward Flow (million USD)	2,60	2,35	3,07
FDI Stock (million USD)	43,250	44,339	48,906

Source: UNCTAD, 2020

The analyses by country show that Cyprus (46,4%) represents the largest investor in Ukraine, followed by the Netherlands (26,7%). The Russian Federation with 13,3% still remains a big player, despite the conflict, followed by Switzerland (8,1%) and Germany (5,5%) (UKRSTAT, 2019).

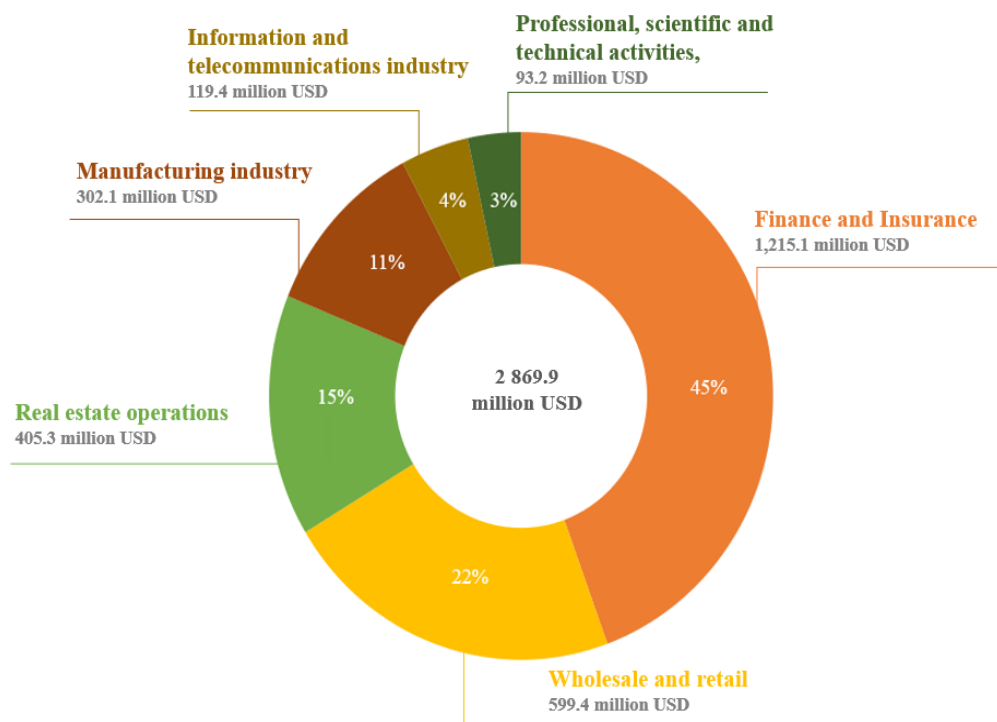
Figure 3 Main source countries of FDI to Ukraine in 2019



Source: Ukrstat, 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 1,215 million USD, 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%), according to UKRSTAT (2019).

Figure 4 Inward FDI flow by sector and industry in 2019



Source: Ukrstat, 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 \$110 million in 2003 to about \$4.5 billion in 2018, achieving an impressive cumulative average growth rate of 25% (UKRSTAT, 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).

On the whole, it may be noticed that despite Ukraine’s substantial decline of inward FDI stock in 2018, the international business environment could still be improved by bringing increasing FDI inflow numbers in 2019. With more and more reforms in the pipeline, Ukraine’s economy and future prosperity is finally not looking bleak.

1.3.3 What is holding Ukraine back and how to move forward?

In the past quarter of a century Ukraine has undergone three enormous transformations – economic, social, and political. It went from being part of the Soviet Union to becoming an independent nation. Its turbulent past was filled with civil wars, occupations, and the loss of territory in the east. All these challenges have been creating barriers for the internal economy to stabilize and prosper. Although numerous measures and reforms were implemented successfully and one could see improvements in market institutions and private property rights, Ukraine’s economic transformation to a full-fledged market economy remains incomplete as the state remains an important player in the economy due to its ownership of productive assets. This leaves many segments of the economy distorted

and complicates the access of foreign investors to Ukraine (Brown, Earle, & Telegdy, 2006).

Nevertheless, Ukraine has a significant potential for growth. With its intelligent entrepreneurs, extraordinarily fertile soil and considerable natural resources, Ukraine has a profound basis for becoming a prosperous country. Ukraine's goal for the next few years should not be to achieve high growth, but rather to provide both domestic and international investors with equal opportunities. For instance, between 2000 and 2008 Ukraine grew more than 7 percent per year, but this growth proved to be unsustainable as it was mostly based on credit expansion and inefficient management, which, as a consequence, resulted in even more difficulties for Ukraine as far as accessing new credit is concerned (Kharlamova, 2014).

According to the Commission on Growth and Development, sustainable growth can be achieved by

- Long-term commitments by political leaders
- Pacing investments (public and private)
- Integration into the global economy by providing a favorable business environment for investors abroad.

This will, first of all, require the high productivity of the internal economy, stronger domestic institutions and a strong trustworthy court system that will ensure compliance with the law (Cieřlik & Gurshev, 2020).

2 AIM AND CONTRIBUTION OF THE THESIS

According to Kothari (2004), research about a certain topic is carried out because of the intrinsic desire to find solutions to an existing problem. In order to do so, the researcher looks for systematic techniques to find hidden facts to find answers to a research question. This chapter describes the initial aim of the research, gives an overview of the objectives as well as points out of how the research will make a theoretical and practical contribution.

2.1 Aim

The primary aim of this study is to examine the challenges, risks, and opportunities which Ukraine might face while attracting FDI. The thesis also aims to examine the risks and opportunities for investors. As there are numerous examples in literature that confirm the importance of FDI in Ukraine's development (described in the theoretical framework), this thesis aims to find out what Ukraine can do to attract more FDI in the future.

2.2 Objectives

In order to reach the aforementioned aim, it is worth listing the following objectives:

Objective 1: to describe and understand FDI theories

Objective 2: to describe Ukraine's economic and political situation

Objective 3: to describe the status quo of the current FDI in Ukraine

Objective 4: to find out about the challenges and risks for the investors

Objective 5: to find out about the challenges and risks for the country

Objective 6: to find out about the opportunities for the investors

Objective 7: to find out about the opportunities for the country

Objective 8: to find out how Ukraine can eliminate the risks and provide strategic solutions to attract potential foreign investors

2.3 Research Questions

While many studies exist on how FDI can affect economic growth in Ukraine, so far, no studies were performed to examine what challenges, risks, and opportunities the foreign investor of different sectors face while investing in Ukraine. Since literature claims that having an investor-friendly environment and attracting more foreign investors will help the

economy in the host country to flourish, it is also necessary to describe the strategies that could help make Ukraine more attractive to foreign investors.

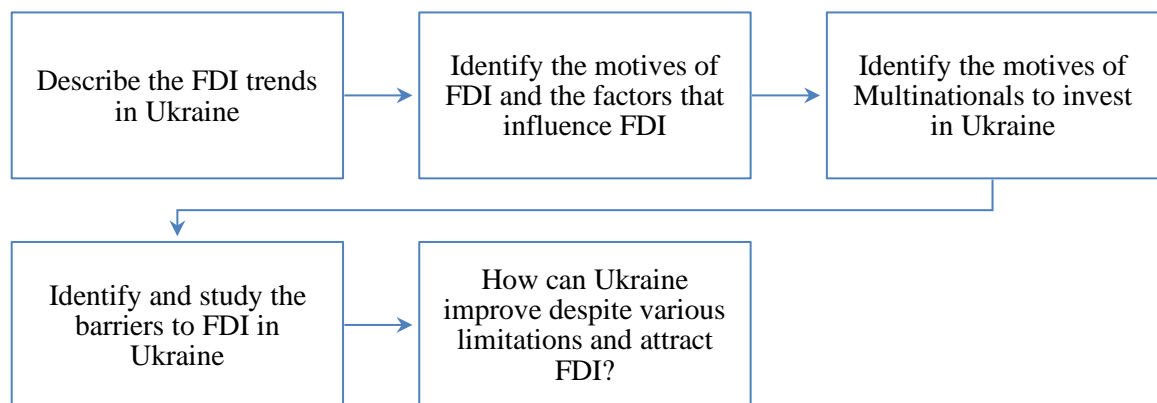
The lack of detailed information about the activities and strategies on attracting FDI in Ukraine raises the following main research question this dissertation intends to answer:

- *How can Ukraine attract foreign direct investments during a period of transition?*

Additionally, a second key question arises on the basis of the illustrated problem statement and the aim of the thesis:

- *What challenges, risks and opportunities might Ukraine and Foreign Direct Investors face during this process.*

In order to answer the question, the following steps will be taken into account to provide a strategic approach:



2.4 Theoretical and practical contribution

Another important aim of the study is to contribute theoretically and practically to already existing information.

As this thesis concentrates on Ukraine in particular, the research aims to contribute to FDI literature related to the Ukrainian market and show that the general challenges and opportunities of FDI are different for every country. The theoretical contribution is also provided by examining a number of updated issues and events, such as COVID-19. An explanation is also given of why it matters to move forward and what was holding Ukraine back so far.

Furthermore, this research aims to build a detailed conceptual framework that provides an understandable explanation of the kind of risks and opportunities investors encounter when entering Ukraine. The framework will be established through an analysis of existing literature and factors which will transpire from the in-depth interviews.

The practical contribution will be derived through examining a number of issues considered by investors before entering the Ukrainian market as it will imply useful policy implications, offering guidelines on how to liberalize FDI regimes and a congenial climate for attracting FDI.

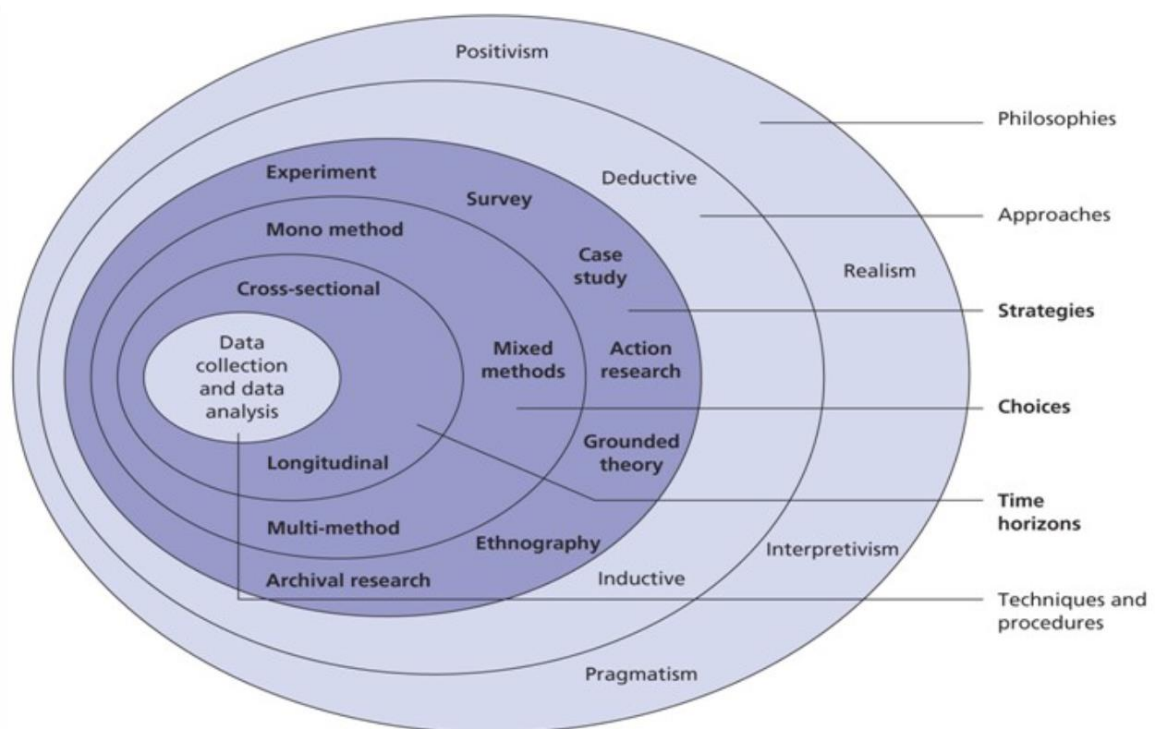
Through a thorough evaluation of existing challenges, risks and opportunities for both sides, investors and Ukraine, this thesis aims to examine the strategies for attracting foreign direct investment to the country, which consequently will contribute to economic development, social expansion and enhancing the country's economic development.

3 RESEARCH METHODOLOGY

In this chapter the research methodology for the described problem is presented. This includes explanations of why the chosen method was selected, how the data was collected and evaluated.

In order to explain the methodology systematically and illustrate the various stages of the research, the Research Onion Framework (Saunders, Saunders, Lewis, & Thornhill, 2011) was used.

Figure 5 The Research Onion



Source: Saunders et al. 2011

According to Saunders (2011), the researcher must pass through stages such as Philosophy, Approach, Strategy, Choices, Time horizons, Techniques and procedures when developing an effective methodology and meet ethical standards for the research. This will help the reader understand the initial thoughts of the researcher and justify the decision why a certain methodology was used to examine the research question.

In addition to the work of Saunders et. al. (2011), in his work Crotty (1998) separates the stages and categorizes them into “theoretical perspective” and “epistemology”, which

makes it easier to justify the choices of the researcher, due to the fact that theoretical perspective, methodology, methods are all closely related.

Due to the internal guidelines and rules, this chapter explains the research methodology in further detail in the subsequent subchapters.

3.1 Research Philosophy

According to Saunders et al. (2011) Research Philosophy refers to a set of beliefs concerning the nature of the reality being investigated. It has to do with the assumptions and expectations the researcher has and furthermore will determine which research strategy and method to use. This can be examined in terms of positivism, realism, interpretivism and pragmatism.

- The **Positivism Philosophy** refers to the importance of what is “posited”, which means “given”. This focus on a strictly scientific empiricist method is backed by pure data and facts, uninfluenced by human interpretation or bias (Crotty, 1998). For the purpose of this study, the collected literature and data led the researcher to the conclusion that Ukraine, as a transition country, needs to attract more FDI. The empirical research on that was done in the chapter providing the theoretical framework, where the importance of FDI in the Ukraine’s economy was described. The existing theories about challenges, risks, and opportunities for both sides - the country and the investors- were furthermore described in the literature review to help formulate the hypotheses and test whether they can be applied to the case of Ukraine. It is important to mention here that while doing so, the researcher needs to dissociate himself/herself from personal values and meet the assumptions based on the existing data (Crotty, 1998).
- The **Interpretive Philosophy** is the opposite to the above-mentioned research philosophy as it deals with the interpretation of the behavior of humanity rather than the reality of the problem (Kelemen & Rumens, 2008). This philosophy cannot be adopted to this research, as it does not aim to interpret why FDI matters to Ukraine, but rather to examine what real barriers and opportunities exist and how the country can attract more FDI to help the economy prosper.

- The **Realism Philosophy** is based on the principles of positivist and interpretivist research philosophies and occupies a middle ground between these two positions. The reality here is the most crucial philosophical consideration (Reed, 2005).
The purpose of this research is to study the barriers and opportunities faced by foreign investors and the host country as well as to find out about strategies, which would attract more FDI to the country. This kind of study corresponds with the Philosophy of Realism as it evaluates real situations. In order to evaluate the real situation, the researcher conducted in-depth interviews with selected respondents to obtain their own opinions and views on the current investment climate in Ukraine – which is a part of the realism philosophy. The result of the comprehensive interviews conducted indicates that the researcher gathered different opinions on the situation which are sufficient to predict potential risks for potential future investment which helps to create strategies to prevent them from happening. This kind of Research Philosophy is often used by business and management researchers when different methods and concepts are applied to investigate a certain problem (Wikgren, 2005).
- The **Pragmatism Philosophy** stresses that concepts are only relevant where they support action. Its main goal is to merge both objectivism and subjectivism, facts and values, which it does by considering theories, concepts, ideas, hypotheses in terms of their practical consequences in a specific context, which partially is applied in this thesis. The pragmatic approach starts with a problem and aims to contribute practical solutions that can be put into practice (Kelemen & Rumens, 2008). This study investigates several issues, such as barriers and risks for foreign investors and the country, which are conducted through in-depth interviews. After the categorization of the problems, solutions, and strategies on how Ukraine can attract more FDI to the country are provided and can be put into practice.

3.2 Research Approach

Kenneth (2000) differentiates two different approaches of how new knowledge can be gained: through a deductive or inductive approach.

In an inductive approach, known premises are used to generate untested conclusions. It starts with observation and investigation in order to later construct new theories. The

deductive approach, however, concentrates on testing new theories, which already have been used in other studies, to ascertain whether or not the same results occur in specific cases.

In this thesis, a combination of both approaches is applied. The reason lies in the fact that two main research questions are investigated.

Firstly - what challenges risks and opportunities foreign investors encounter when entering Ukrainian market and which challenges, risks and opportunities arise for Ukraine.

Secondly, given the assumption that FDI is important for Ukraine's further economic growth, the study investigates how Ukraine can attract even more FDI in the future.

For the first question, the deductive approach will be used. Here, the research is based on a number of literature reviews which were used in other studies and applied to other countries. These studies have enabled examining a number of examples which contributed to the outcomes of this study.

The second part of the research question will be evaluated using the inductive approach as there is not much available literature on how the barriers and risks can be eliminated. Thus, information will derive from the same sample group of investors who were asked about their own risks and barriers.

For the purpose of generating a new concept, open-ended interviews will be conducted with foreign companies in Ukraine that faced difficulties when investing in the country. The latter will be described in more detail in the chapter "research design".

3.3 Research Strategy

Saunders et al. (2011) recognize the Research Strategy as the general plan of how the researcher will go about answering the research questions. Bryman (2008) in addition points out that the research strategy should serve as the general orientation to the conduct of research.

For the research strategy, the research onion suggests different types of methodology such as an Experiment, Survey, Case Study, Action Research, Grounded Theory, Ethnography and Archival Research (Saunders, Saunders, Lewis, & Thornhill, 2011). Yin (2015) suggests that the research strategy must be based on the nature of the research questions, the degree of control a researcher has over real interactive proceedings and the level of

modern or past events. Based on the research question described above, this thesis uses two types of methodological approaches: The **Case Study** and The **Grounded Theory**.

According to Robson (2002) a **Case Study** is defined as “a strategy for doing research which involves empirical investigations of a particular contemporary phenomenon within a real-life context using multiple sources of evidence”.

As the main objectives of this research is to study the risks and opportunities of FDI and Ukraine, the definition of a Case Study serves as a suitable methodology for it. It also helps to answer the questions “What?” and “How?” which were addressed in the aim and contribution chapter of this thesis. Furthermore, the literature review and semi-structured interviews are in line with the documentary analysis which is used for the evaluation of the problem statement and answering the research questions (Robson, 2002).

The last reason for choosing the Case Study as one of the types of methodology is also because it helps to challenge the existing theory. This study applies this method by gathering data from the interviewees, linking and comparing it with the existing data to evolve the final findings (Robson, 2002).

Another strategy used in this study is the **Grounded Theory**.

According to Glaser (1992), a Grounded Theory is defined as “a general methodology of analysis linked with data collection that uses a systematically applied set of methods to generate an inductive theory about a substantive area”. As not much literature exists on the second part of the research question, namely *how Ukraine can attract foreign direct investments during a period of transition*, the Grounded Theory, as defined above, is in agreement with the aim of this research question which helps to develop a new theory based on the experiences, assumptions and the estimates of foreign investments in Ukraine.

3.4 Research Design

According to Remenyi et al (1998) the research design should deliver the general course of the research, including the research procedure and explanation concerning why the specific method was chosen.

The purpose of this study is to investigate challenges, risks, and opportunities for FDI and Ukraine as well as to find out how Ukraine can attract more foreign investors in the future. In order to answer the research questions, the dissertation is based on a literature review as well as an empirical study.

To create a fundamental theoretical basis, the first part of the study consisted of a literature review of the theoretical concepts surrounding FDI as well as the Ukrainian economy. The resources are taken from academic literature including topic-related books, scientific journals, and reports. The focus is placed on answering the research questions which pinpoint the specific problem and lead to the enrichment of the existing knowledge base. Furthermore, primary research contributes to dealing with practical findings on this problem-related issue. In order to answer the research questions, qualitative methods are applied, using in-depth interviews with foreign investors in Ukraine. The reason for using a qualitative method is to obtain authenticity of the issues at hand which cannot be obtained via a statistical and numerical analysis applied in quantitative research (Berger, 2010).

3.5 Qualitative Data Analysis

For the purpose of answering the research questions, the qualitative method is applied. The main aim here is to conduct a wide range of interviews with respondents who have substantial knowledge about FDI in Ukraine and can give constructive feedback on what needs to be improved.

As an alternative research method, a questionnaire could have been used as well. With the help of a survey software, quick results could have been provided, which would have saved time and energy. However, as the purpose of this study and the mentioned research questions requires a deep analysis of critical issues, the in-depth interviews appeared to be more suitable. Another reason for not choosing a questionnaire is also that it requires contacting a large number of participants in order to have a good representation, which poses some difficulties, especially when it comes to the recruitment of participants as the accessibility and availability of participants was already an issue in recruiting for the in-depth interviews. In order to maximize the time and efficiency and due to the nature of the research question, the researcher concentrated only on the qualitative approach.

In-depth interviews enabled examining the major challenges, risks, and opportunities for the existing FDI and for the country as well as gaining a deeper understanding of what is necessary to attract more investors in the future. The interviews, moreover, allowed a discussion with the interviewee instead of simply obtaining short, closed answers. Zhang and Wildemuth (2009) support this kind of research stating that qualitative data analysis gives an integrated view of a specific topic and helps combine speakers' opinions. This

method also made it possible to enhance and combine the gathered data with the existing literature to deliver the results at the end.

After the interviews are conducted, the data and responses of the interviewers need to be analyzed.

The purpose of data analysis is to transform the collected data into observations and findings. While in quantitative research there is a range of standardized ways of analyzing data, the situation is different in qualitative research. Even though a variety of analysis strategies exist, no clear rules are provided on how the data should be in this form of research (Mehmetoglu, 2016). However, according to Mehmetoglu (2016), data analysis can be done in two steps, namely 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). Many different analytical approaches exist for both data processing and data transformation.

The analytical part of this study is based on qualitative content analysis according to Mayring (2010), which, due to its theory and rule-based methodology, is suited for the evaluation of the expert interviews presented in this research.

Mayring's content analysis is useful in summarizing large volumes of unstructured texts to obtain the bigger picture. Therefore, content analysis is the method of choice for the evaluation of expert interviews, which in some cases contain similar information (Mayring, 2010). Mayring divides such qualitative data analysis into four phases: 1) conducting the interviews, 2) transcribing the interviews 3) coding the texts (categorization and generalization of the content), and 4) interpretation.

The first phase, (conducting the interviews), was carried out between November 2020 and February 2021 and is described in detail in chapter "Procedure". After the completion of the interviews, audio-records of the interviews were transcribed manually word by word, as re-reading of the interviews contributed to a better understanding of what the participants said. After the transcription, the third phase, i.e., categorization and generalization of the content, took place. The purpose of this phase is to reduce material to essential content, leave out any decorative language, and make the text consistent. Next, the content was generalized, i.e. the essential content was highlighted and categorized according to the main topics of the research question (Mayring, 2010).

According to Patton (2015), the interpretation appears to be one of the most important steps as it serves to make sense of the findings, offers explanations, and draws conclusions. Here the interpretation of the data was provided, using the formed categories from phase three, i.e., comparing and adjusting the results gained from the literature research (Mayring, 2010).

3.6 Procedure

The interviewees were sourced via a Google search using keywords such as “FDI in Ukraine”, “Companies investing in Ukraine” etc. This helped to make a list of foreign investors in Ukraine that were later contacted via LinkedIn. Apart from investors, employees whose position was mentioned on LinkedIn and (e.g. “New Market Manager”, “Foreign Direct Investor” etc) were also contacted. The social media channels, such as Facebook served as a source of recruiting interviewees. Furthermore, the search was expanded through contacting organizations and incubators of foreign investment in Ukraine, such as Ukraineinvest.com.

The contacts found on the Internet were asked via e-mail or LinkedIn to participate in the interview. The messages included a brief description of the project and the research questions 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 2019 and lasted until the end of February 2021. They mainly occurred on-site, but occasionally were carried out via Skype. Each interview lasted between 30 and 60 minutes. Interviews were conducted in English, or, at the request of the interviewee, in Russian or Ukrainian and later translated into English.

Prior to commencing the interviews, the interviewees were asked to give their permission to audio-record the interview. To ensure confidentiality, participants were asked to give permission to use their organization’s name in this research.

Each of the interviews was carried out individually to avoid any kind of bias. The same questions were asked to each of the interviewees for comparative purposes.

During the interview, it was important to keep the questions open, so that the interviewee had the possibility to express his or her opinion widely and at length. Additionally, an interview guideline was used, which helped to keep the focus on the research topic, but still

allowed for related and interesting elements to arise during the interviews. The introduction began with a quick overview of the topic of the PhD thesis and the research questions. After the introduction, the interviewee was asked to introduce himself/herself as well as their position within the social organization.

The second part of the interview concentrated on their investment activities in Ukraine, the challenges, risks, and opportunities they had while entering Ukrainian market. They were furthermore asked to mention what in their opinion helped Ukraine or was advantageous for Ukraine as a host country. In other words, they were asked to explain how they think their investment helped Ukraine's economy. Another important part of the questionnaire concentrated on the strategies and what in their opinion Ukraine as a country could have done or can do to provide a friendlier environment for foreign investors in the future. The questions asked in the interviews are provided in the appendix.

During the interview, paraphrasing was used to check whether the information was understood correctly, so that any misunderstandings or inconsistencies could be avoided. Even though the respondents were also available after the interview for further questions, additional interviews were not conducted.

All 25 interviews were audio-recorded and later transcribed to allow necessary coding and evaluation.

3.7 Sample Selecting

Investigating current challenges, risks, and opportunities for Ukraine and FDI as well as finding out about the strategies Ukraine might use to help future or current investors to enter the market requires meeting selected respondents who have knowledge about the topic. Since priority was given to the content rather than the sectors the investors operate in, interviewees from different sectors were chosen. This method was selected in accordance with Mack et al. (2005) who states that it is not compulsory to gather information from every individual in the same area or economical sector. It was thus more important to find respondents from various sectors who are working or familiar with the process of foreign investments in Ukraine, regardless of whether they represent the population or number of FDI on the Ukrainian market. This technique, which is called "Homogeneous Sampling". Glaser & Strauss (1967) also helped researchers focus more on the contents of the study and reduce the time and effort invested in the research.

The 25 interviewees who participated in the interviews work in different sectors and companies and have a profound knowledge of FDI in Ukraine. They 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. To ensure anonymity, the participants used generic names such as Participant1, Participant2 and so on. All 25 organizations were not related to one another and operate in different sectors such as the bank industry, retail, media, agriculture, and the consulting sector.

The following table shows the name, position of the participant as well as the associated sector and company. Organizations which did not wish to be mentioned in this thesis were marked as ‘organization1’.

Even though the company of the interviewees are mentioned here, the opinions which were given by the interviewees concerns only their own opinion and do not represent the company as whole.

Table 4 Overview of the participants

Code	Participant	Position	Industry	Company
P01	Anonymous	Anonymous	Agricultural	Anonymous
P02	Anonymous	Anonymous	Anonymous	Anonymous
P03	Stefan Vanoverbeke	Global Deputy Retail Manager	Retail	Ikea
P04	Victor Halchynskyy	Chief communications officer	Financial	KredoBank
P05	Yuriy Antonyuk	Manager	IT	Pentegy LLC
P06	Anonymous	Anonymous	Anonymous	Anonymous
P07	Petro Rondiak	Head of the Management Board	Automobile	Winner Group Ukraine
P08	Lars Vestbjerg	General Manager	Retail	Sika Footwear

P09	Radostin Popov	Chief Business Development Officer	Maritime	P&O Maritime Logistics
P10	Yuriy Rylach	Head of Government Affairs	Tobacco	International tobacco company
P11	Anonymous	Anonymous	Anonymous	Anonymous
P12	Andy Hunder	President	International business association	American Chamber of Commerce in Ukraine
P13	Anonymous	Anonymous	Anonymous	Anonymous
P14	Serhii Kolodii	Macroeconomic analyst	Financial	Raiffeisen Bank Aval
P15	Anonymous	Anonymous	Anonymous	Anonymous
P16	Anonymous	Anonymous	Anonymous	Anonymous
P17	Artur Boyko	Head of Department of External Relations and Foreign Economic Activity	Public services	Zaporizhzhya Regional State Administration
P18	Anonymous	Anonymous	Anonymous	Anonymous
P19	Roman Kantarovskiy	Partner	Financial	InVenture Investment Group

P20	Ivan Dyshliuk	Investment Banker	Financial	Soul Partners
P21	Dimitar Bogov	Regional Lead	Financial	EBRD
P22	Andriy Gaidutskiy	Chairman of the Supervisory Board	Maritime	Ukrainian Sea Ports Authority
P23	Sergey Fursa	Fixed income Sales	Financial	Dragon Capital
P24	Serhiy Piontkovsky	Partner	Financial	Baker McKenzie
P25	Vitalii Stukan	Investment Banking Analyst	Financial	FinPoint

Source: author's graph

The researcher aimed to conduct between 20-30 one-on-one interviews. This number derived from the study of Bryman (2008), who suggested the minimum number of interviews should be between 20 and 30. Mason (2010) furthermore reports the range for the interview-based qualitative studies between 1 to 95, while the mean is 31 and median 28. Keeping that in mind, the aim was to keep gathering data until the saturation was achieved, which for this study meant the 25th interview. Conducting another round of data collection would have caused an overrun in the time frame assigned for data collection.

3.8 Reporting the Data

To reach an outcome and result, the study applied the data from the in-depth interview and analyzed it through the prism of already existing data, such as published reports, which will be presented in the Discussion section. This method agrees with the suggestions by Johnson and Onwuegbuzie (2004), who state that the diversified method design does not necessarily have to have specific rules or limitations and can be designed in various ways.

To ensure the credibility of the research findings, different test methods were used. Denscombe (2008) for example emphasizes the importance of having a homogeneous

group of interviewees, to overcome the bias of the gender, age, ethnicity of the interviewer, as this fact can affect the reliability and quality of information people are willing to provide. To avoid this bias, different participants ranging from foreign investors, government official, independent consultants were interviewed to create the balance among the various groups. Also, the researcher interviewed different investors from diverse sectors to obtain more answers and opinions. This method of Self-Disclosure” enabled the validity of the research and ignored any biased answers or opinions. This method is also supported by Gomm (2004), who states that “facts” are always socially formed and can influence the respondents to answer in certain ways which they would not do in normal circumstances. To minimize the level of participant error, appointments were arranged with the participants in advance, so that the time and place were convenient for the respondent and the respondent did not feel any pressure to answer quickly. The findings in the next chapter are organized in the way that they follow the sequence of the research question in an attempt to answer them.

4 PRESENTATION OF FINDINGS

In this chapter, all the findings from comprehensive interviews with company representatives are presented and examined in detail. These include the motivational factors for foreign investors to invest in a transition country such as Ukraine as well as the challenges, risks and opportunities both parties might encounter during the FDI process. Moreover, strategies and suggestions on what is needed to attract more FDI in future are also discussed.

4.1 Motivating Factors for Investment in Ukraine

The questionnaire used in the interview consisted of two parts – the first included questions on the motivating factors for investment in Ukraine and the process itself. When asked about the process of FDI, most participants concluded that it depended on the company and the sector in which it operates.

In general, the participants agreed that the most common way to invest in a foreign country would be the horizontal way, i.e., funds are invested in an already existing company which belongs to the same industry as that of the FDI investor.

“Obviously, the process differs from company to company, depending on the reason it decides to establish itself in Ukraine” (P18).

As the participants were from different sectors, their process varied from opening a subsidiary in a foreign country, acquiring a controlling interest in an existing foreign company or merging with a local company to create a joint venture and share the know-how and infrastructure with each other.

Participant 22 answered the question by defining and naming four areas of potential investment in Ukraine.

“I think there are three to four different types of investors: the ones who operate or coordinate decisions with Ukrainian companies that already exist in Ukraine. An example of such a company is Coca Cola. The others cooperate with embassies, Ukrainian investment offices and local or state administration” (P22).

The other participants explained their experiences with the FDI process as follows:

“The process was straightforward. We were a private equity company in the agriculture sector that had money and was just waiting for the right time to invest in a company, which had already been operating in Ukraine for many years” (P01).

"The parent company was founded in Poland and then in 2005, it entered the Ukrainian market by setting up a subsidiary" (P05).

"Ukraine was chosen because other Danish investors were already established in Lviv and the area. We set up a daughter Company of the Danish Mother Company" (P08).

"We had been an agricultural company with a land back of about 70.000 hectares in Ukraine when we decided to merge with another company that possessed 50.000 hectars, which means that we are currently own 130.000 hectars" (P01).

The decision to invest very often followed similar business process analysis steps:

"I think the process is quite similar in every country; first of all, you assess the risk portfolio of the country, its potential market opportunities as well as the absence or presence of the resources you need – be it human or financial. The process needs to be meet international standards" (P16).

"I witnessed investors who were just looking to expand in order to base their production somewhere in Europe or the EMEA region. They would first of all check the business they considered merging with, the political environment, auditors and acquisition possibilities" (P18).

Some of the participants were responsible for the process by themselves, while others received support from external bodies.

"I came over to Ukraine at a very young age with very limited funds, so it was pretty much a startup on a tight budget" (P02).

"In Ukraine we have different organizations that can help companies understand the legal system and advise them as to the proper process" (P17).

The participants of the study agreed that the motivation for foreign companies to invest in a foreign country are quite similar and are as follows: saving capital, making a profit and being successful in their field as well as standing out from the competition (P17, P18, P20). When it comes to the question as to why investors would choose Ukraine in particular, the participants believe that Ukraine offers many opportunities and investment incentives. While the motivation of some investors was purely economic, others based their decision to invest abroad on the knowledge of the country and the background of the owner.

"We knew both Ukraine and agriculture very well and we believed that the country had huge potential in that sector" (P01).

"The motivation was driven by the background of the owner who was Ukrainian. We visited Ukraine and immediately had the feeling that we wanted to build something great there for the long term" (P07).

A significant number of investors chose to do business in Ukraine due to its central location. The country is located at the intersection of Europe and Asia, which allows investors to access foreign markets, e.g., in Russia or China, quite easily. It, moreover, offers access to the Black Sea and several other ports that can service large vessels (P08).

"...not too far from Denmark, a similar mentality and few cultural differences" (P08).

"Ukraine is a gateway to trading with Russia, China and Europe. Ukraine has various trade agreements with the European Union, enabling export to its member states and other countries in the world" (P16).

In addition, the proximity to the supplier appeared to be one of the motives of investing in Ukraine.

"If the company works with Ukrainian suppliers, it will establish a company there to be closer to the supply chain and the market where it operates" (P18).

The size of the country as well as the size of the market where investors would operate played also quite a big role in the decision-making process (P03, P10, P17, P18, P20). According to the participants, a large market is necessary for the efficient utilization of resources and exploitation of economies of scale.

"For Ikea, Ukraine is the last big market where we are not present" (P03).

"It's a big country, with a big market and not all the areas of production or services are covered by national companies. So, there are many areas where investors can enter and work in" (P17).

"I work in the banking sector. We went to Ukraine, because it's a huge market with approximately 50 million inhabitants, a lot of retail banks, city banks etc..." (P18).

Ukraine, as a FDI destination country does not only offer its convenient location, but it also convinces some of the investors with its potential to grow in the future and quickly develop new infrastructure. The participants agreed that when choosing the right country to invest in, one of the most significant factors they have looked at was the progress of the country overall (P13, P02).

"At that time, Ukraine was number 3 or 4 as far as global export was concerned, and we could see that Ukraine had a lot of potential for further growth, plus at that time it was a very profitable business" (P01).

".... especially after the Orange Revolution, there were very positive expectations for Ukraine's economy, many foreign investors expected positive growth in the future, they saw a growing market... starting from 2016 Ukraine has had macroeconomic stability in many areas and many indicators show that that is a good sign to invest" (P14).

The progress could also be seen through the actions, which Ukraine undertook in the past few years.

"...Ukraine is moving towards European standards and the European policy to protect investments and the process involved. We are not moving as quickly as we wish, but we can still see some progress in regard to our legal systems, institutions etc." (P17).

Other investors were attracted by the niche markets which were not present in their home country.

"A lot of students from America went abroad to see what kind of opportunities there were overseas. Among Eastern European countries, cities in Ukraine seemed to have fewer students than in Prague, Budapest or Warsaw, so I knew more opportunities awaited me there" (P02).

"We saw a market niche for remote banking technology. i.e., Internet banking " (P05).

Due to the fact, that Ukraine established its independence just approximately 30 years ago, it is considered to be a young and developing country with a prevalence of untapped opportunities. Ukraine's market is relatively free of competitors and full of niches. Moreover, the economy and the regulations within various sectors are extremely flexible and provide a lot of opportunities for foreign businesses (anonymous).

"Because Ukraine is a very young country, doing business here is very flexible and fast" (P19).

Some investors identified other motives to invest, namely the country's natural resource and efficiency. In comparison to many other developing countries, Ukraine offers a skilled and educated workforce at a lower cost. In addition, educational centers in Lviv, Odessa, Kyiv are educational hubs for thousands of talented young people with a higher education

who are attractive potential employees. Because the currency of Ukraine – hryvnia – has devalued, Ukraine is considered to be one of the most competitive low-cost destinations (P08, P13, P16, P20, P21).

"...the labor costs were very low, not to mention that many of our costs were in hryvnia. As an exporter you always think about exchange rates and here the values were on our side" (P01).

"...the employees' good skills were also one of the motivational factors to invest in Ukraine" (P10).

"First of all, there is a significant natural resource, namely agricultural potential, which is one of the best in the whole world" (P16).

"Motivation can come from different sources, like securing raw materials or having access to infrastructure like seaports, etc." (P18).

Some of the investors entered the Ukrainian market due to the fact that their competitors entered this market as well. This seems to be the case with participant 15 and 18.

The majority of participants believe that Ukraine is a perfect candidate for foreign investment, and if existing systems are improved and new ones are put into place, Ukraine will attract more FDI in the future.

4.2 Challenges and Risks of FDI

The second part of the questionnaire focused on the challenges and risks of foreign direct investment in Ukraine. When asked *"What kind of challenges or barriers did the companies encounter before an investment and after?"*, most participants offered a general summary rather than pointing out specific barriers or challenges.

Even though Ukraine offers a big set of opportunities, investors often experience various challenges, which are mentioned below.

"Ukraine is a country of opportunities, but you need to know how to get benefits within this opportunity" (P15).

Another participant highlighted:

"...Ukraine is not a one-stop-shop where you come and start working; there are a lot of things that need to be considered" (P22).

One of the major hurdles for foreign investors concerns weak intellectual property rights (P01, P03, P06, P13). When investing in other countries, investors expect protection and

clear legislation in order to have a level of predictability. Even though the protection and execution of intellectually property rights by entities which invest on foreign territory are secure according to the legislation of Ukraine, significant concerns remain as to the rule of law and the ability to obey the law (P01, P02, P03, P12, P16, P18).

"According to the law, it is possible, but in practice the court will act in favor of the interest of the parties" (P15).

Participants suspect that the reason for this might be corruption and the lack of transparency and reliability of the judicial system in Ukraine, which remains one of the main risks and challenges for doing business in Ukraine for foreign and local investors alike (P03, P04, P05, P06, P14, P18).

"Rule of law is one of the biggest problems for FDI, because when investors come to Ukraine, they want to be protected by the law" (P23).

The main problem with the rule of law and corruption is associated with the non-transparency of further legal requirements as well as the non-predictability of the economy overall and not knowing "the rule of the game".

"...the problem with corruption is that you never know what is going to happen"(P01).

The lack of a system, that protects intellectual property is not only a challenge, but it also limits Ukraine's ability to attract further foreign investment. Especially for investors from the agricultural sector, the inability to purchase land for manufacturing or agricultural production appears to be a problem. Furthermore, regulatory requirements or regulations within a specific type of market complicate the process of investment and make it very unattractive (P15, P18).

Some of the participants also thought that the lack of a transparent legal system and clear "rules of game" for the investors is a result of incompetent administrators who are responsible for drafting rules and regulations on behalf of the government. They believe the administrators lack the knowledge to draft laws which accommodate foreign investors (P06, P10).

"...it is fair to say that there are a lot of highly educated people in the government. But there is also a large number of people in a lot of critical ministries that just do not have the necessary skills, knowledge or experience to assist foreign private companies".

It is worth mentioning, however, that the problematic administrative system within the government was not an issue for every participant and some of them even had positive experiences.

"I found the civil servant highly qualified and extremely competent and thought he did quite a spectacular job" (anonymous).

It has also been observed that a significant number of investors who chose to do business in Ukraine experienced "a lack of trust" not only within the juridical system, but also among business partners, which contributed to a more difficult work environment and a rather negative attitude towards potential future investments. This factor was linked to either the Ukrainian culture overall or might even have to do with the country's Communist past.

"The way of doing business in Ukraine was totally the opposite of how things are done in Denmark. The trend in Ukraine is "pay and we show you the results", whereas in Danish culture your payment is a result of respect. I believe it has something to do with the fact that Ukrainians have been cheated too many times and there is a lack of trust" (P08).

"...I mean Ukraine was under a Communist regime for so many years, nobody trusted anyone..." (P07).

While the language, culture and the mentality of Ukrainians was partially considered a challenge (P19), other investors experienced the opposite:

"...I wouldn't say Ukrainian culture was a problem. We found the people in Ukraine highly qualified, well-educated and quite keen to learn and adopt to our standards of operation, so there weren't any issues at all in that respect" (anonymous).

Language proved to only be a barrier for foreign investors in the case of legislative documents as these are not translated into English. Thus, many investors are obliged to find appropriate translators to understand the system (P17).

Moreover, policies and guidelines in general are difficult to access for investors. Some of the participants found it difficult to find the right information about the step-by-step investment process and level-playing field in some areas. Thus, they end up paying huge sums to lawyers to get access to that information (P13).

"The university text books and governmental reports state that Ukraine has extremely promising investment potential and promises fast and stable returns on

investment. However, what the books do not mention is the information about how to invest step-by-step. The latter is crucial to finalize the decision to invest” (P06). Furthermore, the instability of the legal and political system appeared to be another major challenge for existing and future foreign investors. Due to the fact that Ukraine has experienced some major revolutions during the past ten years, the legal and political system has always been in flux. Even if the investors abide by a new law, it is almost certain it will change by next year. This makes it difficult to grow business abroad as the changing environment causes great losses. Foreign investors often have to go through harrowing times as new laws force their plans to change, which is linked to finding lawyers, changing business plans or already obtained license (P01, P06, P07, P08, P10, P18). Political instability in Ukraine caused by the conflict in the east is yet another drawback of investing in the country.

“...and then there was the Majdan Revolution, the inflation went up, banks got scared and it scared many FDIs away” (P01).

“The major challenge at the moment is the presence of the conflict in Ukraine in the east of the country” (P16).

“Because of the war in Ukraine, many companies lost their worth, which made it hard to attract investments” (P01).

“The frozen conflict with Russia is not a barrier, but definitely a risk” (P03).

Nevertheless, not all participants see this fact as a risk and challenge to stay in Ukraine:

“...during the past 6 years we shown that even the problems with Russian-Ukraine are not so crucial for investors. We still have companies from Europe that invest in Ukraine, because they are sure that they are protected” (P17).

Another obstacle and challenge is the still existing power of the oligarch and the involved monopoly. According to participants, oligarchy in Ukraine represents a major threat to Ukraine’s democracy as it tolerates, if not promotes, bribery and corruption across the country.

“...Ukraine has a lot of oligarchs who love to monopolize their sectors and that of course prohibited foreign investors to come here, which could be an issue for future investors” (P18).

According to the participants inflows generated by investing in Ukraine are often connected to restrictions such as high taxes (P05).

This challenge is linked to the financial crises Ukraine experienced in the as a participant observed:

“When companies already invested in Ukraine, a challenge of repatriation of the dividends might occur. This goes back to the financial crises 10-15 years ago, when foreign investors wanted to get their money out of the banks, which led to a problem of increasing the value local currency, but I think now this problem is solved” (P22).

However, it is important to mention that the perception of the risks varied from participant to participant.

“I heard a lot of horror stories. I am happy, but at the same time slightly worried, because we haven't experienced any of them” (anonymous).

Nevertheless, it was important to see how the participants dealt with the issues, thus one of the questions asked during the interview touched on the strategies the companies used to overcome their problems. It could be established that depending on the kind of investment and its level (beginner-investments 1-3 years or sophisticated investors 10-15), companies dealt with challenges in different ways.

Most of the participants believed that a concrete solution to the encountered challenges did not exist and that the key lied in understanding the overall system overall, “working hard” and adopting to the rules.

“You cannot overcome the challenges, you just need to learn to operate within the framework as it is, you learn to adopt your own process and behavior, so they are compliant” (anonymous).

“If you want to fight corruption, there are two ways to do so: you either do the paperwork or you pay the money – we chose the former. This way we built a “don’t mess with those guys” reputation, because we did everything the right way” (P07).

“We are transparent, we respect the legislation fully, whether we like it or not, we have a special dedicated team that deals with all the paperwork” (P10).

In addition, some of the participants thought that having a network and a proper partner who would help with potential issues was the best solution to dealing with the aforementioned challenges.

“The company built a network of strategic contracts and hired experienced managers” (P05).

“If you invest in a country like Ukraine, you need to have a proper partner. So not all companies or their owners behave well, so to make a good investment you need to find some partners that will help you get through it. A partner whom you can trust!” (P15).

Some of the other investors mentioned that for them the ideal solution was to brainstorm with already existing investors who were having similar problems. Exchanging best practices helped them solve their problems (P08). Finding a direct dialogue with political authorities appeared to be another measure the investors took in order to deal with their challenges (P08, P13).

4.3 Challenges and Risks for Ukraine

Almost all of the participants agreed that Ukraine as a country does not face any risks by attracting more FDI in the future. The only possible risks mentioned included monopolization, a possible risk in the payment balance due to the high outflow of the investors' profits or that foreign investors might become more powerful players in the market, which might result in squeezing out domestic producers from the market or creating political pressure (P17).

Participant 21 also mentioned that no risk can be observed or expected as long as the investors are “purely international investors” and are not linked to the oligarch-network in Ukraine.

“I wouldn't see any direct negative impact on Ukraine. On the contrary, FDIs could bring only advantages as long as they are not connected to the oligarchs” (P21).

What could also be a possible risk is the social tension resulting from allowing foreign investors to privatize the majority of domestic companies. At this point the risk could lie in the fact that foreign investors might push out local companies which are less productive and competitive. However, participants discussed possible negative impacts and concluded they would not apply in Ukraine's case.

After discussing several weaknesses Ukraine might have for the foreign investors, the challenge to attract more FDI in the future lies in balancing the issues and “providing a playing field where all players are equal”.

Ukraine is a big country with different sectors, each of which offers its own possibilities and advantages for FDI. However, Ukraine should focus more on clearly communicating which sector brings which advantages for which kind of an investor (P07).

Appropriate policies should be put into place in order to attract the right investors. One of the participants touched on this challenge in the following words:

“The big problem is that we want to attract big companies. If we say we want to attract Tesla – well 200 other countries want to attract Tesla as well and we cannot compete with other countries until some dramatical changes in the legal field take place. Ukraine should focus on attracting investors with a similar mentality as Ukraine, such as those from developing countries” (P22).

Some of the participants mentioned the offer of investment incentives, which could be challenging for Ukraine to establish. Many of the investors expect to be offered lower taxes, grants or preferential loans to MNC's, their own infrastructure or even monopoly rights. In Ukraine's case, monopoly rights are one of the most challenging incentives to offer due to existing issues within the country such as bureaucracy and oligarchy.

It is clear that Ukraine needs to improve its rule of law and the legal system by introducing reforms of the judicial system, which would rebuild the country's reputation and rebuild “trust in the country” (P15, P20).

“We have to work as a country to make sure that foreign investors can trust us upon arrival” (P19).

According to participant 9, Ukraine's reputation of Ukraine might have a historical background.

“I think Ukraine has a bit of an unfortunate reputation that has nothing to do with the country, but a lot to do with its past” (anonymous).

Confrontation with Russia and the conflict in the eastern part of Ukraine represents another challenge for FDIs.

“It's a huge challenge for everybody who is working or living here, because you never know what will happen” (P19).

Despite reforms undertaken since the beginning of the conflict, Ukraine still leaves a lot to be desired as far as its business environment is concerned, as noted by participant 21.

“Challenges are linked mostly to the business environment in Ukraine. There are still many weaknesses, although Ukraine advanced a lot after the revolution of

dignity in 2014, but the country still needs to face and improve weaknesses in the rule of law and corruption to name but a few areas” (P21).

During the data analysis, it could also be observed that one of the most important facts and reasons for investing in a country is its stability. Most of the investors are not interested in incentives or funds. The most important factor is to know that the country’s system is stable and can provide businesses legal protection (P13, P19).

“I think the most important thing for FDI is to have stability within the country, so Ukraine should implement all the regulative reforms and then stick to them for the next 10 years!” (anonymous).

4.4 Opportunities for FDI

The interview also included a debate on the main opportunities foreign direct investors have when entering the Ukraine market. Almost all interviewees agreed that investing in Ukraine brings a lot of advantages for the foreign companies regardless of the sector.

In general, it could be observed that one of the major opportunities for FDI is the size of the Ukrainian market. Ukraine has over 48 million inhabitants and its sectors did not yet reach saturation.

“For our industry, the advantage we have is definitely the market that hasn’t reached a saturation yet (anonymous).

One of the biggest opportunities most of the participants saw concerned Ukraine’s agricultural sector. As over 70% of the country’s total area consists of land, foreign direct investors who produce cereal, wheat, maize, barley, sunflowers, tobacco, etc. see an enormous opportunity to invest in Ukraine.

“Ukraine is very well-known among agricultural investors, because there is a 10- or 15-fold increase in productivity!” (P21).

An investor in the automobile industry saw a profitable investment opportunity due to the growing demand in Ukraine:

“...in the US the automobile market grew 2-3% back then, and Ukraine – it was almost Unicorn style, their car industry was booming, the opportunity was crazy “(P07).

Most of the interviewees agreed that the growing IT sector in Ukraine is a cash cow. This sector, according to one of the participants, started to grow several years ago and now offers enormous profitability for investors operating in that field.

“Especially after the UdSSR collapsed, we had a very strong position in engineering, and many Ukrainian students were clever enough to build their own engineering projects. The same is happening now in the IT sector” (P14).

Ukraine is also concentrating on creating favorable conditions for investors to enter the IT market, which would allow investors to profit from the professional skills and affordable wages.

“We have quite good engineering staff in the IT sector, so companies will have additional advantages if they work with the Ukrainian labor force. I don’t believe that there is any other country that can produce such a high quality of work at such a low price” (P17).

Participant 15 also mentions a cheap labor force as one of the most important incentives:

“It is very reasonable to invest in Ukraine, because we have a good labor force, we have a lot of educated people, even though many of them have already left for Poland or other European countries. But we still have a lot of professionals here whose rates are very competitive” (P15).

Participant 07 also highlighted the importance of culture, work-mentality and attitude, which contributes to the success of the companies that invested in Ukraine:

“...we are talking about people with a good education, values and upbringing. Ukrainians are very intelligent people” (P07).

Apart from an affordable workforce, another attractive factor for FDI were Ukraine’s raw materials and the profit margin resulting from them (P07, P08, P12, P15, P19, P20).

One participant pointed out that:

“...a lot of German companies invest in Ukraine’s automobile industry as cables or leather seats for cars are simply much cheaper here” (P20).

Ukraine’s location between Russia and the EU proved to be attractive to companies prioritizing shortening their shipping time to surrounding countries.

“Another important advantage for foreign companies is Ukraine’s location. It is close to the European market and has seaports, transport corridors to Europe, Asia or the Middle East. One can use ships, trains, land transportation...” (P17).

Ukraine's infrastructure, especially its rail network, allows companies to easily transport consumer goods from one country to another. Nevertheless, the interview participants did mention that the infrastructure should be renovated and improved.

Participant 17 noticed that most of the available infrastructure is a result of the collapse of the UdSSR. He explained:

“Our cities were built for really massive enterprises with a surplus of energy, water etc. After the collapse of the Soviet Union, some enterprises ceased to exist, but we still boast producing energy at a low cost. We have industrial land plots that are available and ready to use” (P17).

A significant number of the participants also agreed that one of Ukraine's biggest advantages was its openness to receiving foreign direct investments. In the past couple of years, Ukraine actively underwent several reforms to ease the investment environment, provide more incentives and make the investment attractive. This initiative not only provides new opportunities for foreign investment, but it also significantly contributes to the country's economic revival.

“Ukraine is open to attract FDI. Some of the countries even have restrictions for FDI – we don't. The government is concentrating more and more on the plans of how to attract FDI to the country” (P17).

Thus, it is unsurprising that many companies decide to set up a subsidiary in Ukraine in order to “test” the CEE market and later move on to another post-Soviet-union country in order to serve the market there.

“Ukraine is situated near the biggest market in the world – the European Union, so I think many investors want to add Ukraine to their business map, build some subsidiaries there and then maybe later move to other countries” (P14).

4.5 Opportunities for Ukraine

During the interview, participants were asked about their opinions concerning the potential benefits that Ukraine would receive from FDI.

All participants agreed that Ukraine can only gain from FDI.

“The only way to foster economic growth is to bring foreign investment to the country” (P23).

This aspect was further explained and supported by the fact that Ukraine's market needs a breath of fresh air.

"In Ukraine, business can be done in two ways, post-Soviet style and oligarch style. So, we desperately need another culture and foreign companies bring this culture" (P23).

Furthermore, participants were of the opinion that Ukraine would profit from FDI, because of the creation of new jobs. Investing in Ukraine, either by a merger, acquisition or establishing new factories, always involves local labor, materials, and equipment. This, in turn, reduces unemployment among the educated youth as well as skilled and unskilled labor. Increasing employment also leads to increased income as large international corporations usually offer higher salaries than local companies.

"The main advantage is the possibility to create new positions for Ukrainians, which will increase not only the country's budget, but also that of the people as usually the salaries in foreign companies are more attractive" (P17).

Another participant remarked that FDI also influences the labor situation of the companies that the investor cooperates with, e.g., suppliers:

"Our company and our suppliers alone employ over 2000 people" (P07).

Creation of new jobs as well as the increase of employment automatically lead to the general human resource development.

One of the participants described his experience of working in a foreign company as follows:

"Once I worked in a foreign bank and it was a complete game-changer. It had a completely different approach concerning how you view a project, how you treat customers, how you set up systems, just everything!" (P18).

Some of the new knowledge and standards could be quite important for Ukraine, especially for the sectors where transparency, proficiency and quality management play a big role.

"From our particular angle, we bring global standards to an industry that is reliant on standards such as safety" (anonymous).

The skills gained and enhanced through trainings and experience can boost the education and human capital quotient of the country.

"The investors will bring new standards of protecting its employees, accounting and doing business in general, which I believe can improve the business

environment in Ukraine overall and bring Ukraine closer to the European way of doing business” (P17).

Setting up a new company abroad involves creating a whole eco-system as one of the interviewees points out:

“We had several cases where suppliers would come to us asking for collaboration in a new business” (P07).

By attracting more FDI, Ukraine also receives some additional capital inflow, which according to Participant 22 is not always measured in money:

“Through FDI, Ukraine receives new capital, but here it is important to say that almost 50% is not money. Its true value lies in technology, know-how and equipment!” (P22).

In addition, foreign investors help to create a competitive environment, as well as break domestic monopolies or oligarchy.

“I have a firm believe that FDI is a question of to be or not to be, because otherwise without it the country would be in the hands of oligarchs, only deepening the country’s poverty” (P12).

Some of the investors entered the niche markets in Ukraine and, therefore, offered the population access to a wider range of goods and services, which weren’t previously available in the market.

“...a big advantage is the fact that foreign investors might produce new products and services that were not offered in Ukraine before” (P12).

This competitive environment pushes companies to continuously change, improve the quality of their products and focus on technological innovation (P05, P13, P16, P18).

A further opportunity mentioned by one of the participants is the fact that by generating new jobs and bringing in new technologies, the resulting net increase in domestic income is shared with the government through the taxation of wages and profits (P01, P08).

“...our company pays over 1.3. billion on taxes” (P07).

Taxes paid by investors can be infused into creating and improving the country’s physical and financial infrastructure. Moreover, during crises like the Covid 19 pandemic, additional income can be used by the government to invest in hospitals and medical equipment.

As taxation, the rule of law and corruption are some of the biggest obstacles for investors, the best way to tackle these issues is to set a “good example”. Thus, existing investors become role models. By doing everything by the book, they help Ukraine fight corruption

and stay transparent. One of the investors described his business' practices in the following words:

"We don't make any compromises, everything is corruption free, which gives us proof that it is possible to avoid corruption in a country that doesn't necessarily have the best reputation in this regard" (P03).

Another participant added:

"We bring along transparency and sustainability which lift the entire market" (anonymous).

The best proven way to attract FDI to Ukraine is showing potential investors that the country is "able to deal with foreign investors from abroad" (P16).

Another participant added that:

"To work with foreign direct investment, the companies are required to do a lot of work, audits, etc. So if other companies see that formalities are settled in a competent way, they might also consider investing in Ukraine – this is how a country builds trust" (P19).

Overall, almost all participants agreed that Ukraine is dependent on foreign investors as they stimulate its economic development and local community and have a positive impact on macroeconomic indicators such as currency and GDP (P14, P18, P20, P21).

FDI will be good for the Ukrainian market in general as more revenue might be generated, and competition and wages will grow as well" (P14).

"For Ukraine, all FDIs are only a plus, because they bring value to the whole country, people get jobs, pay their taxes – FDI activates the whole economy" (P15).

4.6 Strategic solutions to attract future FDI

The last part of the questionnaire concentrated on finding out whether the participants received any governmental support when investing in Ukraine. Participants were also asked whether government support is essential for FDI.

The answers of the interviewees on receiving government support varied significantly for several reasons. One of the interviewees mentioned that Ukraine was not quite concentrated on FDI since the country needed to deal with other issues.

"We haven't received any support back then, since the government was focused on the war" (P01).

Another participant saw the reason for not receiving any support in the structure and the operation of some of the ministries responsible for attracting FDI.

"There wasn't any support in the 90ies when we first came to Ukraine – The problem with investment in Ukraine is that the government did not try to improve the country. Everything was in the hands of the people who wanted to make their own lives better. Today the whole situation has improved a lot" (P02).

Another participant, who recently invested in Ukraine confirmed:

"We saw nothing, but support! The government did an excellent job in our industry" (anonymous).

As far as government assistance which should be offered to FDIs is concerned, participants claimed that there is an urgent need to improve Ukraine's infrastructure and legal and judicial systems:

"The first thing that needs to be improved is the rule of law" (P07).

Moreover, investors would urgently need to have further guidelines and rules how they can be protected against corruption.

"I think Ukraine needs to shift from Soviet thinking, the mentality of "I am better than somebody else", "I win - you lose", to a mentality of "there is a rule of law, everyone must obey it, if you don't, you will be punished in court where the judges are not corrupt" (P01).

Even though the participants agree that having incentives such as taxation and subsidies could be used as a strategy to invest in a country, in the case of Ukraine this strategy might not work due to the issues with corruption described above.

"I don't think subsidies would be the right solution. Subsidies in Ukraine tend to be abused, we don't have the maturity as a democracy to manage these types of programs in Ukraine" (P01).

Another obvious deterrent for the FDI in Ukraine is the ongoing dispute in the eastern part of Ukraine with Russia. One of the participants described the necessity to improve the political situation in Ukraine in the following words:

"In terms of the geopolitical situation, Ukraine might not be the most attractive country for investors because of the dispute with Russia, so before investing in a foreign country, investors will look into whether the country is stable, whether there are any risks or military or political conflicts. Because of the war, Ukraine does not seem to be attractive for some" (P24).

It was also highlighted that when it comes to the strategies of attracting more FDI to Ukraine, it is important to keep in mind that the strategy of “one-size fits it all” would not work due to the size of the country as well as the different industries in Ukraine.

“Ukraine is not a point on the map, it’s a giant area and all kinds of investors can find a place to invest here” (P17).

It is important for investors to look at every region and sector and establish suitable strategies to take advantage of the investment opportunities there. This fact does not always seem to be understandable for FDIs as they usually do not understand what Ukraine can offer them.

“We do not need to show the investors what kind of business they can do, because they know their business better than we do. We just need to show them the opportunities Ukraine has to offer and how to invest. Clear processes, clear legislation and a clear understanding of locations where you can situate your business are a must” (P17).

Moreover, another participant suggested that the government should focus on regionally varying incentives. It is also important to know exactly which investors to attract:

“I think it’s not so much about what should be done, but how. I believe that the methodology of attracting FDI should be different. Authorities, such as the Cabinet of Ministers of Ukraine should agree on the amount for FDI, whereas local authorities should have their local responsibility of attracting FDI and cooperate with investors” (P22).

Participant 22 supported this argument by giving the following example:

“For example, Ukraine has 25 local regions. Local authorities should be responsible for attracting FDI to their region. Then there would be competition among them, we would have best practices, etc...” (P22).

Other participants also added that the role of the government should not only be in giving incentives to attract investments, but most importantly to provide a “playing-field” on the regulatory level, depending on the sector. This way, the investors would know what to expect and what the rules applied to their field.

“In our sector, the infrastructure sector, the government only acts as a regulator, because the regulator decides what kind of level of competition is needed in the market. The rule “the more competition, the better” does not always apply. So, in our sector the role of the government should be to deregulate, open the market in a

manner that is sustainable and find the golden spot that gives both incentives to investors and allows them to enter the market" (anonymous).

Participants also agree that what Ukraine needs the most is stability. Due to the fact that Ukraine suffered from several crises, including frequent changes of presidents, regulations and laws are always in flux, which makes it difficult for FDIs to adapt.

"I think what Ukraine needs is stability. Because so far, the plans of FDIs have always been 'short-term'. Somebody comes in, investors plan, and then they something changes for the years to come" (P12).

Even though some of the participants criticized the initiative of having an "investment-nanny", others agree that establishing a network of reliable local parties or governmental agencies could help investors with the regulatory and bureaucratic aspects of doing business in Ukraine. Such institutions could prove to be especially helpful in sectors where the legal documents are not even provided in English.

Almost all of the participants highlighted the importance of remembering about existing investors. Many countries tend to concentrate only on attracting new investors, whereas maintaining a good relationship with existing ones is equally important. Their success stories might inspire further investors and trigger a 'ripple-effect'. Other investors from similar sectors might be inspired to explore the opportunities that Ukraine has in store for them.

"You have to have somebody who knows the story, who has been through these kinds of processes and understands what it takes to invest in such a country... - those would be the first people to ask for advice and learn from their experience" (P12).

5 DISCUSSION OF FINDINGS AND RECOMMENDATIONS

Over the past two decades, the inflow of FDI to Ukraine has increased. However, little attention has been given to the opportunities and challenges associated with it. The purpose of this study was to address this gap by analyzing economic challenges and opportunities for foreign investors in Ukraine and understanding what kind of challenges and opportunities exist for Ukraine as a host country.

The results show that the biggest challenges lie in corruption, the lack of transparency of the legal and judicial system as well as the continuous war with Russia. Despite economic weaknesses, the country offers attractive investment opportunities linked to its location, high-skilled workforce, and openness to change.

Ukraine's leaders and current President, Wolodymir Zelensky, have recognized the necessity and role of FDI in Ukraine as the key to achieving robust economic growth. More FDI inflows would bring profit through an increase in GDP as the contribution to it on the part of new and existing companies would be higher. Furthermore, by having new businesses in the country, more and better employment opportunities would open up, new and existing skills would be strengthened and competitiveness among the world markets would improve, which in the long run would lead to an increase in the welfare of the nation (Jenkins & Thomas, 2002).

Since FDI is important for boosting the economy in transition countries, the findings of this study should help policymakers examine existing policies and look for new ways of increasing the foreign investment flow.

This chapter discusses the findings from the semi-structured interviews and compares them with the concepts discussed in literature.

The following table illustrates a summary of the findings, which includes the investment motives and the investment mode, the type of risk the participants encounter as well as their investment goal to invest in Ukraine. Each of the factors will be explained and discussed in the chapters below.

Table 5 Classification of findings - investment motives, investment mode, type of risk, investment opportunity

Code	Investment Motives	Investment Mode	Type of Risk	Investment Opportunity
P01	Market seeking	Acquisition	Weak intellectual property rights, corruption, rule of law, political instability, availability of information	Size of the market, Economic progress, natural resources
P02	Strategic asset seeking	Greenfield	Corruption, rule of law	Size of the market, cost reduction, geographical location
P03	Market seeking	Exporting, wholly owned subsidiary	Legal processes, rule of law, unstable legal framework, weak intellectual property rights, political instability	Geographical location, size of the market, openness of the country, cost reduction
P04	Strategic asset seeking, market seeking	Acquisition	Unstable legal framework, corruption, political instability,	Geographical location, size of the market

			corruption, lack of transparency	
P05	Market seeking	Wholly owned subsidiary	Profit expropriation, lack of transparency, unstable rule of law	Size of the market
P06	Strategic asset seeking	Greenfield	Unstable political environment, weak intellectual property rights` protection, mentality and culture of the host country, lack of information, quality of institutions	Size of the market, economic progress
P07	Market seeking, strategic asset seeking	Exporting, wholly owned subsidiary	Corruption, rule of law, lack of transparency	Economic progress, size of the market, geographical location, openness of the country, proximity to suppliers
P08	Market seeking, strategic asset seeking	Wholly owned subsidiary	Corruption, culture and mentality of	Geographical location, proximity to

			doing business, lack of trust	suppliers and other stakeholder, cost reduction
P09	Market seeking	Wholly owned subsidiary	Regulatory procedures, quality of institutions	Geographical location, proximity to suppliers, natural resources, size of the market
P10	Market seeking, strategic asset seeking	Joint venture, wholly owned subsidiary	Quality of institutions, lack of transparency, unstable legal framework	Economic progress, proximity to suppliers, cost reduction, geographical location, size of the market
P11	Market seeking, resource seeking	Wholly owned subsidiary	Unstable legal framework, corruption, power of oligarch, political instability	Cost reduction, natural resources, proximity to suppliers, geographical location
P12	Strategic asset seeking	Greenfield	Rule of law, quality of institutions, power of oligarch	Size of the market, geographical location, openness of the country
P13	Resource seeking, efficiency seeking	Acquisition	Weak intellectual property rights,	Geographical location, cost reduction,

			power of the oligarch, expropriation, lack of information	proximity to suppliers
P14	Market seeking, strategic asset seeking	Acquisition	Corruption, quality of institutions, unstable legal framework	Size of the market, economic progress, geographical location
P15	Market seeking	Wholly owned subsidiary	Corruption, unstable legal framework, power of oligarch, lack of trust, political instability	Proximity to stakeholders, size of the market, geographical location
P16	Market seeking, efficiency seeking	Wholly owned subsidiary	Power of the oligarch, expropriation, political instability	Natural resources, cost reduction, proximity to stakeholders, size of the market
P17	Market seeking, efficiency seeking	Wholly owned subsidiary	Lack of information, political instability, unstable legal framework, corruption	Geographical location, size of the market, openness of the country, economic progress, natural resources, cost reduction

P18	Market seeking, resource seeking	Acquisition	Political instability, rule of law, corruption	Proximity to suppliers, cost reduction, natural resources, geographical location
P19	Market seeking, efficiency seeking	Acquisition	Mentality, language, lack of trust	Size of the market, cost reduction
P20	Market seeking, efficiency seeking	Greenfield	Unstable legal framework (tax systems)	Natural resources, size of the market, geographical location
P21	Strategic asset seeking, efficiency seeking	Wholly owned subsidiary	Rule of law, judiciary, corruption	Economic progress, efficiency, cost reduction
P22	Strategic asset seeking, market seeking	Wholly owned subsidiary	Bureaucratic barriers, rule of law, quality of institutions, expropriation	Cheap labor – cost reduction, size of the market,
P23	Market seeking, efficiency seeking	Joint venture, wholly owned subsidiary	Corruption, unstable legal framework	Cost reduction, size of the market, geographical location
P24	Market seeking, efficiency seeking	Joint venture	Bureaucracy, unstable legal framework, corruption, power of oligarch	Cost reduction, proximity to suppliers, size of the market

P25	Market seeking	Wholly owned subsidiary	Political instability	Cost reduction, size of the market, geographical location
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Source: author's graph

5.1 Analysis of the Motives to invest in Ukraine

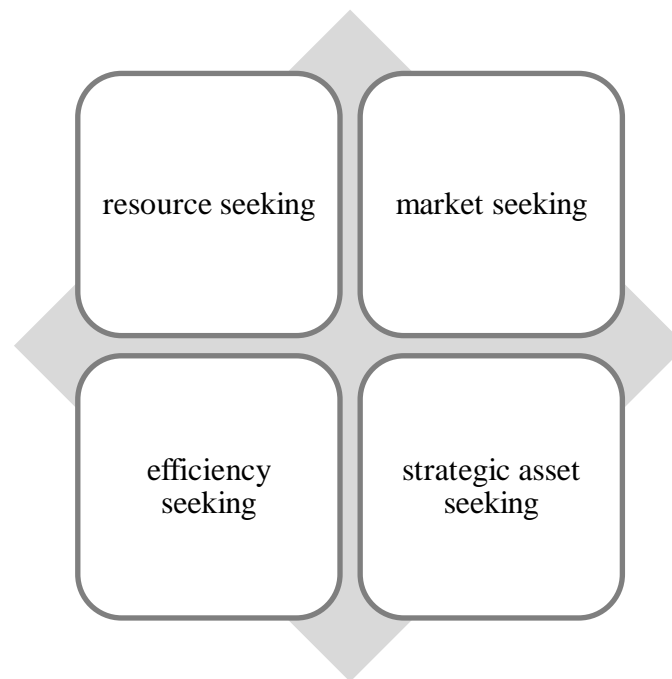
During the data collection phase, it was agreed that the reasons for investing in Ukraine are diverse and depend on the type of foreign investment. According to the findings, it is important to distinguish between portfolio investments and foreign investment as the reasons that lead these two types of investments to appear in various regions of the world are distinct. The main difference between FDI and portfolio investments is that a person or an enterprise making a direct investment has control over decision-making and production processes.

When it comes to an investment decision in a foreign country, the company usually has three options: to produce goods in its own country and afterwards export them, engage in a license agreement or merge with a company which is already operating in the foreign country (Bouoiyour, 2007).

The majority of the interview participants stated that they entered the market thanks to a merger and acquisition, which is the most typical strategy. In general, mergers and acquisitions have become very common among FDIs as such partnerships allow them to learn from already existing companies and save the costs of doing business, which in turn reduce the risk foreign businesses are exposed to Brucelaria (1997) added that strategic partnerships help FDIs to achieve their goals by improving their competitive edge while enhancing business efficiency.

The motives to invest in Ukraine varied among participants. The motives in the findings can be categorized into four different categories, which are described in literature as follows:

Figure 6 Motives to invest in Ukraine



Source: author's graph

Some of the participants decided to invest in Ukraine due to the resource-seeking aspect. Ukraine offers investors specific resources at a lower cost than in their country of origin. The type of resources was listed in Dunning's work (1993). These included: physical resources (raw material, agricultural products), a low-cost and a well-motivated unskilled or semi-skilled labor force and technological capacity.

Some of the participants invested in Ukraine to serve an additional market. Investors were attracted by the significant large market size of Ukraine. Dunning further describes other reasons why market-seeking firms invest in a foreign country: the proximity to suppliers who have expanded overseas and are now followed by the FDIs, the adaptation of products to local tastes and specific market requirements which can only be achieved through market presence in the form of FDI, saving production or transaction costs of serving a local market, following the company's global strategy, having a physical presence in the leading markets served by the company's competitors (Dunning, 1993).

Other investors decided to invest in Ukraine due to efficiency reasons. As Ukraine is geographically situated between Russia and Europe, investors could find geographical synergies by being able to serve several markets as well as have access to the domestic suppliers. They could moreover rationalize production due to lower and efficient costs.

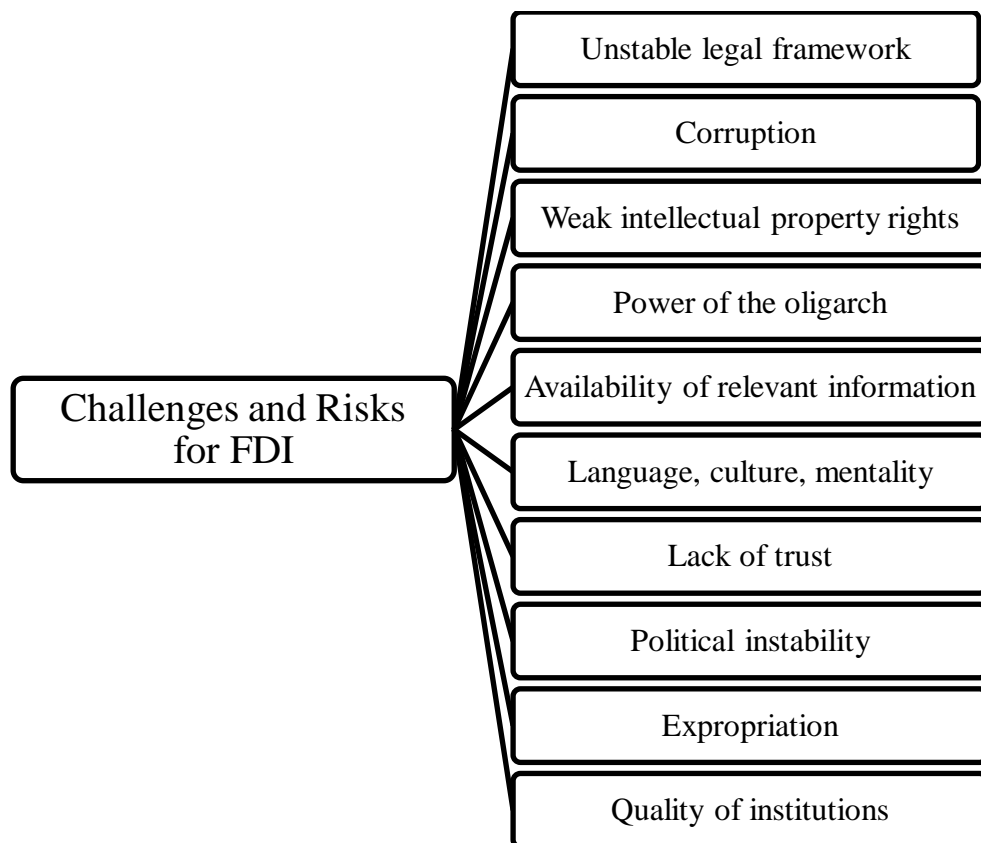
Similarly, to efficiency seeking firms, the strategic asset seekers aimed to capitalize on the advantages of the common ownership of a network of activities and capabilities in diverse environments.

5.2 Analysis of Challenges and Risks for FDI

This study explores specific obstacles that foreign investors and foreign Multinational Enterprises (MNEs) from certain sectors and origins faced during the establishment of their FDI projects in Ukraine.

The following discussion consists of a summary of the findings from the empirical study and a comparison to the findings presented in existing literature.

Figure 7 Challenges and Risks for FDI



Source: author's graph

1. Unstable legal framework

The majority of foreign investors have pointed out that the incoherent and unstable legal system was one of the most serious problems for their operations in Ukraine. Most of the

participants claimed that it is difficult to understand the legal system as it is constantly changing, and investors cannot keep up. Unstable laws cause long-term plans of foreign companies to change all the time.

Moreover, the current legal environment does not allow to register and open a business quickly and long procedures have become a standard.

These findings agree with those of Genco et al. (1993) who concluded that a lack of clearly defined legislation and complicated permit procedures are the most important risk factors in all the CEE countries.

2. Corruption

The unstable legal environment in Ukraine is not the only factor that created problems for foreign investors. The inadequate enforcement of laws also leaves space for corruption and bribery, which makes the investment climate challenging.

There have been several studies that examined the relationship between foreign direct investment flows, the level of the corruption and the quality of institutions. In broader terms, corruption might impose additional costs on investors as the increased uncertainty generally leads to less attractive risk-adjusted return and lower investment levels.

In his study, Wei (2000) examined 45 different OECD countries to find out the effect of corruption on FDI. He concluded that corruption-induced uncertainty has a negative impact on FDI. Due to the high level of corruption in Ukraine, the majority of the participants agreed that they would rather team up with local investors through a merger as local partners may have advantages and knowledge in dealing with corrupt offices. Javorcik and Wei (2009) describe similar patterns of why some investors do not establish their own subsidiaries in foreign countries with a high level of corruption.

Even though some studies do not find any positive correlation between the level of corruption and FDI inflows (Stein and Daude, 2002; Bellos & Subasat, 2012; Aidt, 2003), the empirical finding of this study could not confirm that fact. Almost all the participants agreed that the high level of corruption and the reliability on the judicial system in Ukraine constituted one of the biggest challenges for FDI.

3. Weak intellectual property rights

Based on the results obtained from the qualitative study, some of the participants claimed to have had challenges with obtaining property rights for real estate or land. This complicates the investment process, especially for those who are planning to build distribution centers, factories or invest in agricultural land. As a consequence, this ban

prevents businesses from expanding and providing jobs in poor, rural areas. Retailers complain that land is often sold or leased to favored individuals with whom they have a close cooperation in exchange for bribes or shares in the new development. Obtaining titles, construction permits, and operating permits usually takes longer and adds costs and complexity to the whole investment process.

A study by Mathur and Singh (2013) confirms that countries scoring high on the property rights index perform better on the investment inflows as property right protection is of high relevance to FDI inflow in the EU and other OECD countries. This challenge, however, could not be confirmed by all the participants in the empirical study.

Some of the participants were of the opinion that a strong protection of property rights alone is not a sufficient factor when it comes to an investment decision. What matters overall to FDI is rather a combination of institutional qualities that form a competitive business environment. These findings could also be found in a study by Maskus (2000) and Watkins and Taylor (2010) .

Glass and Saggi (2002) furthermore discusses in his study that stronger intellectual property rights protection might even lead to a reduction in FDI inflows as resources are wasted on imitation and crowd out FDI, which results in a decrease in innovation. Similar results were found in the work of Ivus (2010).

4. Power of the oligarch

Another difficulty for FDI, associated with the absence of an adequate protection of property rights is the power of oligarchs in Ukraine. Rent-oriented structures possessed by oligarchs have taken control of a substantial share of the national economy and, consequently, the oligarchs prefer relatively poor protection of property rights.

The power of the oligarch is also reflected in the privatization process of Ukrainian entities, which are sometimes included in the investment process. The latter usually consists of long processes and untransparent rules. Except for very few sales of major assets in Ukraine, privatization usually results in the acquisition of formerly state-owned enterprises by Ukrainian oligarchs. In some cases, Ukrainian businessmen even excluded foreign investors by usurping the privatization process. Also, the participation in tenders, according to the findings, is not a good choice for investors, as it is very likely that the decision will be made on the basis of bribes or political connections.

5. Availability and accessibility of relevant information

There is an acute limitation of the information regarding investment licensing, employment regulation and litigation of disputes in Ukraine. Despite the fact that some ministries have started to digitalize information and make it available during Covid-19 times, access is still difficult and untransparent. Moreover, most documents are written in Ukrainian or Russian and are difficult to interpret by foreigners. Several scholars emphasize this challenge for foreign investors, highlighting the importance of making information available to and understandable for foreign investors. It is a step towards making rules transparent and coherent.

6. Language, culture, mentality

According to the findings, the language, culture and mentality of Ukrainians is another challenge which investors have to deal with when investing in this country. Culture is an embracing concept as it arises from the interaction among people who develop principles and values that are externalized through practices.

There have been several studies that discussed subjective factors (e.g. culture) and their influence on FDI in deciding where to invest (Feils & Rahman, 2011; Makino & Tsang, 2011; Thomas & Grosse, 2001).

The mentality and culture of the host country as well as its influence on FDI decisions could also be found in the work of Shenkar (2012). In his work, Shenkar confirms that cultural friction may hinder relationships. The reasons for not investing in a country with a different mentality poses a risk of having a cultural shock caused by doing business differently. This is further described in the studies of Johanson & Valhne (2009). Also, as noted by Berry et al. (2010), the more similarities there are between two countries, the greater the ratio of international trade between those countries, since uncertainty is reduced, and it becomes easier to understand and learn how to do business and negotiate in the country.

7. Lack of trust between business partners

Some of the participants claimed to have issues with the negotiation process and doing business with other people from Ukraine, as their culture often differs from the culture of the foreign investors. Some of the participants found it hard to build long term relationships as there was some kind of a “lack of trust” present in Ukrainian culture. Some of the reasons for this lack of trust might be several different economic and political crises, a lack of trust in politicians, the frequent change of the president, etc.

This culture of suspicion is also reflected in the business world and often complicates business processes, negotiations and overall communication.

This aspect is often described in literature as “uncertainty avoidance” and is a very important point when discussing the internationalization of companies. House et al. (2002) define uncertainty avoidance as “the extent to which members of an organization or society strive to avoid uncertainty by reliance on social norms, rituals, and bureaucratic practices to alleviate the unpredictability of future events”. Ferraro (2002) understands it as the behavior of people when dealing with uncertainty. Hofstede (2002) involves this aspect in his theoretical model where he quantifies cultural differences across international lines in order to better understand why some ideas and business practices work better in some countries.

Some of the researchers found that companies would rather invest in countries with a lower uncertainty avoidance level and choose their target market for investment according to that as this feature strengthens relationships of trust (Bhardwaj, Dietz, & Beamish, 2007).

Shenkar (2012), furthermore, describes the problems arising from the cooperation between two countries with different uncertainty avoidance levels. Ferraro (2002) claims that people with a high uncertainty avoidance level are not good businessmen as uncertainty avoiding societies are characterized by anxiety about the future, emotional resistance to change, the fear of failure and, consequently, a fear of risk-taking. The results from negotiations are never predictable and there is always a mistrust between the parties, causing unexpected interruptions to negotiations. This might create barriers to FDI. He, furthermore, assumes that countries with similar cultural values interact easily with each other in business.

Brouthers and Brouthers (2001) support these findings and concluded that the bigger cultural distance and higher aversion to risk between two countries, the higher the FDI cost and the relationship cost between them.

8. Political instability

Almost all of the participants agreed that one of the most important challenges for FDI, when investing in Ukraine, was the fact that Ukraine still has a certain level of political instability. This fact is justified by the changing events in Ukraine, new presidency and – the most important fact, the war in the eastern part of Ukraine. This fact is especially challenging for companies which invested in the eastern part of Ukraine and do business with Russian partners. Existing and future investors alike consider investing in Ukraine

because of its proximity to Russia, however it is also this very fact that deters them from investing in this part of the country.

According to literature, this is not only the case of Ukraine, but also other developing countries which are going through a transition. These usually have a higher political risk than industrialized countries (Lucas, 1990).

Other studies also noted that transition economies have greater political instability due to uncertainty about the evolution of democracy, the stability and effectiveness of governments and the possibility of social unrest (Fielding, 2003, Carmignani, 2003)

When investing in another country, foreign investors assess various aspects of a country, one of them is a prediction of the level of political stability. The answer to this question often determines whether or not businessmen will invest in a country. According to literature, the reason may be explained by two different principals. The first one is: if the domestic instability is high or the country faces a war with neighboring countries, investors are concerned that their profitability will be reduced as the domestic sales or exports might be impaired, production might be disrupted, and the facility might get damaged or destroyed. Another important consequence of political instability is the fact that in more instable countries, the value of a currency will fluctuate and there is a higher risk that the companies' assets invested in the host country will lose profits.

Alesina and Perott (1996) support these principles by concluding that the intensity of political instability decreases the investment in the host country as it slows down the entire economic growth and puts the investment in a risky position.

Moreover, participants explained the negative effect of political instability by pointing to the link between political instability and other macro and microeconomic conditions, such as asset and stock markets (Romin, Liew and Stevens, 1996; Han and Wei, 1996; Bittlingmayer, 1998).

The decrease of the inflow of FDI during the annexation of Crimea in Ukraine may basically be explained by the political instability in the country and is also described as one of the major reasons of the FDI decline. Bennett and Green (1972), Schneider and Frey (1985), Singh and Jun (1995), Globerman and Shapiro (2002) all came to similar conclusions in this regard.

9. Expropriation

According to the findings, another concern that comes with the political instability is the expropriation of assets and profits. Even though Ukraine deployed significant efforts to

improve the investment environment, investors still complain about the inadequate enforcement of the legislation.

According to literature, high rates of expropriation are very common in countries with a relatively poor legal protection of assets and a high degree of political instability. In practice, expropriation can take different forms which can be classified into direct and indirect expropriation (Kobrin, 1984, Minor, 1994).

Both forms distort the optimal allocation of international capital by imposing additional costs to potential investors. As a consequence, the additional costs imposed on foreign investors reduce technological spillover as they are not able to reinvest as much as they would like or need to achieve technological progress. Furthermore, by saving the costs on expropriation, companies are not able to pay higher wages to the managers, who might have the right skills. As a result, people with less developed skills are employed. This, according to Kobrin (1980) causes productivity losses and depressed domestic wages.

Countries like Ukraine, which are characterized by higher political instability, are predicted to exhibit a higher level of indirect expropriation – a fact which is also supported by the interview participants.

10. The quality of institutions

Most of the participants agreed that the problem of indirect expropriation is usually the lack of the quality of the institutions responsible for defining guidelines to ensure compliance to the rules. If the country has a lack of formal or legal definitions, indirect expropriation acts are more difficult to document in a consistent manner.

This factor is also supported by several scholars (Brouthers, Gao, & McNicol, 2008; Peres et al., 2018).

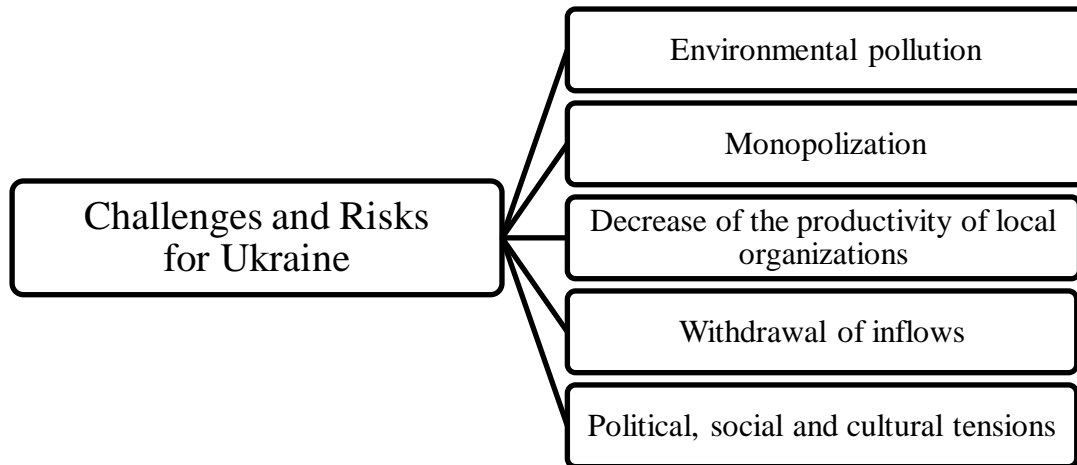
The participants moreover stated that the poor quality of institutions come partially from a high level of corruption and the rule of law in Ukraine. Similar findings were also found in the work of Peres et al (2018).

5.3 Analysis of Challenges and Risks for Ukraine

All of the participants agreed that Ukraine, which has been in economic transition in the past years, would not face any risks by attracting more FDI in the future. Even though a few concerns exist within Ukraine, participants argued that these risks might rather be applied to the countries which can already boast a significant level of the FDI inflows.

The aforementioned risks include:

Figure 8 Challenges and Risks for Ukraine



Source: author's graph

1. Environmental degradation

A possible risk of FDI for Ukraine might involve environmental degradation. The latter is common in transition countries which have weak environmental policies in order to have an upper hand over other countries where these policies are stricter for FDIs. There are various multinational companies that take advantage of the lax regulations and set up manufacturing facilities in countries, which as a consequence increase the output and thus the pollution (Liang, 2006). However, due to the fact that Ukraine does not have such a high level of FDI, the findings showed that this risk is not relevant.

2. Monopolization

Other participants also discussed a possible risk for Ukraine, namely monopolization. When multinational companies move to a developing country, they usually offer better wages, efficient production processes and better know-how. This makes it challenging for domestic companies to keep up with the competition. As a consequence, they lose out on business, which allows MNCs to acquire a monopoly status. This fact makes it difficult for new host companies to enter the market because of the huge capital and risks involved. Thus, multinationals are able to demand higher prices, leaving them with no other choice to pay higher charges due to the limited choices available. Some of the companies take

advantage of that and bring down their costs by not investing in new technologies, since they are already enjoying the luxury of irrational prices.

3. Decrease of the productivity of local organizations

As a consequence, the country might lose domestic production. Aitken and Harrison (1999) as well as Konings (2003) describe this phenomenon in their studies, suggesting that MNCs decrease the productivity of local companies through monopolization and competition effects. Due to the fact that MNCs are usually able to produce their goods at lower costs and obtain the necessary managerial and marketing skills, their marginal costs are reduced and they are able to offer their products at an attractive price that domestic firms are not able to do. Therefore, some of the domestic firms leave the market as they are not able to take advantage of economies of scale and the domestic productions goes down. Gorg & Greenaway (2002) further describe that it is difficult for domestic firms to acquire the right knowledge within a short period of time in order to keep up with the foreign investors and, therefore, they eventually leave the market. Also due to the fact that MNCs usually offer domestic workers higher wages, they attract the more skilled ones, leaving behind only the semi- or unskilled labor force for local companies – which again makes it difficult to develop economies of scale. Also, this risk, according to the findings, would not be applicable to Ukraine at this level of the economy.

4. Withdrawal of inflows

Another possible risk described among participants was the risk of FDI withdrawal. Due to the fact that FDIs play an important role in the labor market, with the establishment of a labor-intensive technology the host country becomes highly dependent on it. Once the MNCs find a more attractive country to further reduce their production costs, they will most probably shift their base to that country. Thus, there is always a lingering fear of unemployment due to FDI withdrawal.

5. Political, social and cultural tensions

Other possible negative effects might include political, social, and cultural tension. Some of the participants highlighted that the risk for Ukraine stemming from attracting more FDI is highly dependent on the goals of the MNCs, as some of the international companies expand to acquire more political power which might become an issue for the host country. According to OECD (2002), some less developed countries with an economy overly dependent on powerful multinational enterprises are threatened by losing political sovereignty.

Social tension might arise due to the fact that by moving a company to a foreign country, MNCs introduce and integrate other values, advertising and business customs, labor practices, etc. which are not always compatible with the ones of the host country (Dunning, 1995).

To summarize, the findings showed that when it comes to the risks, the participant did not see any as Ukraine is a transition country and can enjoy only the benefits of FDI. However, participants claimed that when it comes to maintaining existing FDIs, preventing them from a withdrawal and attracting more FDI in the future, a number of actions must be undertaken to achieve this goal. These recommendations are described in chapter 5.6.

The findings, moreover, showed that Ukraine's most important challenges with the FDIs involve the capability of converting the potential benefits into positive spillovers.

These findings are also supported by literature, which describes that in order to make use of the benefits of FDI, two main conditions might be fulfilled: the absorptive capacity of the local firms and the sufficient effective links generated between the foreign and domestic economic activities (Cohen & Levin, 1989; Girma, 2005).

Absorptive capacity is described in literature as "the ability of a host country to integrate the maximum FDI stock in a particular economy in a useful way" (Kalotay, 2000). Especially for the developing countries, "absorptivity" involves the improvement of the overall business climate, including improving the policies and the rule of law, reducing administrative barriers and corruption.

It is, moreover, argued that the host country needs to have a certain level of research and development intensity in order to benefit from FDI generated advantages (Cohen & Levin, 1989).

In addition, a certain level of openness to and acceptance of new ideas is a prerequisite for a host country to be able to transform the FDI spillovers into benefits. The introduction of substantially new or improved products requires parallel shifts in the strategy of organizations, the structure of organizations and practices in management.

In the case of Ukraine this brings a lot of challenges – as the structure of institutions as well as the infrastructure and communication structure have to be improved in general.

5.4 Analysis of Opportunities for FDI

The opportunities for FDI who invested in Ukraine varied among the participants and are discussed in this chapter.

During the data collection, there were eight different opportunities, which were identified to explain how foreign investors profit from their investment in Ukraine:

Figure 9 Opportunities for FDI



Source: author's graph

1. Geographic location and size of the country

The location of the country is an important factor for reasons such as access to other neighboring markets, accessibility and travel time from home country. As Ukraine is located on the border of Europe and Asia, its location is attracting more and more FDI each year. If the country is big itself, access to neighboring markets is a secondary priority. With more than 48 million inhabitants, Ukraine provides a huge market for almost every kind of investor.

This aspect of attracting investors due to the country's location and the size of its population has also been discussed in different studies. The most well-known theoretical framework is described in Dunning's work (1958), which is called the eclectic OLI (Ownership, Location, Internalization) paradigm. In this framework, the proximity of markets is described as the influential factors for the FDI decision. Also, other theories discussed by Casson (1987), Ethier (1986), Rugman (1986) and Williamson (1981) support this argument.

Other scholars such as Gwartney, Skpton and Lawson (1980) analyze the Gravity Model by highlighting the geographic location as one of the most important determinants for FDI as a bigger geographic size tends to be associated with a greater variety of natural resources which are taken into consideration by investors when determining where to allocate their funds.

2. Proximity to suppliers

Apart from a central location, many investors mentioned the proximity to their suppliers as another reason to invest in Ukraine. This fact was taken into account by many scholars. The most well-known theoretical framework explaining the advantage of location as well as its proximity to other stakeholders was covered by Dunning (1958). In the OLI Model (Ownership, Location, Internalization) he explains the influential factors for the FDI decision. These include the importance of being situated near companies' stakeholders, e.g. suppliers. Other researchers such as Casson (1987), Ethier (1986), Rugman (1986) and Williamson (1981) all agreed with these findings.

3. Size of the market (local market/niche market)

According to the findings, some of the investors chose Ukraine as a destination investment country, because of the market in the country, which was not saturated yet within the sector in which the investor operates. This factor was discussed in literature as well, and in some studies even appeared to be one of the most important determinants for horizontal market-seeking FDI, as a larger market indicates more promising consumers for the products produced.

Torrise et al (2008) furthermore supported that especially for transition countries the market size played a vital role for FDI from 1989 to 2006. That was also the time when most of the participants invested in Ukraine in the empirical study.

4. Openness of a country to FDI. A young country with a lot of opportunities

Data from the empirical study show that the majority of investors chose Ukraine as it is a young country that is opened to do business. This appeared to also be a reason why many participants believed that Ukraine would continue to attract future investments. Due to the fact that the country underwent several democratic and economic transformations in the past, the country is integrating even deeper into the Euro-Atlantic and global economic architecture. As a result, this key factor made many investors believe that Ukraine offers a stable and predictable emerging market and is an excellent investment destination.

According to the World Banks Ease of Doing Business rating, Ukraine has jumped 5 places in 2020 and is now the second country in the world whose business climate has improved in the past 10 years as far as speed and depth is concerned. The progress could also be seen in foreign direct investment flows. Since Ukraine is just starting to recover and develop economically, a lot of new opportunities are arising for investors who are still not active in Ukraine. For example, many retail stores which have been operating in Europe for many years are still not present in Ukraine. Investors see a big opportunity to be the first one on the market. Between 2015-2019 over 100 manufacturing plants were built, and many global brands such as General Electric, Ryanair, IKEA, H&M entered the Ukrainian market.

A number of empirical studies supported the fact that the more the country is open to do business, the higher the attractiveness of that country is. The paper by Agosin and Machado (2007) can be mentioned here. In their study, they developed an ordinal index in order to measure the openness of FDI policy regimes in developing countries and confirmed that openness permits foreign direct investment inflows. Later studies by Vogiatzoglou (2007) confirmed that if the degree of integration of the host country to the international economy rises, the inflow of FDI will increase in the long run as well. Sekkat and Veganzones-Varoudakis (2007) investigated the importance of openness in developing countries and proved as well that the improvement of the investment climate had greatly contributed to attracting FDI. Their study therefore stresses the importance of taking initiative and improving the investment climate towards greater openness.

Even though empirical evidence exists on the positive correlation between the openness of a country to international business and FDI inflow, some of the studies could not show the same results. Vijayakumar and Sridharan (2010) described the effect of trade openness on FDI inflows in BRICS countries and suggested that trade openness may not be a crucial

factor in attracting FDI inflows, especially in case of emerging countries. Mateev (2009) also did not find any statistical significance.

5. Economic progress

Besides trade openness, the investors take the overall economic progress of the country into consideration when making the decision of where to invest. Even though Ukraine has suffered from various crises and reforms in the past – the general economic progress of Ukraine can still be registered.

As mentioned earlier there are many other variables that foreign investors take into account. Looking at Ukraine's economy over the past ten years, one can notice a steady progression. Through several reforms, Ukraine has been offering a number of incentives as well as improvements in the economic world, which attracts FDI, as it shows an example of making progress.

The fact that an increase in the domestic level of the economy (e.g. demand or capital) has a positive effect on FDI has been acknowledged by Ul Haque et al (1997). Calvo et al. (1993) furthermore explained that economic progress suggests an improvement in external creditor relations, the adoption of sound fiscal and monetary policies and neighborhood externalities, all of which play an important role for FDIs. A stable macroeconomic environment might also improve credit worthiness and expand investment opportunities which, in turn, attract FDI (Chuhan, Claessens, & Mamingi, 1996). A growing GDP can also be used to fuel the interest of foreign investors (Morisset, 2000). This fact has also been proven in the study of Bende-Nabend (2002) who analyzed 19 different countries between 1970-2000 and proved that one of the most dominant long-term determinants of FDI was economic growth.

6. Natural resources of the country

Another important determinant which was identified in the empirical study is that Ukraine offers a wide range of natural resources. Ukraine's main natural resources include iron ore, coal, manganese ore, natural gas and petroleum. One extremely important resource is Ukraine's fertile soil composed of chernozems (40 % of the world total resources) as well as mineral water.

There are recent studies which support these findings and claim that natural resources offer an important benefit to investors and influence their decision of investment (Narula & Dunning, 2000). A study by Morisset (2000) and Asiedu (2006) investigated the

determinants in African countries and came to the conclusion that the decision to invest in these countries was mainly driven by the availability of certain natural resources.

7. Cost reduction

The analyses of the empirical data showed that all respondents invested in Ukraine because of the desire to cut their production costs. This aspect concerns not only the cost of natural resources, but especially the labor costs. Many investors operating in Ukraine are motivated by its quality labor force and relatively low national wages, compared to other CEE countries.

Havlik (1998) agrees with the result of these findings and claims that labor costs are frequently considered among the key economic variables in the discussion of the determinants of where to invest.

The theoretical approaches suggested by Dunning's (1958) in the OLI theory name similar determinants. Dunning suggests that market-related and cost-related factors are usually responsible for the FDI flows. Also, other studies by Bevan and Estrin (2004) prove a positive correlation between the determinants of FDI and labor costs in particular.

8. Competitive advantage

A majority of the participants described that their motivation to invest in Ukraine was connected to having a competitive advantage as their products hadn't been introduced to the Ukrainian market yet. Also, some of them made the decision to invest abroad because their competitors were expanding as well. This decision is often described in literature in the theory of the product life cycle. Vernon (1966) for example, found that firms choose to invest in a given place as an alternative to exporting their goods or services which had reached a certain stage of the product life cycle in the home country. By investing in a foreign country where the market is not saturated yet, firms tend to extend the life cycle of a product, introducing it to a different market. He furthermore explained why companies aim to invest abroad due to competition factors. He found that their motivation is sometimes driven by the fear losing their competitiveness, the need to follow rivals into foreign markets and increase competition in the domestic market.

5.5 Analysis of Opportunities for Ukraine

Data from this study further provide that FDI can be a source of positive consequences for the Ukrainian economy. To explain the effects that FDI might have on a host country, two approaches in economic theory must be mentioned:

- 1) Theory of international trade by MacDougall (1960)
- 2) Theory of industrial organization by Hymer (1960)

The International Trade Theory by MacDougall (1960) suggests that the host country will profit from FDI thanks to the inflow of foreign capital as foreign companies usually pay a higher tax revenue from foreign profits. In addition to that, host countries profit from economies of scale and the acquired know-how, which domestic companies are forced to obtain in order to stay competitive.

The theory of industrial organization focuses not only on the capital inflow as one of the main positive aspects of FDIs, but also on externalities such as product and process technology, management, and market skills the foreign companies bring to the host country. These findings are also supported by several other scholars such as Buckley and Casson (1976), Caves (1971), Dunning (1973), Kindleberger (1969) and Vernon (1966). In the following subchapters, the opportunities for Ukraine will be listed if it attracts more FDI in the future.

Figure 10 Opportunities for Ukraine



Source: author's graph

1. Economic stimulation

One of the most important opportunities for Ukraine and at the same time a strong motivational factor for attracting more FDI in the future is the fact that FDI can improve the country's economic development in the long run. These findings are confirmed by several scholars.

In literature, the positive economic impact of FDI on a host country is described through several aspects 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.

A study by Jenkins and Thomas (2002) as well as Mencinger (2003) further suggest that the economic growth of a host country is also achieved through foreign capital flows. This aspect, for some authors, even is considered the most effective way to achieve economic growth (Lee & Tcha, 2004).

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.

2. Increase in employment

Almost all of the participants agreed that Ukraine would enjoy an increase in employment by attracting more FDI in the future. This finding is confirmed by several researchers who 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.

If companies produce goods almost solely for export, due to competitive pressure, they will aim at cost-reduction and employ a rather low-skilled labor force, which in turn will increase the labor demand in the host country and generate high employment.

Studies from Girma et al. (2002), Pandya (2010), Hanousek et al. (2011) furthermore suggest that FDI can impact wages. Especially in the industries where a higher level of skills and technology is required, foreign firms usually pay higher wages compared to domestic firms. Therefore, foreign firms are usually able to offer better job security than their domestic counterparts, which is also explained in the work of Mickiewicz, Radosevic, and Varblane (2000).

Literature on the effect of FDI on employment creation is, however, very limited in the case of Ukraine and more work is required to understand the exact relationship between FDI and the Ukrainian labor market.

3. Development of human capital

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. According to OECD (2002), multinationals are a larger source of trainings than local firms.

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.

4. Access to management expertise, skills and technology

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.

According to Borensztein et al. (1998), multinational corporations are often regarded as technologically developed firms which are responsible for almost all the global spending on research and development. Ford et al. (2008) also support this finding by stating that MNCs, due to their presence in various parts of the world, are considered to be a major source of technology dispersion. By investing in Ukraine, multinational firms are at the same time transferring a certain level of knowhow and technology to the host country, which according to Loungani and Razin (2001) 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. This aspect is described in detail in the studies of Glass and Saggi (2002) and Hermes and Lensink (2003). They further add

that the increased performance of local firms contributes to the growth of the Gross Domestic Product.

Through trainings, the transfer of skills and new managerial organizational practices, the Ukrainian labor force will furthermore obtain access to new ways of doing business which can produce further important benefits for the host countries, such as the spin-off effect. In literature the spin-off effect is described as a phenomenon which arises when local staff that is trained to obtain managerial financial and technical skills leaves the firm and helps establish local firms and uses the obtained skills to eventually boost innovation.

Lall and Streeten (1977) summarize three important managerial benefits:

- Managerial efficiency in operations arising from better training and higher standards
- Entrepreneurial capability in seeking out investment opportunities
- Externalities arising from training received by employees

However, also here the technological effect might differ from sector to sector and depend on the policy environment in which the foreign companies operate.

5. Access to a wider range of goods & services

By attracting more FDI to Ukraine, not only the managerial and technological know-how is 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.

6. Creation of a competitive environment

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.

Julius (1990) found similar results. In his study, he examines the influence international companies have on the competition and concludes that FDI contributes to a higher domestic

competition which thereby might lead to a higher productivity and a more efficient resource allocation.

Similar findings can also be found in the work of Lee and Tcha (2004). They argue that when international firms enter the host market, a certain level of competition is created. As a consequence, existing firms will try to maintain their market share by investing in their R&D and equipment, employees' development and find more efficient production methods to face the competition.

7. Integration into the global economy

This study confirms the findings by Mencinger (2003) who evidences a clear link between the increase of FDI and the rapid integration into global trade. Carkovic and Levine (2002) further describe that the integration into the global economy is also possible since local firms sometimes aim to copy and attain knowledge transferred from multinational companies. Foreign investors moreover 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 FDI's start to include local firms in their strategy.

Ford et al. (2008) 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. Krugman and Venable (1996) describe the demonstration effect as an 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.

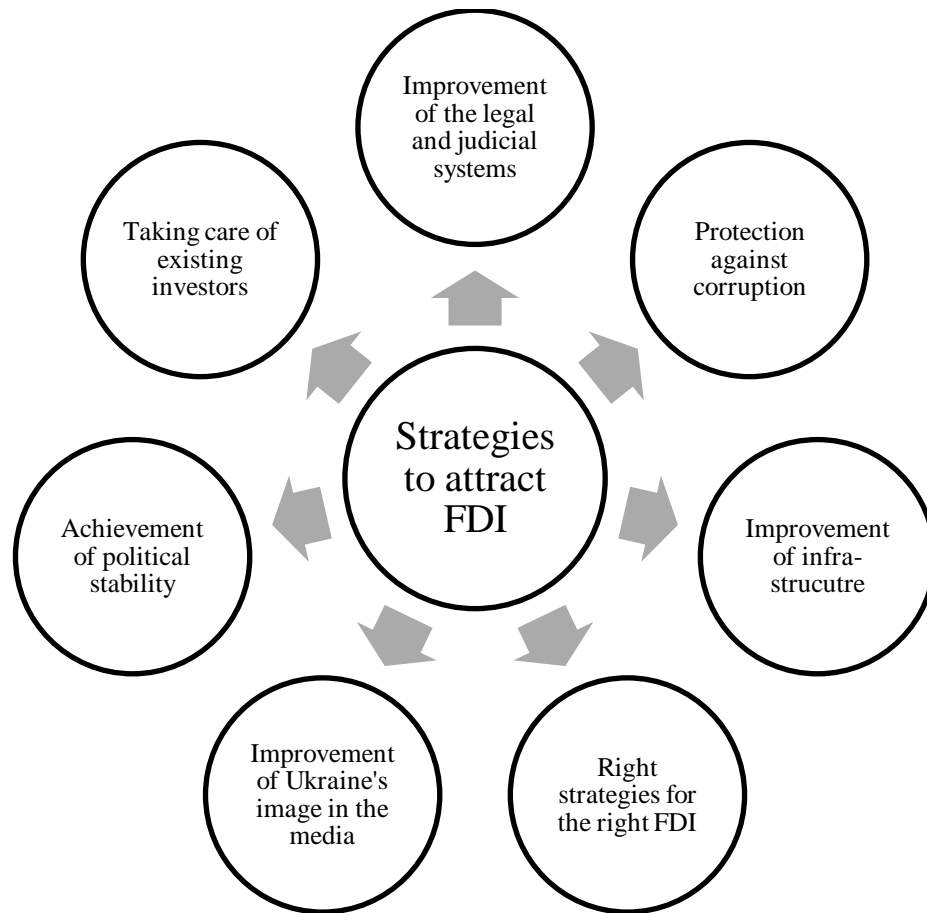
5.6 Analysis and Recommendations for Strategic Solutions

Over the past few years, attracting foreign direct investment has been one of the primary goals for almost every CEE country. Some of them could achieve remarkable inflows especially for efficiency-seeking investors, which helped the country achieve economic growth, absorb the opportunities and help the country to transform. The participants of the interview agreed that also Ukraine was trying to keep up with other countries and understand which policies and guidelines would help current investors stay as well as the future one to come to the country. Further, the participants confirmed that, unfortunately, due to unstable institutions, uncoordinated policies and inadequate business conditions, it is quite challenging for the country to remain attractive and be considered as an investment destination. The war in the eastern part of the country does not make it any easier for the country and deters investments not only on an international, but also on a domestic level. Therefore, in order to increase positive outcomes, Ukraine must choose the correct policy to attract FDI. This thesis also argues that government policies should take advantage of all the benefits of FDI in order to overrule its drawbacks.

Despite the fact that the impact of FDI on economic growth has been widely studied, there are still questions concerning the necessary conditions and the channels through which FDI may lead to economic growth.

In this chapter, several recommendations are provided based on the participants’ views and best practices in other similar CEE countries, which could achieve higher investment inflows. These recommendations aim to reduce the most egregious barriers to trade and FDI in Ukraine.

Figure 11 Strategies to attract FDI



Source: author's graph

1. Improvement of the legal and judicial systems

Most of the participants agreed that placing specific incentives such as taxation or subsidiaries won't work for Ukraine. The reason why it would be hard to establish the latter in Ukraine lies in the structure and the compliance within the institutions. Most importantly, participants agreed that in order to attract more future FDI to the country some tremendous changes would need to be undertaken in the legal and judicial systems in order to achieve more transparency and predictability.

2. Protection against corruption

Even though a number of measures against corruption in Ukraine was executed, all of the participants agreed that corruption within the Ukrainian political system and society still hinders many foreign and domestic investors from invest as the cost arising from dealing with corruption constitute a high risk for companies.

Mauro (1995) supports this argument arguing that it is virtually impossible to achieve economic growth in corrupt countries since FDI is “scared” of such countries and do not choose them as an investment destination.

Not all sources in literature agree with this fact. There have been a number of debates about whether political corruption affects the attractiveness for FDI. Some scholars argue that corruption increases economic uncertainty due to arbitrariness and thereby make investors decline such countries as an investment destination.

A study of Bayley (1966) contends that “corruption in developing nations is not necessarily antipathetic to the development of modern economic and social systems; that corruption serves in part at least a beneficial function in developing societies.” It was moreover proven that countries with a high level of corruption attract even more FDI than countries with less corruption. Tanzi (2002) gives Asia as an example and claims that highly corrupted economies develop faster than others because of greater inflows of FDI.

Drury et al. (2006) stress that the effect of corruption on FDI attractiveness depends on a regime type. Thereby, corruption does not necessarily affect economic growth in democratic countries but represents a major burden for economies in non-democratic countries.

As corruption and related non-transparency put additional costs on future FDI and mostly hinders them to invest in those countries, Ukraine should have set more measures against corruption to attract foreign capital and reduce business uncertainty. This argument was also supported in the work of Drabek and Payne (2001) who analyzed 53 countries and the impact of the corruption level on FDI inflows.

3. Improvement of Ukraine’s infrastructure

Another important policy which needs to be put into action is the improvement of Ukraine’s infrastructure. Even though the country has rich deposits of natural resources, some participants claimed that it is sometimes impossible to make use of most of the mineral reserves due to the inadequacy of technical facilities, a poor transportation network and insufficient investment capital.

This would ensure that resources are channeled to the most promising projects. Currently, insufficient investment in Ukraine’s deficient infrastructure, in particular as far as transport is concerned, is increasingly hindering the country’s competitiveness in comparison to other countries. Many participants agreed that the road network is one of the poorest in Europe. In addition, while the country boasts a world-class airport in Kyiv, its railways are

in a poor state and have an inefficient network. Even though some actions have already been taken, over the past few years they unfortunately produced limited results.

This fact is also supported by the studies of Wekesa et al. (2017), Seetanah (2009), Asiedu (2002), and Rehman et al. (2011) who argue that investors search for markets where they can lower their costs of production to achieve higher profits and this can only be achieved if the infrastructure is in a good condition. They furthermore found that countries with good physical infrastructures such as highways, ports and bridges are associated with a higher level of FDI.

An improved infrastructure would not only provide a more favorable investment climate for foreign investors, but it would most importantly serve as an important engine for sustainable economic growth in Ukraine in the long run.

4. Usage of the right strategies for the right FDI

It is also necessary to keep in mind that not every policy that worked for most countries would be applicable to Ukraine and not every policy would work in the same way for every investor. To use the policy in an efficient way, it is important to analyze the sectors in Ukraine which need foreign investment and put specific measures into action to establish the right “playing field” for investors. By doing so, it would allow investors to have a sense of protection on the part of the government.

The findings suggest that sectors such as processing, waste management, transport and warehousing as well as healthcare would be of a high need for FDI. These types of sectors lack a lot of knowledge which could be brought in from western countries, where the expertise is already very high and can positively impact Ukraine.

The study moreover suggests that Ukraine needs to focus on the investors from countries with a similar background. Attracting big companies to Ukraine would be difficult as other countries have an upper hand due to better conditions. What would make more sense is to rather focus on small investments that would give Ukraine the opportunity to (“peux-a-peux”) help the investment climate in the country to flourish.

Another interesting observation is that the institutions responsible for the FDI guidelines should not be on a centric level as the regions in Ukraine are big and diverse. It would make more sense if every region was responsible for his or her own guidelines and for the FDIs in their regions. By doing so, it would create a more competitive environment between the regions and become a driving force for attracting FDI in the future. Regional representatives would then be the direct contact person for investors and help them find the

proper locations. The latter is yet another reason why the guidelines should be determined regionally rather than centrically (and to ensure that the guidelines are flexible rather than “one-size-fits-all”).

5. Improvement of Ukraine’s image in the media

The findings also showed that in some cases Ukraine’s society is not quite open to FDI due to distorted media coverage which presents FDI as a force which can harm Ukraine’s economy by squeezing out local companies, which will eventually lead to unemployment. This negative picture of Ukraine is not only a danger for society, but it has, in a way, painted Ukraine as an unattractive investment country - an image, which will be difficult to change in the minds of many investors. Khathlan (2014) goes on to support these findings, asserting the effect the media has on FDI and the local culture.

The positive spillovers that FDI might have on a host country must, therefore, be communicated in a more effective way. Especially in the case of Ukraine, it is important to show society that the impact on economic growth, employment and human capital is positive and will help Ukraine achieve economic prosperity.

At the same time, also the conflict in the eastern part of Ukraine has created a major concern for FDI in the media as it is sometimes represented as a political risk for the whole country, while the most affected part concerns “only” the eastern part of Ukraine. This view is problematic as business conditions in Western or Central Ukraine differ from those in conflict areas and represent a minimal political risk for foreign investors if any at all. Also here, it is necessary for the media to make a distinction and highlight which regions are safe for investors.

6. Political stability

Achieving political stability is another important policy which should be undertaken in Ukraine to attract FDI in the future and maintain the existing status quo. The ongoing conflict in the Donbas region as well as the related capital-account restrictions made it difficult to match the country’s vast economic potential with commensurate investment. Similar findings are also found in the work of Asiedu (2002) who argue that political instability has a significant negative impact on FDI, and that with the increase of political instability FDI would in most cases decrease.

A possible future measure would be to offer affordable political risk insurance to FDI future and existing investors in Ukraine, which as a consequence would contribute to economic

and financial stabilization. This is a major political task for Ukraine's international partners and many practical details still need to be worked out.

7. Taking care of existing investors: the creation of networks

Almost all of the participants mentioned the importance of taking care of the existing FDIs as they are the role models and examples of how investments could be done in Ukraine, which can affect future FDI.

Improving the network of existing investors as well as introducing some channels of communication amongst one another might help them overcome obstacles together and strengthen the group of FDIs in general. Moreover, it would make it easier for potential investors to connect with other companies which have gone down the same path before them.

CONCLUSION

The overall aim of this dissertation was to explore the challenges, risks and opportunities Ukraine and FDI might face. The literature reviewed in Chapter One provided theories and guidelines that were necessary to understand the topic. Chapter Two described the aim and the objectives of the study, breaking down this overall research topic into two research questions. Chapters Four and Five presented the results and the analysis of the qualitative research, which answered the research questions.

The last chapter of this thesis, Chapter Six aimed to conclude this dissertation by revisiting the research questions detailed in chapter two, showing how the conclusions drawn in Chapter Four and Five answer each of these individual questions. Chapter Six also includes a section on how this thesis has made a theoretical and empirical contribution to academics and mentions the research limitations and suggestions for future research.

The research questions which were meant to be answered within this study were:

“How can Ukraine attract foreign direct investments during a period of transition? What challenges, risks and opportunities might Ukraine and FDI face during this process”

To answer these questions in an efficient way, research objectives were stated:

Objective 1: to describe and understand FDI theories in general

Objective 2: to describe Ukraine’s economic and political situation

Objective 3: to describe the status quo of the current situation of FDI in Ukraine

Objective 4: to find out about the challenges and risks for investors

Objective 5: to find out about the challenges and risks for the country

Objective 6: to find out about the opportunities for investors

Objective 7: to find out about the opportunities for the country

Objective 8: to find out how Ukraine can eliminate the risks and provide strategic solutions to attract potential foreign investors

This chapter aims to summarize the key findings connected to each objective, which, in turn, answer the research questions.

Objective 1 was to summarize the main FDI theories. This thesis concentrated on four which are most frequently described in literature, namely the production cycle theory, the perfect capital or exchange market theory, the internationalization theory and eclectic paradigm. All four theories cover the main motivational factor for Multinational Enterprises to invest in a foreign country.

Objective 2 aimed to describe Ukraine's economic and political situation in order to understand Ukraine's current position in terms of the attraction of FDI.

The history of Ukraine as well as the explanation of why Ukraine is in the economic situation it is in 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 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.

Objective 3 was to describe the status quo of current FDI in Ukraine and show that despite some legal and corruption issues, Ukraine remains an attractive investment destination thanks to its large internal market, proven agricultural potential as well as 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 influenced areas such as justice, 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.

Objective 4 aims to summarize the challenges and risks which investors encounter when entering Ukraine and simultaneously answers the first part of the research questions.

The findings showed that the major challenges of the investors still lie in the unstable environment of the legal framework. Due to the fact that the economic and political situation of Ukraine is in constant flux, it is difficult to adapt to the rules as they change sooner than the investors become familiar with them. This makes the situation very unpredictable and puts investors in a risky position, which might lead to additional costs (e.g. court costs). Also, corruption remains a challenging factor for most of the investors, even though not all of the studies agree with this fact.

Effectiveness in affording property rights is also questionable. Investors also complain about the complex and often ambiguous legislation processes.

Political instability overall as well as the ongoing war in the eastern part of Ukraine do not make the investment environment better and continue to be the major risks for current and potential investors. Even though the warzone in Ukraine is limited to a specific region, the fact still prevents some investors from choosing Ukraine as a destination country.

Another major challenge for Ukraine as an investment destination is the fact that many businesses and sometimes even entire sectors of Ukrainian economy and electronic mass media are controlled or influenced by a group of oligarchs. This makes it difficult for many investors to enter certain parts of the economy without having a proper network.

The fact that some of the legislative documents and investment rules are in English adds an additional burden for investors as they have to invest in translators.

Language and the Ukrainian culture and mentality appeared to be another challenge for investors as some rules or ways of doing business differ from those of other European countries. Issues of trust are also connected to this lack of understanding of the local culture and its people.

Objective 5 aimed to highlight the challenges and risks for the country and gave the answer to the second part of the research question. This study showed that most of the investors do not associate any risks with Ukraine and attracting more FDIs in the future. Only a few concerns were named: environmental pollution, monopolization, the decrease of the productivity of local organizations and some difficulties which might occur when investors start withdrawing their inflows. Over time some political or social tension might occur out of the fear that foreign investors would squeeze out domestic firms which would lead to

higher unemployment. However, these concerns were only discussed theoretically during the interviews as the amount of the FDI inflows is not that high.

Nevertheless, apart from these challenges, it is important to underscore that Ukraine does actually provide a lot of opportunities for existing and future foreign direct investors. The question about the opportunities which investors might benefit from when investing in Ukraine was the objective no. 6.

One of the major benefits for investors when investing in Ukraine is the fact that the country has a centric position and offers investors the opportunity to trade easily with Russia and Asia on the one hand and the European Union on the other. Its central location and access to different trade routes, the Black Sea and other ports and railroads are all assets for investors.

The size of the Ukrainian market is yet another opportunity for future investment. With over 48 bn habitants, Ukraine represents the biggest emerging market in Europe, providing a wide range of under-discovered opportunities, niche-sectors, which were not present in the Ukrainian market before.

As Ukraine is undergoing a seismic democratic and economic transformation, it is interested in connecting with global companies more than most other countries. Ukraine is an open country and introduces new incentives or rules to boost its image among future investors.

Due to Ukraine's high purchasing power, foreign investors are attracted to this competitive low-cost destination. This applies not only to the labor costs, but also to raw materials and production costs including electricity, water, etc.

Not only investors profit from their investments in Ukraine, but also Ukraine as a host country can benefit largely from attracting more FDI in the future. This was objective number 7.

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 a 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 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.

This was also the last objective of this thesis, which gives an answer to the last part of the research question: how Ukraine can eliminate the risks and provide strategic solutions to attract potential foreign investors.

Even though many measures have already come into force, an improvement of the legal and judicial system and more efficient protection against corruption are still necessary and important for foreign investors. The infrastructure within the country was also considered to be a very important determinant, which should also be taken into consideration.

When attracting new potential investors, it is necessary to deliver a consistent message directed at the right audience in the right format.

The message should consist of targeted information about potential business opportunities in every region and every sector of Ukraine. Apart from that, it is necessary to stress that the conflict area concerns only a very small part of Ukraine and does not affect business in the whole country. This fact should also be promoted via media to ensure the right information is communicated to the right audience.

What should also not be forgotten is the fact that existing investors in Ukraine can promote the positive image of the country and it is important to take care of them as well. The creation of networks, communication platforms and independent organizations where existing investors can exchange information with potential ones could provide enormous support for the latter.

To conclude, it can be said that Foreign Direct Investment proved to be an important factor in achieving economic growth in Ukraine and bring the country closer to the European Union. It is, therefore, important to examine existing policies, its 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.

How this study contributed to literature is divided into two categories:

- the study's theoretical contribution and
- practical contribution

This thesis contributes to the body of literature on FDI in Ukraine as it summarizes a number of relevant studies on this topic and proves that not all findings always apply to all cases and countries. The research provides a conceptual framework that gives an understandable explanation of the general determinants that influence the flow of FDI. It also highlights that corruption and political instability cannot always be viewed as hindering factors for entering a foreign market. This study proves that there are a number of other aspects that are given greater priority by investors before entering the Ukrainian market.

This research has, moreover, thoroughly examined a number of challenges and opportunities for investors and Ukraine as a host country, which were not discussed in previous studies. An explanation was also given on how Ukraine can respond to these challenges and how attracting more FDIs to Ukraine can positively impact the country's economic growth.

The findings concerning the effect FDI might have on a country also differs from those found in literature. While in most cases literature describes a positive effect, in this study it could be found that the effect of FDI depends on the absorptive capacity of a country. Considering this fact, some other guidelines and recommendations were suggested on how Ukraine in particular could ensure the "full absorbance" of the positive effects of FDI.

The practical contribution to literature is represented through the fact that the research explored a number of gaps in the already existing guidelines and rules of Ukrainian regulations for FDI. Based on valuable information from literature and the empirical study, the results can be considered to be a set of guidelines for investors who intend to invest in the Ukrainian market.

Furthermore, this study also listed a number of issues pointed out by existing investors. This list of challenges may prove to be helpful for future investors. They also listed the

opportunities and investment sectors, which may serve as a guideline for prospective investors as to what the best method of investment can be direct investment or a partnership with local investors.

Besides the contributions to the debate around FDI, this dissertation also identified many limitations that influenced the research process. Some of the limitations were anticipated before the research process, while others came up unexpectedly during different stages of the study. Nevertheless, it was possible to scale down the limitations to reach the conclusion of this study. All the limitations are discussed below.

At the beginning of the study, in October 2019 the researcher identified the aims and objectives this study should pursue. While researching the obstacles and challenges of FDI, the world was affected by the Covid 19 pandemic. Due to the circumstances, the list of challenges was not expanded, thus that the challenges and risks, which are identified in the literature and discussion chapter might not be entirely applicable to the year 2021. If the interviews had been conducted a year later, perhaps different results would have appeared. Another limitation was reflected in the fact that some of the questions contained information about the Ukrainian government. Since the interview was conducted in person, it is not certain whether the answers reflect the truth. Although the interviewees were given the choice of remaining anonymous and it was made clear that the interviews were for academic purposes only, their answers might still be skewed, because of the fear of their opinions being published. Hence, the interviews were conducted in a friendly manner.

Another important limitation which must be considered is the sample size as a whole. More than 80 requests were sent out; however, it was difficult to attract participants on a senior level. To overcome these challenges, the researcher had to expand the base of the selected samples by adding and interviewing not only senior managers, but also representatives of the middle management whose work or expertise is related to the research field.

Scheduling the interviews was also a challenge as both the researcher and the interviewees work full time. As a solution, many of the interviews were scheduled on weekends.

For some unexplainable and random reason, the sample size consists of only male participants, even though the requests were sent out to both men and women. It could be possible that if women had participated in the interview, some other aspects, challenges, and opportunities would come up.

Another limitation concerned the language of the participants. Even though the interviews were conducted in English, sometimes it was difficult to understand the participants, as not

all of them had sufficient English skills. This challenge was overcome by sending some sentences or quotes directly to the participants after the interview to make sure the content was understood correctly.

Moreover, the sectors in which the participants worked were different and thus the findings do not typify the tendencies in all sectors. One must also consider the possibility that the results of this study may not be applicable to countries other than Ukraine.

There are many topics included in this study which can be further researched.

First of all, this thesis concentrated on the barriers, risks and opportunities FDI and Ukraine might have. It gave a broad picture of different obstacles occurring in different sectors. Future research could look into how important each success and failure are to a foreign investor. Thus, particular obstacles mentioned in this thesis could be analyzed in greater detail in relation to their impact on foreign investors and Ukraine as a country.

Another interesting insight of the thesis surrounds the effects of FDI on Ukraine. This thesis only summarizes different positive and negative impacts FDI might have on a country. However, the thesis does not prove how single impacts affect the economy and whether it affects the economy at all. Some contradictions could be found in literature between the information gained during the interviews and what researchers recently found concerning FDI in Ukraine.

As the research for this thesis started in October 2019, the study did not include any additional challenges and obstacles related to Covid-2019. To implement those aspects in the literature review and the questionnaire would go beyond the scope of this thesis. It would be interesting to see whether and how Covid-2019 affected foreign investors and whether there are any differences in its effects for the single sectors.

Furthermore, the thesis sheds light on existing FDIs, describing which country invested in Ukraine the most and in which sectors FDIs are the most representative. It also gives an overview of how FDI inflows have changed over time. However, the thesis does not describe which country “moved” its capital, when and from which sector. This could be a potential topic for future research. It would be interesting to examine why Cyprus happens to be the country which invested the most in Ukraine. As far as the FDI outflow is concerned, it would be of great interest to see whether this really affects the “real” FDI or just Ukrainian companies which have registered in other countries and are now taking the money back.

As mentioned in the chapter “Research Limitations”, even though women and men were asked to participate in the interviews, for some reason all 25 participants were men. An example for further research could be to compare whether foreign investors as women would give the same answers as men and whether gender has an impact on how they experience obstacles and opportunities when it comes to investing outside of their countries.

A further suggestion for future research could be to see whether the opportunities, challenges and risks vary across different regions of Ukraine. It would be very informative to estimate the effects of industry and regional spillover separately.

It could also be possible to expand on the methodologies that were used in this research. This thesis used a qualitative approach, which despite many advantages, does not paint a complete picture. Continuing research could employ the use of a quantitative approach such as a survey to see what statistical significance the topics described in this thesis have. This would enable the findings to be more reproducible. That being said, perhaps more a qualitative approach would be needed in the areas related to the Ukrainian labor force or corruption; this would help understand whether FDI could really help Ukraine to fight corruption and decrease unemployment.

It would also be very intriguing to investigate how different cultures affect the business flow of foreign companies which enter Ukraine (e.g. do Polish companies adapt to the Ukrainian market better than Danish ones?). This would help understand whether there is any correlation between a foreign company’s internal culture and the host country’s culture. Identification of such factors could help policy makers establish their rules and guidelines more specifically and help companies acclimate effectively in Ukraine to achieve faster results.

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RESUMÉ

Občianske vojny, násilie a chudoba na Ukrajine spôsobili za posledných desať rokov niekoľko kríz, ktoré mali negatívny vplyv na hospodárstvo a rozvoj krajiny. Aj keď sa hospodárstvo krajiny po občianskej vojne v roku 2013 zotavilo a ponúka atraktívne stimuly pre zahraničné investície, ako je lacná pracovná sila, rozvinutá infraštruktúra, napr. prístavy, mosty, sklady, komunikačné systémy, atď., rozvoj zahraničných hospodárskych vzťahov, ako aj vytvorenie hospodárskeho modelu orientovaného na vývoz sú stále otázky a stavajú krajinu ďaleko za väčšinu ostatných krajín s transformujúcim sa hospodárstvom. Bolo vypracovaných mnoho štúdií o hospodárskom raste, ktoré sa snažili určiť a vysvetliť faktory, prečo sa krajiny vyvíjajú odlišne. Mnohé z týchto štúdií skúmajú vplyv priamych zahraničných investícií na hospodársky rast a považujú priame zahraničné investície za jeden zo zdrojov stimulácie a ovplyvňovania hospodárstva krajiny prostredníctvom faktorov, ako je transfer technológií, rozvoj medzinárodného obchodu a prispievanie k novým manažérskym postupom.

Vedúci predstavitelia Ukrajiny už mnoho rokov považujú PZI na Ukrajine za kľúč k dosiahnutiu silného hospodárskeho rastu. Rôzne vlády sa pokúšali podporiť investície prostredníctvom rôznych konferencií, na ktorých boli západným investorom prezentované výhody geografickej polohy Ukrajiny v Európe, ako aj možnosti a zákonitosti investovania do vysoko vzdelaného ukrajinského obyvateľstva a prírodných zdrojov.

Napriek tomu mali tieto snahy malý úspech, keďže Ukrajina v posledných piatich rokoch trpela politickou nekonzistentnosťou. Tento faktor sa prejavil v priemernom príleve investícií v roku 2019, ktorý predstavoval približne 2,5 miliardy USD. Na porovnanie, Poľsko, susedná krajina, ktorej počet obyvateľov je porovnateľný, má prílev investícií vo výške takmer 16 miliárd USD.

K nevýhodnému postaveniu Ukrajiny medzi jej susedmi prispieva niekoľko ďalších faktorov, ako je slabý hospodársky rast, nestabilné politické podmienky, neatraktívne daňové opatrenia a slabý trh.

Aby sme pochopili príčiny slabých výsledkov Ukrajiny a predstavili vhodné stratégie na prilákanie priamych zahraničných investícií, je potrebné hlbšie pochopiť okolnosti, ktoré prispeli k týmto výsledkom, analyzovať priaznivé faktory pre priame zahraničné investície a zhodnotiť riziká a príležitosti pre obe strany. Táto dizertačná práca sa zameriava na riešenie týchto otázok a je usporiadaná takto:

Prvá kapitola, teoretický rámec, sa zameriava na analýzu odbornej literatúry a je rozdelená do troch podkapitol. Prvá podkapitola predstavuje prehľad literatúry o priamych zahraničných investíciách. Osvetľuje príslušné teórie PZI, typy PZI a uvádza pozitívne a negatívne vplyvy PZI na krajinu a investorov. V druhej podkapitole sa uvádza prehľad ukrajinského hospodárstva, jeho história, výzvy, riziká a príležitosti. V tretej podkapitole sa uvádzajú priame zahraničné investície a investičné predpisy na Ukrajine, pričom sa sumarizuje pozadie prílevu priamych zahraničných investícií na Ukrajinu v priebehu histórie, ako aj investičné predpisy na Ukrajine vo všeobecnosti.

Cieľ práce je opísaný v druhej kapitole.

Metodológia výskumu, ako aj filozofia, dizajn a nástroje potrebné na zodpovedanie výskumných otázok sú opísané v tretej kapitole.

Štvrtá kapitola, prezentácia zistení, sa zameriava na empirický výskum, ktorý poskytuje nové údaje a konkrétne interpretácie.

V poslednej, piatej kapitole, diskusii, sa zistenia rozoberajú cez prizmu existujúcich štúdií s cieľom zistiť, či sa vzťahujú na prípad Ukrajiny. V tejto kapitole sa tiež uvádza odpoveď na výskumnú otázku, vymenúvajú sa možné obmedzenia štúdie a uvádzajú sa návrhy na dôsledky do budúcnosti.

V závere sú zhrnuté pôvodné ciele, úlohy a hlavné zistenia dizertačnej práce. Ďalej vysvetľuje obmedzenia dizertačnej práce, ako aj jej prínos a uvádza návrhy pre budúci výskum.

Cieľ práce

Hlavným cieľom tejto práce je preskúmať výzvy, riziká a príležitosti, ktorým môže Ukrajina čeliť pri získavaní priamych zahraničných investícií. Cieľom práce je tiež preskúmať riziká a príležitosti pre investorov. Keďže v literatúre existuje množstvo príkladov, ktoré potvrdzujú význam PZI pre rozvoj Ukrajiny (opísaný v teoretickom rámci), cieľom tejto práce je zistiť, čo môže Ukrajina urobiť, aby v budúcnosti prilákala viac PZI.

Na dosiahnutie uvedeného cieľa je vhodné uviesť nasledujúce ciele:

Cieľ 1: opísať a pochopiť teórie priamych zahraničných investícií vo všeobecnosti

Cieľ 2: opísať hospodársku a politickú situáciu na Ukrajine

Cieľ 3: opísať súčasný stav PZI na Ukrajine

Cieľ 4: zistiť výzvy a riziká pre investorov

Cieľ 5: zistiť výzvy a riziká pre krajinu

Cieľ 6: zistiť príležitosti pre investorov

Cieľ 7: zistiť príležitosti pre krajinu

Cieľ 8: zistiť, ako môže Ukrajina odstrániť riziká a poskytnúť strategické riešenia na prilákanie potenciálnych zahraničných investorov

Ďalším dôležitým cieľom štúdie je teoreticky a prakticky prispieť k už existujúcim informáciám.

Keďže táto práca sa zameriava najmä na Ukrajinu, cieľom výskumu je prispieť k literatúre o PZI týkajúcej sa ukrajinského trhu a ukázať, že všeobecné výzvy a príležitosti PZI sú pre každú krajinu iné. Teoretický prínos predstavuje aj skúmanie viacerých aktuálnych otázok a udalostí, ako je napríklad COVID-19. Uvádza sa aj vysvetlenie, prečo je dôležité napredovať a čo Ukrajinu doteraz brzdilo.

Okrem toho je cieľom tohto výskumu vytvoriť podrobný koncepčný rámec, ktorý poskytuje zrozumiteľné vysvetlenie druhu rizík a príležitostí, s ktorými sa investori stretávajú pri vstupe na Ukrajinu. Rámec bude vytvorený na základe analýzy existujúcej literatúry a faktorov, ktoré vyplynú z hĺbkových rozhovorov.

Praktický prínos bude odvodený prostredníctvom skúmania viacerých otázok, ktoré investori zvažujú pred vstupom na ukrajinský trh, keďže z neho vyplynú užitočné politické dôsledky, ktoré ponúknu usmernenia, ako liberalizovať režimy PZI a priaznivé prostredie na prilákanie PZI.

Prostredníctvom dôkladného zhodnotenia existujúcich výziev, rizík a príležitostí pre obe strany, investorov aj Ukrajinu, je cieľom tejto práce preskúmať stratégie na prilákanie priamych zahraničných investícií do krajiny, ktoré následne prispievajú k hospodárskemu rozvoju, sociálnej expanzii a posilneniu hospodárskeho rozvoja krajiny.

Metodológia

Na účely zodpovedania výskumných otázok sa používa kvalitatívna metóda. Hlavným cieľom je uskutočniť širokú škálu rozhovorov s respondentmi, ktorí majú značné znalosti o PZI na Ukrajine a môžu poskytnúť konštruktívnu spätnú väzbu o tom, čo je potrebné zlepšiť.

Ako alternatívna výskumná metóda sa mohol použiť aj dotazník. Pomocou softvéru na prieskum sa mohli poskytnúť rýchle výsledky, čo by ušetrilo čas a energiu. Keďže si však účel tejto štúdie a uvedené výskumné otázky vyžadujú hĺbkovú analýzu kritických otázok, ako vhodnejšie sa javili hĺbkové rozhovory. Ďalším dôvodom, prečo sme sa nerozhodli pre dotazník, je aj to, že dotazník si vyžaduje oslovenie veľkého počtu účastníkov, aby mal dobré zastúpenie, čo predstavuje určité ťažkosti, najmä pokiaľ ide o nábor účastníkov, keďže dostupnosť a prístupnosť účastníka bola problémom už pri nábere na hĺbkové rozhovory. S cieľom maximalizovať čas a účinnosť a vzhľadom na povahu výskumnej otázky sa výskumník sústredil len na kvalitatívny prístup.

Hĺbkové rozhovory umožnili preskúmať hlavné výzvy, riziká a príležitosti pre existujúce PZI a pre krajinu, ako aj získať hlbšie pochopenie toho, čo je potrebné na prilákanie väčšieho počtu investorov v budúcnosti. Hĺbkové rozhovory navyše umožnili diskusiu s respondentom namiesto jednoduchého získavania krátkych, uzavretých odpovedí. Zhang a Wildemuth (2009) podporujú tento druh výskumu, keď uvádzajú, že kvalitatívna analýza údajov poskytuje ucelený pohľad na konkrétnu tému a pomáha kombinovať názory hovoriacich. Táto metóda tiež umožnila obohatiť a skombinovať získané údaje s existujúcou literatúrou, aby sa na konci dosiahli výsledky.

Po uskutočnení rozhovorov je potrebné analyzovať údaje a odpovede hovoriacich.

Účelom analýzy údajov je transformovať zozbierané údaje na pozorovania a zistenia. Zatiaľ čo v kvantitatívnom výskume existuje celý rad štandardizovaných spôsobov analýzy údajov, v kvalitatívnom výskume je situácia odlišná. Aj keď existujú rôzne stratégie analýzy, nie sú stanovené jasné pravidlá, ako by mali údaje v tejto forme výskumu vyzerat' (Mehmetoglu, 2016). Podľa Mehmetoglu (2016) však možno analýzu údajov vykonať v dvoch krokoch, a to spracovaním údajov a ich transformáciou.

Zatiaľ čo spracovanie údajov je založené na kódovaní, indexovaní, triedení a vyhľadávaní údajov, ktoré možno vykonať buď manuálne, alebo pomocou softvérových nástrojov, transformácia údajov sa vykonáva interpretáciou údajov a použitím sekundárnych údajov vopred, aby sa zabezpečila správna interpretácia (Mehmetoglu, 2016). Existuje mnoho rôznych analytických prístupov na spracovanie aj transformáciu údajov.

Analytická časť tejto štúdie je založená na kvalitatívnej obsahovej analýze podľa Mayringa (2010), ktorá je vďaka svojej teórii a metodológii založenej na pravidlách vhodná na vyhodnotenie expertných rozhovorov prezentovaných v tomto výskume.

Mayringova obsahová analýza je užitočná pri sumarizácii veľkých objemov neštruktúrovaných textov s cieľom získať širší obraz. Preto je obsahová analýza metódou vhodnou na vyhodnotenie expertných rozhovorov, ktoré v niektorých prípadoch obsahujú podobné informácie (Mayring, 2010). Mayring rozdeľuje takúto analýzu kvalitatívnych údajov do štyroch fáz: 1) vedenie rozhovorov, 2) prepis rozhovorov 3) kódovanie textov (kategorizácia a zovšeobecnenie obsahu) a 4) interpretácia.

Prvá fáza (vedenie rozhovorov) prebiehala od novembra 2020 do februára 2021. Po ukončení rozhovorov boli zvukové záznamy rozhovorov ručne prepísané slovo po slove, keďže opätovné čítanie rozhovorov prispelo k lepšiemu pochopeniu toho, čo účastníci uviedli. Po prepise nasledovala tretia fáza, t. j. kategorizácia a zovšeobecnenie obsahu. Cieľom tejto fázy je zredukovať materiál na podstatný obsah, vynechať všetky ozdobné výrazy a dosiahnuť konzistentnosť textu. Potom sa obsah zovšeobecnil, t. j. podstatný obsah sa zvýraznil a kategorizoval podľa hlavných tém výskumnej otázky (Mayring, 2010). Podľa Pattona (2015) sa interpretácia javí ako jeden z najdôležitejších krokov, pretože slúži na pochopenie zmyslu zistení, ponúka vysvetlenia a vyvodzuje závery. Tu bola poskytnutá interpretácia údajov s využitím vytvorených kategórií z tretej fázy, t. j. porovnanie a úprava výsledkov získaných z výskumu literatúry (Mayring, 2010).

Výskumná vzorka

Skúmanie súčasných výziev, rizík a príležitostí pre Ukrajinu a priame zahraničné investície, ako aj zisťovanie stratégií, ktoré by Ukrajina mohla použiť na pomoc budúcim alebo súčasným investorom pri vstupe na trh, si vyžaduje stretnutie s vybranými respondentmi, ktorí majú znalosti o tejto téme. Keďže prioritou bol obsah a nie sektory, v ktorých investori pôsobia, boli vybraní respondenti z rôznych sektorov. Táto metóda bola zvolená v súlade s Mackom et al. (2005), ktorý uvádza, že nie je povinné zbierať informácie od každého jednotlivca z rovnakej oblasti alebo hospodárskeho sektora. Preto bolo dôležitejšie nájsť respondentov z rôznych sektorov, ktorí pracujú alebo poznajú proces zahraničných investícií na Ukrajine, bez ohľadu na to, či predstavujú počet obyvateľov alebo počet PZI na ukrajinskom trhu. Táto technika, ktorá sa nazýva "homogénny výber". (Glaser & Strauss, 1967), tiež pomohla výskumníkom viac sa sústrediť na obsah výskumu a znížiť čas a úsilie investované do výskumu.

Dvadsaťpäť respondentov, ktorí sa zúčastnili na rozhovoroch, pracuje v rôznych odvetviach a spoločnostiach a má hlboké znalosti o PZI na Ukrajine. Boli buď zakladateľmi, spoluzakladateľmi alebo podporovali a pracovali v procese investovania na Ukrajine. Respondenti boli vo veku od 30 do 70 rokov. Na zabezpečenie anonymity účastníci používali všeobecné mená, ako napríklad Účastník1, Účastník2 a podobne. Všetkých 25 organizácií nebolo navzájom prepojených a pôsobili v rôznych odvetviach, ako je bankový sektor, maloobchod, médiá, poľnohospodárstvo a poradenstvo.

Cieľom výskumníka bolo uskutočniť 20 až 30 individuálnych rozhovorov. Tento počet vychádzal zo štúdie Brymana (2008), ktorý navrhol, aby minimálny počet rozhovorov bol 20 až 30. Mason (2010) ďalej uvádza rozpätie pre kvalitatívne štúdie založené na rozhovoroch od 1 do 95, pričom priemer je 31 a medián 28. Vzhľadom na to bolo cieľom pokračovať v zhromažďovaní údajov až do dosiahnutia nasýtenia, čo v prípade tejto štúdie znamenalo 25. rozhovor. Vykonanie ďalšieho kola zberu údajov by spôsobilo prekročenie časového rámca určeného na zber údajov.

Respondenti boli vyhľadani prostredníctvom vyhľadávača Google s použitím kľúčových slov, ako napríklad "priame zahraničné investície na Ukrajine", "spoločnosti investujúce na Ukrajine", atď. To pomohlo vytvoriť zoznam zahraničných investorov na Ukrajine, ktorí boli neskôr kontaktovaní prostredníctvom siete LinkedIn. Okrem investorov boli kontaktovaní aj zamestnanci, ktorých pozícia bola uvedená na LinkedIn (napr. "manažér nového trhu", "priamy zahraničný investor", atď.). Kanály sociálnych médií, ako napríklad Facebook, slúžili ako zdroj náboru respondentov. Okrem toho sa vyhľadávanie rozšírilo prostredníctvom kontaktovania organizácií a inkubátorov zahraničných investícií na Ukrajine, ako je Ukraineinvest.com.

Kontakty nájdené na internete boli prostredníctvom e-mailu alebo LinkedInu požiadané o účasť na rozhovore. Správy obsahovali stručný opis projektu a výskumných otázok a osobnú motiváciu pre výskum tejto témy. Respondenti boli vyzvaní, aby dobrovoľne prispeli do rozhovoru a neboli nijako nútení ani manipulovaní k účasti na procese.

Rozhovory sa začali koncom novembra 2019 a trvali do konca februára 2021. Prebiehali najmä na mieste, ale príležitostne sa uskutočňovali aj cez Skype. Každý rozhovor trval od 30 do 60 minút. Rozhovory sa viedli v angličtine alebo na žiadosť respondenta v ruštine alebo ukrajinčine a neskôr boli preložené do angličtiny.

Pred začatím rozhovorov boli respondenti požiadaní o súhlas so zvukovým záznamom rozhovoru. V záujme zabezpečenia dôvernosti boli účastníci požiadaní o súhlas s použitím názvu ich organizácie v tomto výskume.

Každý z rozhovorov sa uskutočnil individuálne, aby sa predišlo akejkolvek zaujatosti. Na účely porovnania boli každému z respondentov položené rovnaké otázky.

Počas rozhovoru bolo dôležité ponechať otázky otvorené, aby mal respondent možnosť vyjadriť svoj názor široko a obsérne. Okrem toho sa použila smernica pre rozhovor, ktorá pomohla udržať zameranie na tému výskumu, ale zároveň umožnila, aby sa počas rozhovorov objavili súvisiace a zaujímavé prvky. Úvod sa začal stručným predstavením témy dizertačnej práce a výskumných otázok. Po úvode bol respondent požiadaný, aby sa predstavil, ako aj svoju pozíciu v rámci organizácie.

Druhá časť rozhovoru sa sústredila na ich investičné aktivity na Ukrajine, výzvy, riziká a príležitosti, ktoré mali pri vstupe na ukrajinský trh. Ďalej boli požiadaní, aby uviedli, čo podľa ich názoru pomohlo Ukrajine alebo bolo výhodné pre Ukrajinu ako hostiteľskú krajinu. Inými slovami, boli požiadaní, aby vysvetlili, ako podľa nich ich investície pomohli ukrajinskému hospodárstvu. Ďalšia dôležitá časť dotazníka sa sústredila na stratégie a na to, čo podľa ich názoru Ukrajina ako krajina mohla alebo môže urobiť, aby v budúcnosti poskytla zahraničným investorom priateľskejšie prostredie. Otázky položené v rozhovoroch sú uvedené v prílohe.

Počas rozhovoru sa používalo parafrázovanie s cieľom skontrolovať, či boli informácie správne pochopené, aby sa predišlo prípadným nedorozumeniam alebo nezrovnalostiam. Napriek tomu, že respondenti boli k dispozícii aj po rozhovore na ďalšie otázky, dodatočné rozhovory sa neuskutočnili.

Všetkých 25 rozhovorov bolo nahraných na audiokazetu a neskôr prepísaných, aby sa umožnilo potrebné kódovanie a vyhodnotenie.

Výsledky práce

Na zodpovedanie výskumnej otázky mala práca osem rôznych cieľov, ktoré pomohli zachovať súdržnosť a strategický prístup k zodpovedaniu výskumnej otázky.

Cieľom 1 bolo zhrnúť hlavné teórie priamych zahraničných investícií. Táto dizertačná práca sa sústredila na tie najfrekvencovanejšie, ktoré zároveň predstavujú hlavné motivačné faktory investícií nadnárodných podnikov v cudzej krajine. Patrí medzi ne teória výrobného

cyklu, teória dokonalého kapitálu alebo devízového trhu, teória internacionalizácie a eklektická paradigma.

Teória životného cyklu výrobku (PLC) pozostáva zo štyroch fáz: zavedenie (výrobok sa uvádza na domáci trh), rast výrobku, zrelosť a napokon úpadok (výrobok sa musí vyradiť zo zásob). Keď výrobok dosiahne tretie štádium, zrelosť, spoločnosti začnú hľadať ďalšie možnosti propagácie výrobku, zvyčajne investovaním v inej krajine. Keďže náklady sú tu dôležitým faktorom, podniky sa väčšinou zaujímajú o rozvojové krajiny, kde sú náklady na výrobok, zamestnanosť a výrobu celkovo nižšie ako v ich domovskej krajine.

Teória devízového trhu uvádza, že krajiny so slabšou menou priťahujú viac PZI, pretože výrobné materiály nakupované v hostiteľskej krajine sú v porovnaní s domácou krajinou lacnejšie. Toto tvrdenie však možno uplatniť len v prípade rozvojovej krajiny. Investíciu uskutočnenú medzi dvoma rozvinutými krajinami, kde majú obe meny rovnakú silu, takáto teória nemôže podporiť.

Teória internacionalizácie uvádza, že medzinárodné spoločnosti investujú v rozvojovej krajine z dvoch dôvodov: aby znížili konkurenciu a aby využili špecifické výhody spoločnosti. Aj keď premiestnenie svojich aktivít na medzinárodný trh môže mať nevýhody a je spojené s dodatočnými nákladmi, nadnárodné spoločnosti vidia príležitosť v tom, že sa o trh nedelia so svojimi konkurentmi a využívajú nedokonalosti trhu vo svoj prospech.

Eklektická paradigma berie do úvahy tri aspekty: výhody vlastníctva, výhody umiestnenia a internacionalizáciu, ktorá je v literatúre známa aj ako teória OLI.

Cieľ 2 mal za úlohu opísať a analyzovať hospodársku a politickú situáciu na Ukrajine s cieľom pochopiť, prečo sa Ukrajina nachádza v pozícii, v akej sa v súčasnosti nachádza, pokiaľ ide o prilákanie priamych zahraničných investícií.

História Ukrajiny, ako aj vysvetlenie, prečo sa Ukrajina nachádza v ekonomickej situácii, v ktorej sa momentálne nachádza, siaha do roku 1917, keď bola Ukrajina súčasťou Sovietskeho zväzu a bola ovplyvnená boľševickou revolúciou a politikou a reformami Jozefa Stalina. Počas niekoľkých posledných desaťročí Ukrajina zažila mnoho vojen a reštrukturalizačných reforiem, ktoré vytvorili nestabilnú situáciu v krajine. Hoci v roku 1991 získala Ukrajina nezávislosť, stále je závislá od ruských zariadení, ako sú dodávky energie, čo spôsobilo, že ukrajinské hospodárstvo je zraniteľné voči vonkajším šokom z dôvodu chýbajúcich významných štrukturálnych reforiem.

Vonkajšie inštitúcie, ako napríklad MMF, nabádali Ukrajinu, aby stanovila opatrenia a rozsah reforiem na podporu hospodárskeho rastu. Reformy sa týkali boja proti korupcii, rozvoja kapitálových trhov a zlepšenia legislatívneho rámca.

Udržanie reforiem, ktoré sa podarilo uviesť do platnosti, bolo ťažké, ak nie nemožné, v dôsledku oranžovej revolúcie, neustálej výmeny prezidenta a neskôr vojny vo východnej časti Ukrajiny. Táto nestabilita bola hlavným dôvodom, ktorý odrádzal priame zahraničné investície.

Úlohou cieľa 3 bolo analyzovať súčasný stav priamych zahraničných investícií na Ukrajine a ukázať, že napriek niektorým právnym a korupčným problémom zostáva Ukrajina atraktívnou investičnou destináciou vďaka svojmu veľkému vnútornému trhu, osvedčenému poľnohospodárskemu potenciálu, energetickým a nerastným zdrojom. Niekoľko vládnych reforiem viedlo k tomu, že Ukrajina poskočila na 64. miesto v rebríčku "Doing Business Index" Svetovej banky. Reformy sa týkali oblastí, ako sú reformy súdnictva, vymožitelnosť práva, boj proti korupcii, trh s poľnohospodárskou pôdou, zdravotníctvo a decentralizácia.

Analýza investorov podľa krajiny, z ktorej pochádza ich podnikanie, ukázala, že najväčším investorom na Ukrajine je Cyprus, za ktorým nasleduje Holandsko a Ruská federácia. Štúdia najvýnosnejších investičných odvetví ukázala, že hlavnými sektormi zahraničných investícií sú: finančníctvo a poisťovníctvo, veľkoobchod a maloobchod, nehnuteľnosti a spracovateľský priemysel. Empirická štúdia tiež odhalila, že ukrajinský sektor informačných technológií je pre investorov čoraz dôležitejší a za posledných pätnásť rokov zaznamenal obrovský rast.

Aj keď Ukrajina mohla v posledných štvrtrokoch preukázať určitý pokrok v hospodárskej a politickej oblasti, skutočnosť, že Ukrajina sa v súčasnosti nachádza v prechodnom období, stále vytvára určité prekážky, výzvy a riziká pre zahraničných investorov a vnútornú ekonomiku.

Cieľom 4 bolo zhrnúť výzvy a riziká, s ktorými sa investori stretávajú pri vstupe na Ukrajinu, a zároveň odpovedať na prvú časť výskumnej otázky.

Zistenia ukázali, že hlavné výzvy investorov stále spočívajú v nestabilnom prostredí právneho rámca. Vzhľadom na to, že hospodárska a politická situácia na Ukrajine sa neustále mení, je ťažké prispôbiť sa pravidlám, pretože sa menia skôr, ako sa s nimi investori oboznámia. To spôsobuje, že situácia je veľmi nepredvídateľná a stavia investorov do rizikovej pozície, čo môže viesť k dodatočným nákladom (napr. súdnym).

Takisto korupcia zostáva pre väčšinu investorov náročným faktorom, aj keď nie všetky štúdie s touto skutočnosťou súhlasia.

Účinnosť pri poskytovaní vlastníckych práv je tiež otázná. Investori sa tiež sťažujú na zložité a často nejednoznačné legislatívne procesy.

Celková politická nestabilita, ako aj pokračujúca vojna vo východnej časti Ukrajiny nezlepšujú investičné prostredie a naďalej predstavujú hlavné riziká pre súčasných a potenciálnych investorov. Aj keď je vojnová zóna na Ukrajine obmedzená na konkrétny región, táto skutočnosť stále bráni niektorým investorom vybrať si Ukrajinu ako cieľovú krajinu.

Ďalšou veľkou výzvou pre Ukrajinu ako investičnú destináciu je skutočnosť, že mnohé podniky a niekedy aj celé odvetvia ukrajinského hospodárstva a elektronické masmédiá sú pod kontrolou alebo vplyvom skupiny oligarchov. To mnohým investorom sťažuje vstup do určitých častí hospodárstva bez toho, aby mali vhodnú sieť kontaktov.

Skutočnosť, že niektoré legislatívne dokumenty a investičné pravidlá sú v angličtine, predstavuje pre investorov ďalšiu záťaž, keďže musia investovať do prekladateľov.

Jazyk a ukrajinská kultúra a mentalita sa ukázali byť ďalšou výzvou pre investorov, keďže niektoré pravidlá alebo spôsoby podnikania sa líšia od pravidiel a spôsobov podnikania v iných európskych krajinách. S nedostatočným pochopením miestnej kultúry a jej obyvateľov súvisia aj otázky dôvery.

Cieľ 5 bol zameraný na zdôraznenie výziev a rizík pre krajinu a poskytol odpoveď na druhú časť výskumnej otázky. Táto štúdia ukázala, že väčšina investorov nespája žiadne riziká s Ukrajinou a prilákaním ďalších priamych zahraničných investícií v budúcnosti.

Možné riziko PZI pre Ukrajinu by mohlo zahŕňať zhoršovanie životného prostredia, keďže hostiteľské krajiny väčšinou nemajú žiadnu environmentálnu politiku alebo má len slabú úroveň. V dôsledku toho by medzinárodné spoločnosti mohli využiť slabé predpisy a zriadiť v krajinách výrobné zariadenia, ktoré zvýšia produkciu, a tým aj úroveň znečistenia. Vzhľadom na skutočnosť, že Ukrajina nemá takú vysokú úroveň priamych zahraničných investícií, však zistenia ukázali, že toto riziko nie je relevantné.

Ďalší účastníci diskutovali aj o možnom riziku pre Ukrajinu, a to o monopolizácii. Keď sa nadnárodné spoločnosti presťahujú do rozvojovej krajiny, zvyčajne ponúkajú lepšie mzdy, efektívne výrobné procesy a lepšie know-how. Pre domáce spoločnosti je tak náročné udržať krok s konkurenciou. V dôsledku toho strácajú na podnikaní, čo umožňuje nadnárodným spoločnostiam získať monopolné postavenie.

Ďalším možným rizikom pre Ukrajinu môže byť zníženie produktivity miestnych organizácií, keďže MNC sú zvyčajne schopné vyrábať svoj tovar s nižšími nákladmi, čo domáce firmy nedokážu, a tým ich nútia opustiť miestny trh.

Ďalším možným rizikom, na ktoré poukázali účastníci, bolo riziko stiahnutia priamych zahraničných investícií. Vzhľadom na to, že PZI zohrávajú dôležitú úlohu na trhu práce, hostiteľská krajina sa stáva vysoko závislou od technológie náročnej na pracovnú silu. Akonáhle MNC nájdu atraktívnejšiu krajinu, v ktorej môžu ďalej znižovať svoje výrobné náklady, s najväčšou pravdepodobnosťou presunú svoju základňu do tejto krajiny. Preto vždy pretrváva obava z nezamestnanosti v dôsledku stiahnutia PZI.

Časom môže dôjsť k určitému politickému alebo sociálnemu napätiu z obavy, že zahraniční investori vytlačia domáce firmy, čo by viedlo k vyššej nezamestnanosti. O týchto obavách sa však počas rozhovorov hovorilo len teoreticky, keďže objem prílevu PZI nie je na Ukrajine taký vysoký.

Napriek tomu je okrem týchto problémov dôležité zdôrazniť, že Ukrajina v skutočnosti poskytuje veľa príležitostí pre existujúcich a budúcich priamych zahraničných investorov. Otázka o príležitostiach, ktoré by mohli investori využiť pri investovaní na Ukrajine, bola cieľom číslo 6.

Jednou z hlavných výhod pre investorov pri investovaní na Ukrajine je skutočnosť, že krajina má centrálnu polohu a ponúka investorom možnosť ľahko obchodovať s Ruskom a Áziou na jednej strane a Európskou úniou na strane druhej. Jej centrálna poloha a prístup k rôznym obchodným trasám, Čiernemu moru a ďalším prístavam a železniciam sú pre investorov výhodou.

Veľkosť ukrajinského trhu je ďalšou príležitosťou pre budúce investície. S viac ako 48 miliónmi obyvateľov predstavuje Ukrajina najväčší rozvíjajúci sa trh v Európe, ktorý poskytuje širokú škálu nedostatočne objavených príležitostí a sektorov, ktoré na ukrajinskom trhu doteraz neboli.

Keďže Ukrajina prechádza seizmickou demokratickou a hospodárskou transformáciou, má väčší záujem o spojenie s globálnymi spoločnosťami ako väčšina ostatných krajín. Ukrajina je otvorenou krajinou a zavádza nové stimuly alebo pravidlá, aby zlepšila svoj imidž medzi budúcimi investormi.

Vzhľadom na vysokú kúpnu silu Ukrajiny sú zahraniční investori priťahovaní touto konkurencieschopnou nízko nákladovou destináciou. Týka sa to nielen nákladov na pracovnú silu, ale aj na suroviny a výrobné náklady vrátane elektrickej energie, vody, atď.

Zo svojich investícií na Ukrajine profitujú nielen investori, ale aj Ukrajina ako hostiteľská krajina môže v budúcnosti vo veľkej miere profitovať z prilákania väčšieho počtu priamych zahraničných investícií. To bol cieľ číslo 7.

Priame zahraničné investície sú pre všetky transformujúce sa krajiny vrátane Ukrajiny veľmi atraktívne, pretože sú príslubom hospodárskeho rastu, ktorý by sa nedal dosiahnuť domácimi aktivitami.

Hospodársky rozvoj Ukrajiny by sa mohol dosiahnuť najmä tým, že zahraničné spoločnosti vytvárajú nové pracovné miesta a viac príležitostí, keďže niekedy budujú nové spoločnosti. To môže viesť k zvýšeniu príjmov a vyššej kúpnej sile miestnych obyvateľov, čo následne vedie k celkovému oživeniu hospodárstva. Okrem toho prispievajú k celkovému rozvoju ľudského kapitálu, keďže zvyčajne poskytujú dodatočné školenia pre zamestnancov - osvedčené postupy sa potom môžu odovzdávať ďalším spoločnostiam.

Zahraniční investori tiež poskytujú spoločnosti hostiteľskej krajiny prístup k novým odborným znalostiam v oblasti riadenia a technológií, čo môže tiež podporiť inovácie v krajine. Okrem toho poskytujú širšiu škálu tovarov a služieb, ktoré predtým neboli v krajine dostupné.

Čím viac zahraničných investorov krajina má, tým vyššia je konkurencia v krajine, čo opäť zlepšuje ekonomiku na domácom trhu. Ukrajine to tiež dáva možnosť zapojiť sa do medzinárodnej ekonomiky a vybudovať si vlastnú medzinárodnú sieť, ktorá je potrebná na dosiahnutie globálneho úspechu.

Čisté prínosy z PZI však nevznikajú automaticky a ich význam sa líši v závislosti od hostiteľskej krajiny a rôznych podmienok. V prípade Ukrajiny je potrebné prijať niekoľko opatrení, aby bolo možné naplno využívať príležitosti a výhody PZI.

To bol aj posledný cieľ tejto práce, ktorý dáva odpoveď na poslednú časť výskumnej otázky: ako môže Ukrajina eliminovať riziká a poskytnúť strategické riešenia na prilákanie potenciálnych zahraničných investorov.

Hoci mnohé opatrenia už vstúpili do platnosti, zlepšenie právneho a súdneho systému a účinnejšia ochrana pred korupciou sú pre zahraničných investorov stále potrebné a dôležité. Za veľmi dôležitý determinant sa považovala aj infraštruktúra v krajine, ktorú je tiež potrebné zohľadniť.

Pri získavaní nových potenciálnych investorov je potrebné poskytnúť konzistentné posolstvo zamerané na správne publikum v správnej forme.

Posolstvo by malo pozostávať z cielených informácií o potenciálnych obchodných príležitostiach v každom regióne a v každom odvetví Ukrajiny. Okrem toho je potrebné zdôrazniť, že oblasť konfliktu sa týka len veľmi malej časti Ukrajiny a nemá vplyv na podnikanie v celej krajine. Táto skutočnosť by sa mala propagovať aj v médiách, aby sa zabezpečilo, že správna informácia sa dostane k správnej publiku.

Nemalo by sa zabúdať ani na skutočnosť, že existujúci investori na Ukrajine môžu podporovať pozitívny obraz krajiny, a preto je dôležité postarať sa aj o nich. Vytvorenie sietí, komunikačných platforiem a nezávislých organizácií, v ktorých by si existujúci investori mohli vymieňať informácie s potenciálnymi, by im mohlo poskytnúť obrovskú podporu.

Na záver možno konštatovať, že priame zahraničné investície sa ukázali ako dôležitý faktor pri dosahovaní hospodárskeho rastu na Ukrajine a priblížení krajiny k Európskej únii. Preto je dôležité preskúmať existujúce politiky, ich nedostatky a hľadať nové spôsoby zvýšenia prílevu zahraničných investícií na Ukrajine s cieľom zabezpečiť dlhodobý hospodársky rast v budúcnosti.

Záver

Vo verejnej diskusii je zrejmý význam priamych zahraničných investícií na Ukrajine, pretože stimulujú hospodársky rast. Zároveň sa menej pozornosti venovalo informáciám o aktuálnej situácii v oblasti priamych zahraničných investícií v krajine, ich výzvach a príležitostiach. Cieľom tohto článku bolo vyplniť tieto medzery empirickou analýzou oboch otázok.

Táto štúdia presvedčivo ukazuje, že PZI skutočne zohrávajú v ukrajinskej ekonomike dôležitú úlohu. Hoci od zmeny prezidenta v apríli 2019 prílev PZI vzrástol, niektorí investori stiahli mnohé svoje aktíva z dôvodu pretrvávajúceho konfliktu s Ruskom a s ním spojených politických a právnych rizík.

Okrem politickej nestability respondenti poukázali na základnú neefektívnosť a korupciu v súdnom systéme ako na jednu z hlavných výziev pre investorov. Za ďalšie vážne prekážky sa považuje aj zložitosť a nezosúladenie s predpismi EÚ.

Napriek byrokracii a právnym problémom zostáva Ukrajina stále atraktívnou investičnou destináciou z viacerých dôvodov: jej poloha v srdci Európy, veľký domáci trh, poľnohospodársky potenciál a otvorenosť podnikania. Okrem toho jej vysoký počet

vzdelaných inžinierov naďalej každoročne priťahuje high-tech podniky v sektore start-upov.

Je nevyhnutné zdôrazniť, že za posledné dva roky krajina dosiahla významný pokrok, pokiaľ ide o investičné prostredie, vďaka čomu sa dostala na 71. miesto indexu Svetovej banky Doing Business (zo 190 ekonomík). Kľúčom k tomu, aby sa Ukrajina stala úspešnou krajinou so silnou ekonomikou, je naďalej zlepšovať jej ekonomickú pozíciu. Krajina má stále veľký dopyt po rozvoji infraštruktúry, a to v legislatívnom (konzistentnosť a transparentnosť práva) aj materiálnom rozmere (prístavy, mosty, cesty). Keďže priame zahraničné investície sú súčasťou ekonomického systému, ktorý stimuluje hospodársky rast, je potrebné nielen realizovať uvedené opatrenia, ale aj monitorovať ich a zabezpečiť, aby boli vykonávané profesionálnym spôsobom, čo je nevyhnutné na zabezpečenie bezpečnej základne pre dlhodobé investičné vzťahy.

Diskusie o vplyve a význame priamych zahraničných investícií na Ukrajine budú zohrávať hlavnú úlohu aj v budúcnosti. Táto práca poukázala na existenciu nedostatku úplného pochopenia, pokiaľ ide o vplyv a realizovateľné stratégie na Ukrajine. Budúci výskum by mohol preskúmať konkrétny vzťah medzi PZI na Ukrajine v rámci rôznych odvetví a jej hospodárskym rastom. Pochopenie rôznych názorov môže poskytnúť lepší pohľad na pochopenie ekonomiky a malo by pomôcť vláde vymyslieť nové spôsoby riadenia a podpory existujúcich PZI, ako aj prilákania potenciálnych PZI v budúcnosti.