



MANAGING THE ECONOMY'S INVESTMENT ATTRACTIVENESS OF THE STATE AS A COMPONENT OF INTERNATIONAL BUSINESS DEVELOPMENT

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ABSTRACT

The article is devoted to the management of the investment attractiveness of the state economy as a component of the development of international business. The investment attractiveness of Ukraine is considered. It is shown that the analysis of investment attractiveness is advisable to carry out by region, which can be both geographically integrated regions and industrial units. The main factors affecting the investment attractiveness of the region were identified, among which one of the leading places is infrastructure. A methodology for measuring the investment

attractiveness of the region was proposed and tested in 6 regional regions, as well as measures aimed at increasing investment attractiveness were proposed.

Key words: Attractiveness, Development, Economy, International Business, Public Administration, Region, State

Cite this Article: Lidiia Shynkaruk, Larysa Ivanchenkova, Iryna Kychko, Olga Kartashova, Yurii Melnyk and Tetiana Ovcharenko, Managing the Economy's Investment Attractiveness of the State as a Component of International Business Development. *International Journal of Management*, 11 (5), 2020, pp. 240-251.
<http://www.iaeme.com/IJM/issues.asp?JType=IJM&VType=11&IType=5>

1. INTRODUCTION

Socioeconomic development of Ukraine directly depends on the creation of a favourable investment climate, as an investment is one of the most important elements on which the economy and welfare of the state, the development of production, entrepreneurship and business are based.

The heterogeneity of Ukraine's investment space is one of the features of its economy. High investment attractiveness is a key factor in increasing the country's competitiveness, ensuring high and sustainable economic growth. The problem of forming a stable investment climate, expanding the functions of the state in ensuring the inflow of investments into the Ukrainian economy and their rational use is extremely relevant and important. One of the key tasks facing the Ukrainian authorities now is to increase the state's investment attractiveness.

The study of these issues remains a rather important area of research in the writings of economists, representatives of various times and scientific schools [6-9]. In this case, one of the key places in the development of economic systems is an investment, despite the fact that this concept is multifaceted and has different contents depending on the context of use. A.G. Granberg pointed out that the similarity of the region and the national economy determines the possibility of applying macroeconomic theories to the region [5]. Regardless of the macroeconomic direction, this indicator, combined with savings, plays a huge role in these economic exercises. Ultimately, the dynamics of investments, the ratio of investments and savings, or, in other words, the state of the regional investment process, determine the achievement of macroeconomic equilibrium, as well as, what is much more important in the author's opinion, the long-term economic growth of the region and its further development.

Currently, it has become recognized by many that it is the development of regions that can lead to the launch of a "push effect" for the economic growth of the national economy as a whole.

High investment attractiveness is the main factor in increasing the competitiveness of the region, ensuring high and sustainable rates of socioeconomic growth. Attracting investment is one of the main problems of modern society.

2. INDEX OF INVESTMENT ATTRACTIVENESS OF UKRAINE

The investment attractiveness of Ukraine, without a doubt, is one of the top topics of theoretical and practical nature, because it largely depends on the intensity of its development, as well as the industry direction [6-8]. Under conditions of fierce competition of countries for investment resources, the means of increasing their attractiveness are diversifying [9-10]. Of course, each country has a different starting point, due to the presence of favourable or unfavourable geographical location, certain types of natural labour resources.

Determining the level of investment attractiveness of a country is based on the interpretation of the essence of this category as a set of various factors that characterize the feasibility of investing in a particular country. During the years of independence, Ukraine, whose economy was the leader among the economies of the former Soviet republics in terms of key macroeconomic indicators, has significantly lost its position and deteriorated its investment attractiveness.

According to the results of the new wave of the survey for the second half of 2019, the Index was 2.95 points out of 5 possible and continues to be in the negative plane (Fig. 1).

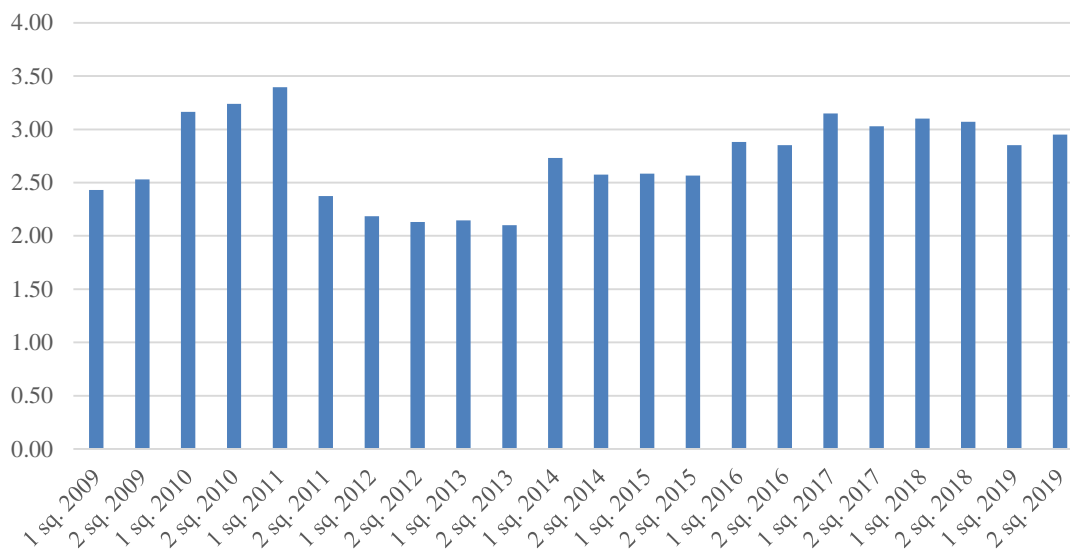


Figure 1 Index of investment attractiveness of Ukraine [11]

Although compared to the previous period, the Index increased slightly (2.85 in the first half of 2019) [11]. The mood of the CEOs of EBA member companies continues to fluctuate. Thus, 39% of respondents believe that the investment climate is neutral, while 37% believe that it is rather unfavourable, and another 7% – extremely unfavourable. And only 17% of top managers positively assessed the business environment. For comparison, during the previous wave of the survey, 19% were satisfied with the business climate, and at the end of 2018 – 25%. Business assessments of the dynamics of the investment climate turned out to be quite contradictory. Almost half of the respondents (46%) have not experienced changes in the investment climate in the last 6 months, another 28% of respondents have noticed some changes for the better, and 26% are convinced that the business climate has deteriorated. Among the positive moments observed by the business over the past six months, businessmen noted the gradual stabilization of the political situation, the start of land market reform, stable national currency, reform of the Tax and Customs Services, the launch of the concession mechanism, the launch of the Supreme Anti-Corruption Court, lower inflation and abolish repatriation limits dividends, a gradual increase in the purchasing power of citizens. Top problems are traditionally high levels of corruption, a weak judiciary, and an outflow of labour, talent, and capital. Entrepreneurs also complain about hasty and unsystematic work on tax changes, slow debureaucratization of business processes, the situation around the National Bank and pressure from law enforcement agencies, slow modernization of infrastructure, potential disruption of cooperation with the IMF, turbo regime of the new government and populism.

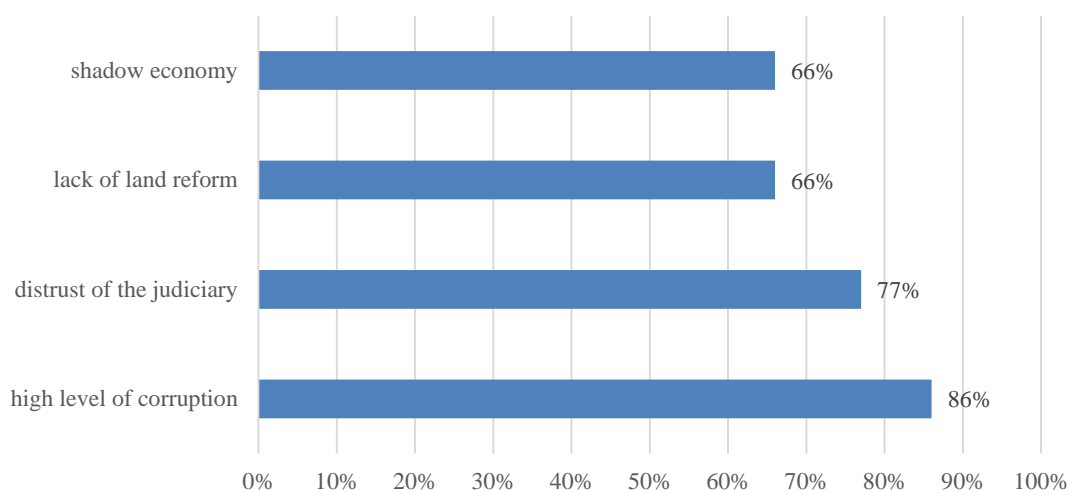


Figure 2 Most unsatisfying factors for investors

However, despite the negative assessment of the current situation in the country, the business remains optimistic about the future. Thus, 41% of directors expect that the investment climate will improve slightly over the next six months, although 53% are hesitant whether Ukraine will be a profitable market for new investors [12].

3. THEORETICAL ASPECTS OF THE ANALYSIS OF THE INVESTMENT ATTRACTIVENESS OF A STATE

An analysis of the investment attractiveness of a country is more appropriate not to be carried out as a whole, but for individual sectors/regions. This will expand the circle of potential investors, as it will be possible for everyone to make an economically advantageous offer for him. Analysis of the investment attractiveness of the regions is carried out according to the following indicators:

- the level of general economic development (the region's share in GDP and national income, industrial output per capita, food self-sufficiency, average wages of workers, etc.);
- the degree of development of infrastructure (the presence of construction organizations, energy resources, transport links, etc.);
- demographic situation (proportion of residents, the share of the urban and rural population, qualifications of workers, etc.);
- development of market relations and commercial activities (the number of privatized enterprises, the number of banking institutions, insurance companies, etc.);
- criminogenic, environmental and other risks (crime rate, presence of enterprises with harmful emissions, radiation background, etc.).

The above indicators are private, including a set of individual analytical indicators, combined together using the coefficients of weight (significance).

"Region" in this context is not a territorial unit. A "region" can be a combination of several regions or investment zones. One of the most important problems restraining the development of investment processes in Ukraine is the small number of industrial zones with a modern developed infrastructure, ready to accommodate not only large but also medium-sized investment projects of Ukrainian and foreign investors.

Considering that the economic category “infrastructure” in this study is the basis for determining IPR, let us dwell on the disclosure of its nature and economic content in more detail.

The term "infrastructure" itself appeared in economic literature in the late 40s of the twentieth century. It is borrowed from the military vocabulary, where it denoted a complex of structures, objects that ensure the actions of the armed forces.

Already in the 50s of the XX century, the economist Rosenstein-Rodan defined infrastructure as "a set of conditions that ensure the favourable development of private enterprise in the main sectors of the economy and satisfy the needs of the entire population" [13].

The first Ukrainian researchers who identified infrastructure as an independent object of research, first of all, drew attention to the fact that it is intended to provide conditions for the effective development of material production. So S.A. Heinman meant by infrastructure "a complex of industries serving material production" [14].

Gradually, among other scientists, the interpretation of infrastructure became widespread not only as conditions for the development and functioning of material production but also as conditions for the effective solution of important social problems of the development of society. Considering the problems of infrastructure development, some researchers emphasized the need to create "conditions for ensuring certain types of social activities in a certain territory".

Also known the point of view according to which the infrastructure makes up the accumulated material wealth, as a set of objects and structures providing the necessary material and technical conditions for the successful functioning of industrial enterprises, as part of national wealth, which is designed to provide an unhindered field for all types of activities.

Infrastructure security consists of a number of significant objects, which include buildings, roads, road structures, natural and agricultural facilities, banks, systems of electricity and heat supply, water disposal and water consumption.

It is very important that the insufficient infrastructure security that potential investors usually encounter when solving land development issues and providing access to engineering infrastructure does not allow the region and the country as a whole to develop, to attract investments, including foreign ones, in full volume.

Any technological progress, by definition, requires at least a minimum of infrastructure. We are convinced that the country's dynamic technological development requires a good communication system, and, above all, automobile and railway lines, energy facilities, and social facilities that satisfy the needs of the population.

A large number of authors give a similar interpretation of the term "infrastructure security" – this is a complex of interconnected and interdependent objects (buildings, roads, etc.) necessary for the normal functioning of the object in question (region, city, etc.).

Thus, we believe that the infrastructure factor is one of the most important when choosing a region as a potential investor (Fig. 3).

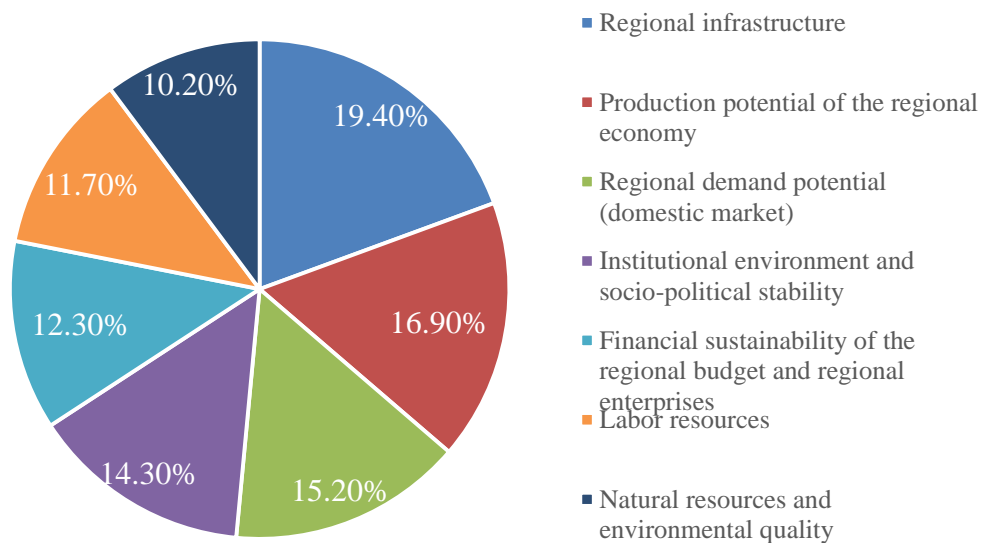


Figure 3 The main factors affecting the investment attractiveness

In general, according to the results of the study, its share is about 19.42%. As a rule, an investor, choosing a region for investment, is guided by certain characteristics: investment potential and level of investment risk, the relationship of which determines the basis of the investment climate. This approach is based on taking into account a number of various factors that, from the point of view of their influence on the investment attractiveness of the region, are considered equivalent. Moreover, each factor is characterized by a certain set of indicators. It describes the characteristics of economic potential; general business conditions; development of market infrastructure; political factors; social and sociocultural; organizational and legal; financial and others.

It becomes obvious that the regions with a more developed infrastructure are the most attractive for investment.

Since assessing the investment attractiveness of the region by investors and other interested parties is difficult – due to a large number of existing methods and their insufficient development, we offer an author's methodology for assessing the investment attractiveness of the region, which would take into account the infrastructure factor as one of the main ones.

The better developed the region's infrastructure, the more attractive it is for new types of business, which, in turn, provides new jobs and tax revenues to the regional budget. Consequently, there is a steady improvement in the quality of life, and this is already the main indicator of the region's economic growth. The concept of regional infrastructure can be divided into components, each of which is characterized by a certain set of indicators (Fig. 4).

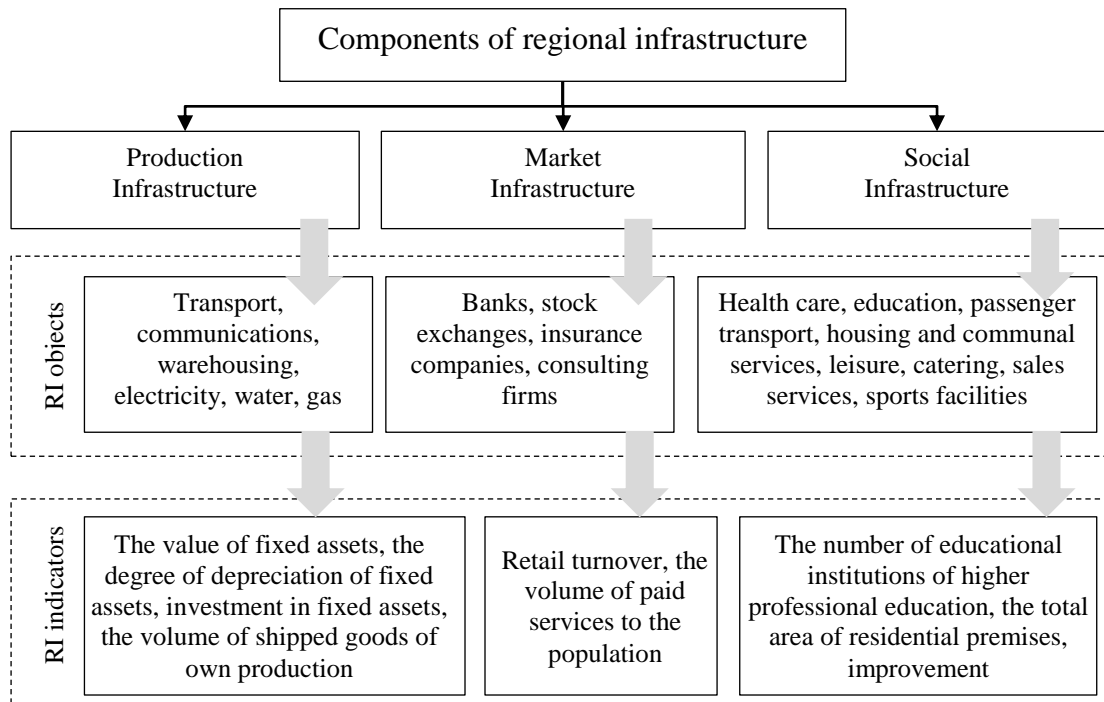


Figure 4 Components of regional infrastructure

Together, all the components of the regional infrastructure provide the following functions: providing; consolidating; increase efficiency; human development.

4. METHODOLOGY

Ukraine is a country of interregional economic, social and political contrasts, in connection with this, each potential investor, if there is sufficient information about the investment climate, can choose a region with the best investment conditions, depending on the goals set. Such information should be contained in the ratings of investment attractiveness.

An effective tool for assessing the investment attractiveness of regions is the use of various ratings. Rating usually gives a balanced, comprehensive assessment of the object of study.

To compare regions, we suggest that each region be assigned a rank according to the corresponding functions, in terms of their implementation. Suppose it can be a ten-point scale, for example, 1 – the function is fully executed, 10 – the function is not performed at all. Alternatively, the assigned score for each function can mean the place of the region among the compared subjects U. For example, 1 place – 1 point, etc. For both proposed options, it is advisable to compile a summary table that will help determine the final score of the region. Each function is assigned a specific weight depending on its significance. The final grade is determined by the formula 1.

$$IC_r = \sum_n^k br_n * W_n \quad (1)$$

where IC_r – the total weighted assessment of the investment climate; br_n – the average score for the nth factor for the region; W_n – the weight of the nth factor; k is the number of factors.

Accordingly, the lower the final score, the more developed the regional infrastructure. The proposed method is suitable for ranking regions but does not allow to determine the degree of development of regional infrastructure and the degree of difference between regions, based on specific indicators characterizing the region's infrastructure. In this regard, we propose an alternative method, which, to some extent, will help eliminate the disadvantage of the first option. Therefore, we propose to eliminate this drawback by adding indicators characterizing the above indicators of investment attractiveness. The advantages of the methodology are: determining the function of the causal relationship of investment attractiveness and activity; the possibility of substantiating the reliability of the results is the application of the criterion of the degree of tightness of the correlation between the categories; most indicators are estimated by statistical methods (point estimates are used for less than 1/10 of the indicators). The disadvantage is the opacity of the methodology for determining indicators that make up investment potential and risks.

5. RESULTS OF CALCULATING OF INVESTMENT ATTRACTIVENESS OF THE REGIONS OF UKRAINE

For ranking, we will choose the capital region and port-recreational, as well as their neighbouring regions. This will make the sample as diverse as possible and at the same time, reflect certain trends.

In order to determine the region's rating for the corresponding function with a sufficient degree of accuracy, it is necessary to clearly understand the content of each of the functions proposed by the authors (Table 1).

Table 1 The content of the functions of the regional infrastructure

| Function | Function Content |
|-------------------------------------|---|
| Providing | Meeting the diversity of production, financial, social, environmental, cultural needs of the region. Developed infrastructure, both external and internal, creates the prerequisites for expanded reproduction, increasing the investment potential of the region. At the same time, the supporting function of the external infrastructure creates the necessary prerequisites for its interaction with neighbouring regions. The supporting function of the internal infrastructure concerns the social aspects of its development. |
| Human development | The range of educational, medical, life support services provided by the infrastructure, employment opportunities |
| Improving Infrastructure Efficiency | The continuous nature of the reproduction processes, reducing the time intervals between investment and return on investment. The range of infrastructure services offers significant economies of scale. |
| Consolidating | The ability to combine in a single interdependent and mutually complementary system all the diversity of activities generated by the region. The consolidating function of the infrastructure fulfils a significant social burden. Based on this function, the infrastructure contributes to the creation of additional jobs, the elimination of structural unemployment, the employment of second family members, and ultimately contributes to the growth of well-being. |

Experts will also need some statistics to evaluate (Table 2).

Table 2 Statistical information by selected regions (2019), compiled according to [15]

| Indicator | Chernihiv region | Kyiv region | Kherson region | Mykolaiv region | Odesa region | Zhytomyr region |
|--|------------------|-------------|----------------|-----------------|--------------|-----------------|
| Population (estimated) on March 1, 2020 | 989209 | 1783037 | 1026234 | 1118354 | 2376097 | 1206360 |
| Gross regional product (million UAH) | 70624 | 198160 | 55161 | 79916 | 173241 | 77110 |
| Volume indices of the gross regional product (in previous year's prices, %) | 101,4 | 106,7 | 99,8 | 103,0 | 101,8 | 104,8 |
| Gross regional product per capita (UAH) | 69725 | 112521 | 52922 | 70336 | 72738 | 62911 |
| Share of gross regional product in total (%) | 2,0 | 5,6 | 1,5 | 2,2 | 4,9 | 2,2 |
| Labour force by region in 2019 (thous. persons) | 373,9 | 803,1 | 494,4 | 531,5 | 1051,5 | 556,4 |
| Registered unemployment by region (in% to the economically active population of working age) | 1,6 | 1,6 | 1,9 | 2,8 | 1,0 | 2,6 |
| Average salary by region for the month in 2019 (per one full-time employee) | 8074 | 11010 | 8192 | 9981 | 9252 | 8535 |
| Amount of arrears of wages by region (UAH million) | 0,1 | 144,9 | 23,5 | 39,3 | 47,3 | 11,2 |
| Incomes of the population by regions (UAH million) | 43574 | 133347 | 58983 | 71678 | 173188 | 75233 |
| Real disposable income (in % to the corresponding period of the previous year) | 105,6 | 106,9 | 104,7 | 105,4 | 107,1 | 108,3 |
| Number of active enterprises by region | 11040 | 37878 | 16944 | 21860 | 42945 | 17381 |
| Number of Internet subscribers by regions as of January 1, 2020 | 68,4 | 154,3 | 91,8 | 161,6 | 1103,5 | 99,6 |
| Waste generation by regions (thousand tons) | 308,0 | 1394,0 | 392,5 | 2410,2 | 728,5 | 486,2 |
| Waste generation by regions (as a percentage of the total) | 0,1 | 0,4 | 0 | 0,7 | 0,2 | 0,1 |
| Expenditures on environmental protection by regions (UAH million) | 122,77 | 2540,23 | 103,83 | 886,58 | 618,69 | 149,71 |

So, we determine the weight of each function. We get the following results:

- providing – 0.3;
- human development – 0.2;
- increase in efficiency – 0.25;
- consolidating – 0.25.

The results of the expert assessment will be presented in the summary table 3.

Table 3 Matrix of the results of ranking the regions according to the degree of development of regional infrastructure

| Function | Chernihiv region | Kyiv region | Kherson region | Mykolaiv region | Odesa region | Zhytomyr region |
|-------------------------------------|------------------|-------------|----------------|-----------------|--------------|-----------------|
| Providing | 5 | 1 | 6 | 4 | 2 | 3 |
| Human development | 6 | 2 | 5 | 3 | 1 | 4 |
| Improving Infrastructure Efficiency | 5 | 2 | 6 | 4 | 1 | 3 |
| Consolidating | 6 | 1 | 5 | 4 | 2 | 3 |
| Total | 22 | 6 | 22 | 15 | 6 | 13 |
| Place | 5/6 | 1/2 | 5/6 | 4 | 1/2 | 3 |
| Weighted Total | 5,45 | 1,45 | 5,55 | 3,8 | 1,55 | 3,2 |
| Place adjustment | 5 | 1 | 6 | – | 2 | – |

It should be noted that the more experts evaluate, the more objective the results of the study.

6. DISCUSSION

Activities aimed at increasing the investment attractiveness of the country as a component of the development of international business

The analysis of the economic and social situation of the regions of Ukraine, as well as the regulatory framework in the field of investment regulation, allowed us to identify the main factors constraining the development of a favourable investment climate:

- poor infrastructure provision;
- a significant burden on budget funds in the field of investment;
- dependence on commodity market conditions;
- the formation of an effective system of measures of state influence on the investment attractiveness of the region, taking into account the peculiarities of the development of individual territories (municipalities);
- underdeveloped tourism sector;
- level of taxes and tax administration.

To eliminate the existing investment situation and increase the investment attractiveness of the state as a component of the development of international business:

- infrastructure support for investment activities. The lack of infrastructure is acutely felt in non-regional centres. To eliminate infrastructural restrictions is necessary to develop transport, energy, and engineering infrastructure required for carrying out investment activities and attracting state and local budget funds; simplification of access for entrepreneurs and investors to infrastructure facilities and land plots intended for placement of investment objects;
- expansion of public-private partnerships. The primary condition for this partnership is the provision of state guarantees and a favourable business climate. The expansion of public-private partnerships implies the development of cooperation between a wide range of participants, ranging from public authorities to local businesses and the public. The public-private partnership will allow implementing expensive projects with the involvement of private investors and without undue burden on the country's budget. And also the state will act

as an absolute guarantor of the fulfilment of obligations in the implementation of national projects and the implementation of public investment;

- strengthening public administration of the regional investment institutions themselves (insurance companies, pension and investment funds, investment banks) with the participation of local authorities. It is especially important for investment companies (funds) since investments in them are voluntary; therefore, public control of investment institutions and possible guaranteeing the return of part of investments in them by the authorities would give them reliability and attractiveness for potential investors. The priority when creating investment funds in the region should be closed-end funds since investments in them are of the most long-term nature;
- maximally diversify the activities of the state, creating agricultural, industrial, IT and other sectors. Since the development level and stage of different industries is different, different areas will suddenly be able to compensate for each other. The level of welfare and social security of the population in the country should not depend on the world market prices for certain types of extracted minerals. It is also possible to create special economic zones in the regions, for example, tourist-recreational all-season complexes with engineering and tourist infrastructure of a high world level, which will contribute to the redistribution of tourist flows by the seasons of the year, the availability of recreation to wide layers of citizens, as well as attracting foreign investors;
- expanding access to financial resources. To implement this measure is necessary to provide tax benefits, including within the framework of creating in the country territories of priority social and economic development and special economic zones; attraction of private and state financial and investment institutions; subsidizing from the state budget part of the cost of paying interest rates on loans received for the implementation of investment projects, and leasing payments for property used to implement investment projects; etc.

7. CONCLUSION

Management of the investment attractiveness of the state economy as a component of the development of international business is becoming increasingly important. Given the beginning crisis associated with the COVID-19 pandemic, many countries will be forced to change established models and tools towards international partnerships. Which countries will go into a deep crisis and will rebuild their economies, and others, on the contrary, will expand and diversify their industries and seek for these new reliable partners for investment. Despite the apparent clarity of the definition of the conceptual essence of the investment climate, the investment attractiveness of the country, the opinions of scientists differ significantly in their assessment methods. The analysis of various methods of assessing IPC showed that all the ways considered have several severe drawbacks and do not fully take into account the specifics of development and features of different countries, as well as fact socio economic the level of their investment attractiveness.

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