PERSPECTIVES OF GERMANY INVESTMENT POLICY IN UKRAINE

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Abstract. Since 2014, internal political upheavals in Kyiv, the conclusion of a major Association Agreement between Ukraine and the EU, the annexation of Crimea by Russia, the start of hostilities in the east of Ukraine and Germany's participation in further peace efforts have moved Ukraine into the center of attention of the German political elite. These events made Germany's relations with Ukraine one of the central topics of Germany's international affairs and the subject of heated public debates in Germany.

Direct investment and location of production in Ukraine are ambiguous topics for German business. Despite a number of favorable investment factors, such as low production and labor costs, as well as the strengthening of the integration of the Ukrainian economy into the EU internal market, bureaucracy, legal uncertainty, corruption, crime and the emigration of qualified workers are hindering the activities of foreign investors in Ukraine, in particular German ones. Moreover, the effect of the unclear situation with the national security of Ukraine as a geopolitical "gray zone" country, which deters investment, is often underestimated. Thus, the article will highlight the current state of affairs regarding German prospects and the role of Ukraine in them.

Key words: foreign direct investments, investment processes, economic stimulation, investment climate, investment cash flow.

Introduction.

The economy of Ukraine is in a difficult economic situation, which continues to deteriorate due to the continuation of the aggressive policy of the Russian Federation, the occupation of Crimea and military operations in the east of Ukraine. Foreign investments play an important role in creating favorable conditions for the development of the Ukrainian economy.

The purpose of the article is to research and analyze the structure of direct foreign investments in Germany and the role of Ukraine in them.

Attracting foreign investments allows the recipient country to receive a number of benefits, the main of which are the improvement of the balance of payments; transfer of the latest technologies and know-how; integrated use of resources; development of export potential and reduction of dependence on imports; achieving socio-economic effect (increasing the level of employment, development of social infrastructure, etc.). At the same time, the use of foreign investments for the country is a potential source of threats, such as the exploitation of raw resources and pollution of the environment, increasing the country's dependence on foreign capital, reducing the level of competitiveness of domestic producers, capital transfer abroad. Foreign
direct investment is a key factor in Ukraine's economic integration into the European Union.

It should be noted that the economy of Ukraine developed very positively before the start of the war. In 2022, experts predict growth of more than 3 percent. Russia's war of aggression in Ukraine, of course, stopped the positive economic growth. After the start of the war, most companies ceased their activities. Many companies were destroyed as a result of the attacks. The workers either fled or were drafted into the army. Important roads, bridges, ports and airports were destroyed.

We can only hope that the war in Ukraine will end soon. If a peace agreement is reached, Ukraine's GDP will grow rapidly in the next few years [1]. Ukraine would like to have closer ties with the EU and achieve rapid progress in the reconstruction of the country. Many European countries have already promised to provide Ukraine with reconstruction assistance. Ukraine hopes to restart the Marshall Plan. If this happens, Ukraine and the Ukrainian economy will develop very quickly, which, in turn, means unlimited opportunities for investors. The following sectors had great potential before the start of the war in Ukraine, and they will again be of great importance after the end of the war [2]: food Industry, agriculture; light industry; auto parts industry, IT field, construction industry.

It is clear that in the current situation the investment climate in Ukraine is not positive. According to a survey conducted by the German-Ukrainian Chamber of Commerce and Industry in April-May 2022, most companies in April were concerned about security measures, crisis management and cost savings. The survey also showed that companies already want to engage in strategic reorientation [3]. New sales channels and the creation of new business areas are also topics under consideration.

Main text.

The role of the world movement of capital in the conditions of globalization is steadily growing. Of particular importance is the movement of direct investments, which give the investor the right to participate in management control over the investment object. Of particular interest are large entities on the global direct investment market.

Germany, as one of the leading economies of the EU, is precisely one of the main subjects of this market. It should be noted that Germany is traditionally a net exporter of capital, the volume of foreign direct investment in Germany significantly exceeds foreign direct investment in Germany. Germany is one of the most important trade and investment partners of Ukraine. The most important goods of German exports are machines, vehicles, chemical products and electrical products. The most important Ukrainian export products are textiles, clothing, metals/alloys/iron products, and chemical products. Many German companies have representative offices in Ukraine. The number of representative offices of German companies in Ukraine is now about 250, the number of German companies and joint ventures is about 950 [4], the trend is growing. In general, there are more than 1,200 companies with the participation of German capital in Ukraine.

Germany's participation in the movement of capital is characterized by the active penetration of direct German investments into foreign markets. In the 1980s,
Germany, wanting to develop new markets and increase sales opportunities, began active export of direct investments abroad. Locating production near the sales market is more profitable than regular export. First, it allows you to reduce the costs of transporting products, adapt the manufactured products to the characteristics of the sales market, establish a sales system, as well as create centers for pre-sales training and after-sales service. Secondly, the lower wages of skilled labor force abroad cannot fail to attract investors. In addition, investors abroad have the opportunity to avoid many administrative barriers and strict environmental legislation existing in Germany.

In the table 1, we can see the dynamics of Germany's foreign direct investment for 2019-2021.

<table>
<thead>
<tr>
<th>Table 1 – Germany's foreign direct investment, million USD</th>
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<tbody>
<tr>
<td>Foreign Direct Investment</td>
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<tr>
<td>FDI Inward Flow (million USD)</td>
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<td>FDI Stock (million USD)</td>
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<td>Number of Greenfield Investments*</td>
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<td>Value of Greenfield Investments (million USD)</td>
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Source: [8]

As mentioned earlier, Germany is the main subject of the global direct investment market. As a result of active investment activity, Germany pursues two economic goals:
1. Expansion of sales, conquest of new markets;
2. Increasing the competitiveness of German firms due to the strengthening of capital investments abroad, which positively affects the status of Germany as a country attracting investments.

Ukraine is interesting in European business, first of all, for its cheap labor force and proximity to Western European consumers. Investors are particularly interested in Western Ukraine, because the territory is close to the EU, and the labor force is not only cheap, but also has a Western European mentality.

According to the estimates of the German Embassy and the Foreign Trade Chamber, from 2,000 to 2,500 German companies operate in Ukraine at the same time, including many small and medium-sized enterprises (SMEs) [4]. Before the start of the coronavirus pandemic, German companies and investments created about 60,000 jobs in Ukraine, of which about 35,000 were in the field of automotive supplies alone [4]. Despite this generally positive trend, several problems remain.

In the course of implementing the Association Agreement with the EU, reforms in the fields of social policy, corporate and trade law need to be improved. A serious obstacle for foreign investments remains the vague image of Ukraine among the general population of Germany. The country continues to be perceived as a backward state with high levels of corruption and inefficient governance. On the contrary, there are claims from the Ukrainian side that German business is trying to attract Ukrainian workers to Germany, rather than creating jobs in Ukraine.

Despite these difficulties, German companies that were present in Ukraine before the start of the corona crisis were mostly optimistic about the future and had
appropriate investment plans. The German Chamber of Foreign Trade, for example, in 2018 estimated the possible investment of German companies in Ukraine in the next 10 years at 25 billion US dollars. Trade between Germany and Ukraine has recovered after the recession of 2014-2015 before the coronavirus pandemic. In 2017, its volume, for example, amounted to 7.8 billion dollars. USA, in 2018-2019 — 8.5 and 8.6 billion USD, respectively, and in 11 months of 2020, despite the pandemic, it reached 6.7 billion USD [5].

22% of German exports to Ukraine are machines and equipment, 16% are for the chemical and automotive industries Pharmaceutical, electrotechnical industry and information technologies account for less than 10% [6]. Between 2015 and 2019, German exports to Ukraine increased by 15-22% depending on the industry, especially in the automotive, machine-building, optical, chemical, textile and information technology industries [6]. The number of flights between German and Ukrainian cities has increased. In the first two years after the cancellation of the visa regime, Ukrainians made 33 million trips to the Schengen zone.

Back in 2017-2018, Germany ranked 11th in the ranking of the largest investors in Ukraine. But over time, the situation began to improve and Germany rose significantly in the rating [7]. In 2019, Ukraine exported goods and services to Germany worth 2.97 billion US dollars, which is 6% more than in 2018 [7]. The market is very dynamic. From 2017-2018, the export of tobacco products increased by 367%, coke chemical and petroleum products — by 167%, and ores — by 53%. However, exports of computer equipment (-37%), pharmaceutical products (-21%) and leather (-8%) decreased [7].

The chart 1 quantitatively shows the amount of direct foreign investment in Ukraine by country in 2021.

Chart 1. The main investor countries in Ukraine in 2021, million dollars
*Compiled by the Author using data [8]*
Despite the aforementioned obstacles to investment and the coronavirus pandemic, some experts believe that the prospects for German-Ukrainian economic cooperation in such areas as tourism and renewable energy sources are good. This also applies to agriculture, for which the nearly twenty-year moratorium on the purchase and sale of land was canceled (with restrictions). The rapidly developing Ukrainian IT industry offers more and more opportunities for investment and cooperation. The slow but consistent implementation of the Association Agreement with the EU is gradually improving the overall conditions for trade and investment and reducing technical and tariff barriers.

As for investments in 2020, the situation was not so good, because of October 2020, one can observe the outflow of money (-379 million dollars) from Germany [6]. This is the largest indicator among European countries that took their funds from Ukraine. In turn, our country invested 1.4 million dollars in the German economy [6]. We would like to remind you that according to the Ministry of Foreign Affairs, during 2018, the cumulative volume of direct investments from Germany into the economy of Ukraine amounted to 1 billion 668 million dollars. At that time, Germany ranked fourth among investor countries [9]. The largest volume of investments from Germany to Ukraine is directed to industry, wholesale and retail trade, car and motorcycle repair, transport, warehousing, postal and courier services, financial and insurance activities, agriculture, forestry and fisheries.

In view of the current situation in Ukraine, the government of Ukraine will work on restoring business ties with Germany and attracting German investments for the post-war reconstruction of Ukraine, in particular, modernization of infrastructure, reduction of industrial energy consumption, development of housing construction. The further development of bilateral economic cooperation between Ukraine and Germany was discussed during the meeting of the First Vice Prime Minister – Minister of Economy of Ukraine Yulia Svyrydenko and the Ambassador of the Federal Republic of Germany to Ukraine Anka Feldhusen [10].

In 2021, Germany took second place among Ukraine's trade partners in Europe, and we hope that the trade partnership will continue to strengthen [6]. In this context, the position of the Government of Germany in support of the abolition of customs duties on Ukrainian goods by the European Union is important. We hope that the relevant regulation will soon be approved by the EU Council. Liberalization of trade will open up new prospects and opportunities for Ukrainian business and will make it possible to compensate for the blockade by the Russians of traditional export routes through the Black Sea ports [11].

The Minister of Economy stated that Ukraine is counting on the assistance of Germany within the framework of the efforts of the Big Seven to provide political, financial, economic and humanitarian assistance. Also, Ukraine's obtaining the status of a candidate for EU membership, which may take place in June, largely depends on the position of the federal government. In the process of post-war reconstruction, Ukraine plans to apply German experience and technologies in the field of energy saving. This will help achieve energy independence and restart production based on modern European standards.
Conclusion.

So, Germany is a country in the world that has provided a lot of help to Ukraine in recent years, including investment processes. About two billion euros were spent to make the Ukrainian economy more stable and independent from external influences. After all, since the beginning of 2014, Germany has already supported Ukraine with over a billion euros only from cooperation funds for the purpose of development. We are talking about a strong, climate-friendly economy, a self-confident civil society, as well as new infrastructure and new apartments for people who were expelled from Eastern Ukraine. It can be argued that Germany is very interested in a stable, democratic and economically prosperous Ukraine. In August 2020, a central platform for energy dialogue between the two countries was also established. This so-called energy partnership also supports a number of bilateral projects in Ukraine. The main focus here is on renewable energy sources, hydrogen, the transition to coal, energy efficiency and decarbonisation.

In addition, as part of military support, the Bundeswehr also makes an important contribution to military training and consulting in Ukraine, which allows intensive exchange of experience. So far, 551 Ukrainian military personnel have successfully completed training in Germany. Germany provides further military support by investing in health services.

In view of all the above, we can hope for deepening of cooperation between Ukraine and Germany, because the amount of foreign direct investments in our country is constantly increasing, which positively affects the development and support of the Ukrainian economy.

References:


Анотація. Починаючи з 2014 року внутрішньополітичні потрясіння в Києві, укладення великої Угоди про асоціацію між Україною та ЄС, анексія Криму Росією, початок військових дій на сході України та участь Німеччини в подальших мирних зусиллях перемістили Україну в центр уваги німецької політичної еліти. Ці події зробили відносини Німеччини з Україною однією з центральних тем міжнародних відносин та предметом гострих публічних дискусій у Німеччині.

Прямі інвестиції та розміщення виробництва в Україні – неоднозначні теми для німецького бізнесу. Незважаючи на низку сприятливих інвестиційних факторів, таких як низькі витрати на виробництво та робочу силу, а також посилення інтеграції української економіки у внутрішній ринок ЄС, бюрократія, правова невизначеність, корупція, злочинність та еміграція кваліфікованих працівників перешкоджають діяльності іноземних інвесторів в Україні, зокрема німецьких. Крім того, часто недооцінюється вплив ситуації невизначеності щодо національної безпеки України як країни геополітичної "срібної зони", що стримує інвестиції. Таким чином, у статті буде висвітлено сучасний стан справ щодо перспектив німецького інвестиційного процесу та ролі України в них.

The article was sent: 24/09/2022.

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