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Цифрові трансформації та інноваційні технології в економіці: виклики, реалії, стратегії

**Digital Transformations and innovative technologies in the
economy: challenges, realities, strategies**

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Для науковців, науковців, студентів, аспірантів, представників бізнесу та громадських організацій і вищих навчальних закладів та широкого кола читачів.

The materials of the International scientific and practical conference "Digital transport and innovative technologies in the economy: challenges, realities, strategies" provide the results of scientific research focused on the search for a systematic solution to multidisciplinary problems in the field of electronic business and technological innovations, digital transformation of educational systems, the introduction of innovative technologies in financial sector. .

For scientists, researchers, students, postgraduates, representatives of business and public organizations and higher education institutions and a wide range of readers.

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ANALYSIS OF FACTORS INFLUENCING FOREIGN DIRECT INVESTMENT IN UKRAINE

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This abstract describes the relevance of the topic, results of dependence of foreign direct investment inflows on factors of influence in the context of Ukraine and the issue of foreign direct investments (FDI).

In today's world, FDI play an important role for Ukraine, as they not only transfer technology and capital, but also determine the dynamics, depth of economic growth and show the speed of economic ecosystem transformation at the national and global levels. Since Ukraine is currently at the stage of war with Russia, after its completion, Ukraine will have a unique opportunity for transformation and a chance to become a competitive state on the European continent. In order to implement it, one of the factors is, among other things, the attractiveness of foreign direct investment, which will be one of the main drivers of economic recovery and development after war. So, it was decided to conduct a comprehensive analysis of foreign direct investment in Ukraine.

Foreign direct investment is a category of cross-border investment in which a resident investor in one economy shows long-term interest and a significant degree of influence on the enterprise in the financial or nonfinancial sectors of the economy located in another economy[6]. FDI is divided into several types: by investor specialization, by invested capital, in terms of time and by ownership[5].

The biggest problem in writing a bachelor's thesis was the inaccessibility of relevant data on the factors influencing FDI inflows, which will be focused specifically on Ukraine. Therefore, the inflows of FDI to Ukraine were analyzed on the basis of determinants, the effectiveness of which was proven in the works of foreign leading scientists on the example of other countries.

Among the factors influencing FDI inflows were the following:

1. Market volume: the higher the indicator, the more effective investment in a country[8];
2. Regional trade agreements: new free trade areas can sometimes have negative effects in terms of attracting investment because new international trade relations lead to an increase in trade due to comparative advantages and an increase in cross-border investment, but to a decrease in the inflow of FDI between the countries participating in the agreement[7];

3. Exchange rate: the exchange rate plays an important role because fluctuations allow foreign investors to buy another country's assets and technology cheaply when its currency is weak [3];
4. Labor costs: labor as one of the production factors affects the overall costs of the enterprise, so it is beneficial to have a skilled workforce at low wages;
5. Institutional component: investors are interested in the transparency of the rules of the state in which they want to invest, so less regulation, confidence in protecting their rights influence the investor's decision[1];
6. Other factors (corruption, living standards, technology and human potential): it has been proven that the higher the standard of living, the more profitable to invest in, because then the population is happier and more motivated, which means that people will work more productively [4].

In order to create a model of dependence and analyze the impact of each of the factors, some of them need to be displayed in numerical format, that's why the following indicators were set (see table 1).

Table 1 - Factors influencing FDI inflows and their corresponding numerical indicators

Factor influencing FDI	Relevant indicator
Market volume	the level of nominal GDP of Ukraine
Impact of the regional trade agreement	changes in the volume of trade between Ukraine and the EU after the creation of a free trade area in 2016
Exchange rate	exchange rate of hryvnia to dollar
Labor costs	average salary
Institutional component	World Justice Project (WJP) Rule of Law Index and
The level of corruption	Transparency International Corruption Perceptions Index
Indicator of living standards and human potential	human development index

Source: formed by the authors

The next step was a brief analysis of the dynamics of FDI inflows to Ukraine since 2010. An analysis of FDI in Figure 1 shows that during 2010-2012, FDI inflows have increased from year to year. In our opinion, one of the reasons for this trend was the holding of the football tournament of the European Championship "Euro-2012", the requirements of which stimulated investment in Ukraine.

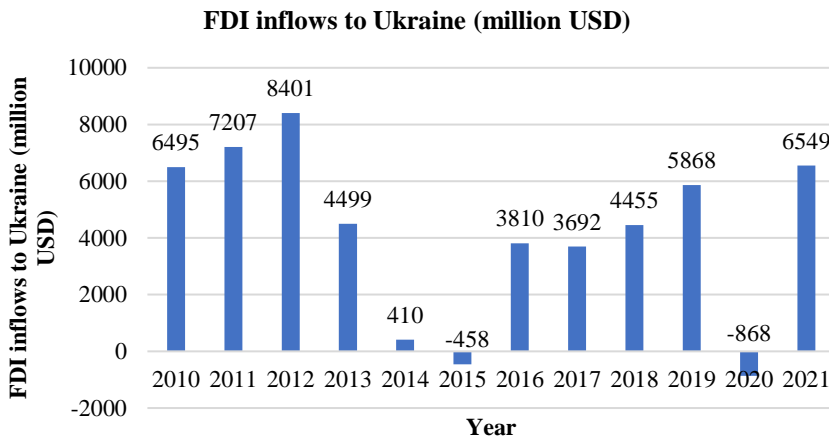


Figure 1 - FDI inflows to Ukraine during the period 2010-2021. Source:

[2]

After that, due to the unstable political situation, the refusal to sign the Association Agreement with the EU, the outbreak of the armed conflict in the Donbas and the occupation of Crimea, FDI inflows fell sharply to almost zero, and in 2015 was generally negative, due to the withdrawal of reinvested income. Since 2016, after the signing of the Association Agreement with the EU, the start of implementation of structural reforms in all areas, including judicial and financial, which led to an increase in the rule of law index, foreign direct investment inflows to Ukraine have shown positive dynamics from year to year, reaching in 2019 over \$5.8 billion annually.

In 2020, a negative FDI inflow was recorded due to the withdrawal of reinvested income and part of the equity from companies by foreign investors. Most likely, the reason for this was due to the Covid-19 pandemic and its economic consequences for states, companies and citizens of the world. In 2021, FDI inflows again dramatically increased, reaching over \$6.5 billion.

Then, a regression analysis was performed for each of the influencing factors and the coefficients of determination were calculated as well. According to the results, the WJP rule of law index, GDP and the US dollar exchange rate have an average direct correlation on the inflow of FDI to Ukraine.

Regarding the impact of the regional trade agreement between Ukraine and the EU on the inflow of FDI to Ukraine, this dependence was the strongest. It should be emphasized that the regional trade agreement negatively affects the inflow of FDI into Ukraine, that is, the more exports and imports between Ukraine

and the states of the European Union, the smaller the inflow of FDI between them, which is confirmed by one of the theories of international investment.

Regarding the influence of the corruption perceptions index and the human development index, these two values did not confirm the theory, but rather showed a negative impact on FDI inflows. It can be assumed that this situation arose due to the fact that after the signing of the association agreement in 2014, more important indicators appeared for investors, such as the low labor cost in Ukraine (a positive effect) and the unstable political situation and the anti-terrorist operation in Donbas, which escalated into a full-scale war with the Russia(negative factors).

In terms of the size of the average wage, the change in this indicator did not play a significant role in FDI inflows to the state, however, this can be explained by the fact that despite a small increase in the average wage, the income of Ukrainians still remains much lower compared to other European countries.

For further research on this topic, it will be useful to estimate the impact of corruption indicators on the inflow of foreign direct investment to Ukraine, as well as the impact of the human development of Ukrainians on the attractiveness of investments in the state. Also, it would be effectively to evaluate how important labor costs are in attracting investment to Ukraine.

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