

UDC 338.24.01  
DOI 10.31733/2786-491X-2021-56-65



**Maria VAKULYCH**<sup>©</sup>  
Ph.D (Economics),  
Associate Professor  
(*Dnipropetrovsk  
State University  
of Internal  
Affairs*)



**Rafal LIZUT**<sup>©</sup>  
Ph.D hab.  
(Economics),  
Ph.D (Philosophy),  
MSc  
(*The John Paul II  
Catholic University  
of Lublin, Poland*)

## BASIC COMPONENTS OF THE INVESTMENT CLIMATE FORMATION OF THE UKRAINIAN ECONOMY IN MODERN CONDITIONS OF GLOBALIZATION TRANSFORMATIONS

**Abstract.** The challenges facing the economies of the world in the 21-st century shape the need to adapt to changing factors of influence, conditions of competitiveness, political and legal environment in the implementation of international economic relations. On a global scale, changes are constantly occurring, however, the speed of such economic changes necessitates the introduction of innovative mechanisms, the search for strategic priorities and the creation of conditions for the creation of a state investment climate, the priority attraction of free economic resources in strategically important sectors of the economy, ensuring the effective economic model of the state economy. The priority, in the context of globalization transformations, is the need to ensure that the mechanism for managing the investment climate of the state's economy through the formation of attractiveness in strategically important, priority sectors of the national economy. However, the management process is complicated by the lack of a clear understanding of its nature.

Despite the considerable amount of research, scientific papers and publications of domestic and foreign scientists, the issues of implementing a systematic approach to managing the investment climate through the priority sectors of the Ukrainian economy are topical and not fully addressed. There is a need for further practical research in this area.

**Keywords:** *globalization, economy, investment climate, estimation, sector, component, management*

**Introduction.** Acute respiratory disease COVID-19, caused by the coronavirus SARS-Co-V-2, has created significant problems in different economies. Rapid changes in environmental considerations, the need to abandon strategic plans and forecasts, planned production and sales with the purpose of health maintainance, create new conditions for determining competitiveness in the global market of metallurgical products. The dynamic development of the leading countries in the production of metallurgical products in the world are not in the position to respond quickly to changes in working conditions and make informed management decisions on strategic actions. In this situation, it is important to solve the urgent problem of ensuring national competitiveness on a global scale, reorienting to increase the metallurgical products sector in the international market,

---

© Vakulych M., 2021  
ORCID iD: <https://orcid.org/0000-0001-6153-3554>  
[vakulich\\_maria@ukr.net](mailto:vakulich_maria@ukr.net)

© Lizut R., 2021  
ORCID iD: <https://orcid.org/0000-0002-6067-1469>  
[k\\_aem@dduvs.in.ua](mailto:k_aem@dduvs.in.ua)

ensuring innovative production to meet the consumers needs globally.

The driving force of the potential development of metallurgical production in Ukraine is the creation of preconditions for the state's investment climate formation, which will ensure the sustainable development of the national economy, creating attractive conditions for image development.

**Analysis of recent research and publications.** Solving the issue of investment climate formation in the economies of the world has been considered by many scholars, in particular, Rahim M. Quaz (Official Website of Standard & Poors. [Http://www.standardandpoors.com/](http://www.standardandpoors.com/)) considered ways to create a favorable investment climate through the prism of foreign investment projects.

R. Barro (Official Website of Pricewaterhouse Coopers. <http://www.pwc.ru/>) analyzed the potential growth of economic indicators of the countries across the world, emphasizing the need to increase the number of implemented capital investment projects by domestic investors, reducing the number of foreign investments.

Some scholars see the need to improve macroeconomic indicators to stimulate private investment, which will create favorable conditions for the formation and development of investment attractiveness of strategically important sectors of the economy (Ndikumana) (Official Website of Moody's Investors Service. <https://www.moody.com/>), empirical literature has identified public and private investment as the strongest determinants of economic growth, which specify trends formation in the strategic development of the state (Levine & Renelt) (Official Website of Journal, Euromoney. [Http://www.euromoney.com](http://www.euromoney.com)), especially investment in equipment (De Long & Summers) (Computed results based on compiled data from Report Doing Business. [Http://russian.doingbusiness.org/](http://russian.doingbusiness.org/)).

In general, recent theoretical and empirical studies of literature sources have highlighted the urgent need to ensure the formation of fundamental components of the investment climate of the world economy.

Akhmet-Zaki & Mukhamediyev (2018) investigated the potential determinants of foreign direct investment in the Eurasian Economic Union, which revealed a significant positive relationship between investment capital inflows and growth of gross domestic product, infrastructure and education, which determines the operation of an effective mechanism of investment climate management in the long run (Ya. Gromova, 2012, pp. 37–45).

Both private investment and government investments are the key determinants of interstate disparities in long-term economic growth. This empirical relationship between investment and growth has led observers to identify low investment as one of the leading causes of slow growth in developing economies (Greene & Villanueva; Collier & Gunning).

The analysis of these sources shows that a number of issues related to the formation of a mechanism for managing the investment climate of the state by improving the attractiveness of strategic sectors of the national economy remain unresolved: in the scientific literature there is a wide variety of views on the specific content of informational background of such research.

**The purpose of our article** is to find an effective mechanism for managing the investment climate in the world economy through the prism of forming the attractiveness of strategic sectors of the economy, priority guidelines of investment projects implementation under current conditions of globalization development.

To achieve the goal of scientific research, the following tasks are being solved:

- one of the priority sectors of strategic development of Ukrainian economy is being determined;
- an effective mechanism of innovative climate management is being developed on the basis of forming the attractiveness of a strategically important sector of the national economy;

- the managerial functions of the investment climate of Ukrainian economy are being formed;
- the principles of investment climate management in the national economy are being considered.

**Formulation of the main material.** The state has an important role to play in investment activities. Analysis of the world practice of investment processes makes it possible to distinguish two types of public investment policy: passive and active. In the former case, the state uses methods that are mainly legal and economic character, limiting direct administrative intervention in investment processes to a minimum, and in the latter case, all methods are used, and the state often becomes an investor itself. An effective tool for managing the investment climate is an investment strategy. The question arose: what should be the investment strategy of a country focused on the production of innovative products.

The economic development of the advanced countries of the world testifies to the urgent need to maintain a leading position due to the effective interconnection of research and production.

Thus, the main priority of the investment strategy of the state should be a close combination of production technologies with a favorable technical and technological position in the world market.

Acute respiratory disease COVID-19, caused by the coronavirus SARS-Co-V-2, has significantly affected all sectors of the world's economy. The metallurgical industry has not become an exception. Thus, according to the World Steel Association in March 2020, world steel production decreased by 7.8%, due to a significant decrease in production in Asian countries (-4.1%) and the European Union (-20.4%) (Scientific and innovative activity in Ukraine. Statistical collection, 2015).

The dynamics of steel consumption in the world is shown in the Figure 1.

From the list of TOP-20 world leading steel producers, only Turkey (4.1%), Iran (14%) and Vietnam (3.5%) showed stable growth. As at April 2020, Ukraine ranks 12th place among the largest steel producers in the world. The increase of rating positions for Ukraine became possible due to the cessation of production of metallurgical products in Italy (Ya. Gromova, 2012, pp. 37–45).

Metallurgical products production in India decreased by 14.2%. India ranks 2nd in the ranking of world producers of metallurgical products and is forced to significantly reduce its own production capacity because of the quarantine (Scientific and innovative activity in Ukraine. Statistical collection, 2015).

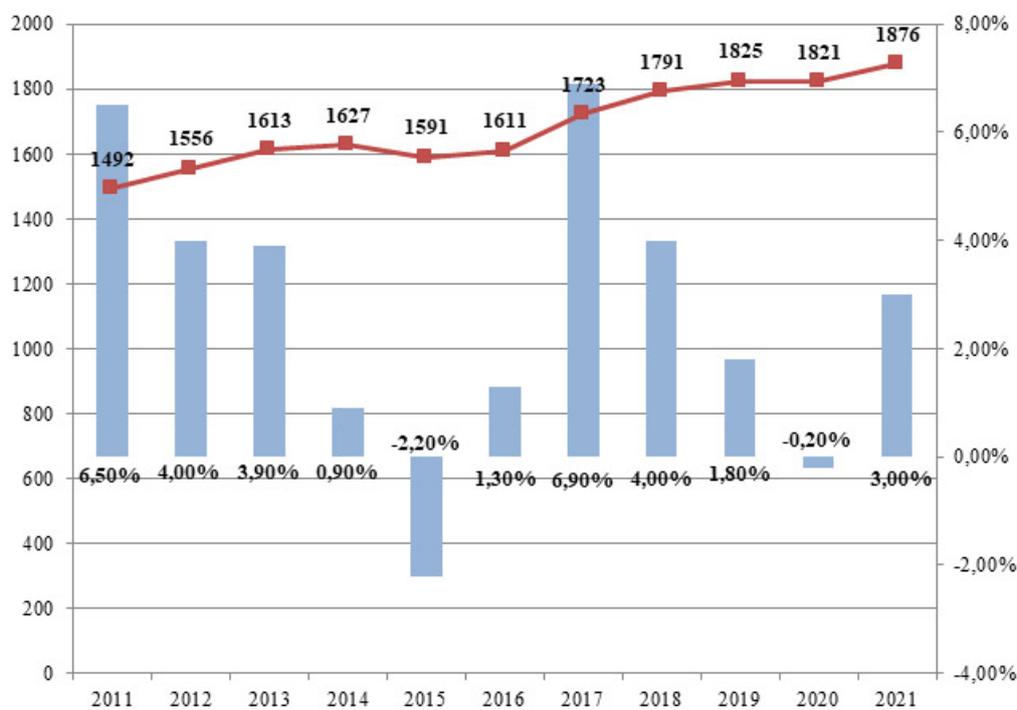
Accordingly, one of the most important problems in the world economy in such conditions is the problem of overcapacity, which creates the need to urgently seek the possibility of loading abroad. This situation will increase competition, create pressure on prices, which will lead to the opposite reaction – strengthening of protectionist measures. However, China continued to operate even under quarantine conditions without reducing production. The Association of Cast Iron and Steel Producers of the People's Republic of China is witnessing an increase in demand for metallurgical products, a significant reduction in stocks of finished metallurgical products in the country, and enterprises continue to gradually increase production capacity. The results of the report of the World Steel Association in January 2020 show some changes in the world's metallurgical industry, namely: a share of Chinese production in the global metallurgical sector increased from 50.9% to 53.3% (Scientific and innovative activity in Ukraine. Statistical collection, 2016).

Particularly significant decline in steel production was reflected in the economies of European countries (EU average: -4.5%): Germany (-6.5%), Italy (-5.2%), France (-6.1%), Spain (-5.2%), Poland (-10.8%).

The sharp decline in global steel consumption and a significant increase in the cost of purchasing permits for harmful emissions have prompted manufacturers to shut down capacity in order to introduce an artificial equalization of market equilibrium and improve price policies. At the same time, due to the protectionism aggravation and the domestic

market weakness, export-oriented enterprises in Turkey (-19.6%) and Brazil (-18.3%) suffered significant losses. Against the background of the world's sharp decline in steel consumption, in Ukraine in January 2020 there was a decrease in production by 1.2%. However, in comparison with other countries of the world, it is necessary to constantly look for opportunities to adapt to changing environmental factors.

For example, in early 2020, 22 rolling mills in Egypt stopped production because local steelmakers did not sell square billets to the domestic market. Thus, in 2019, the load capacity of steel production in Egypt amounted to only 55%. At the same time, the purchase of billets from abroad requires additional overpayment of the protective duty, which is 15% unprofitable for rolling mills (Scientific and innovative activity in Ukraine. Statistical collection, 2016). Therefore, local producers were forced to stop production in search of performance potential to challenge customs duties on imports of semi-finished products. Since closing plants will lead to an increase in market prices. It is known that rolling mills receive a loss of \$ 60 per ton of fittings from abroad, and, therefore, the company will be able to work with a profit only if the duty is replaced by a quota. It must be noted that the Egyptian market is one of the largest for Ukrainian exporters of procurement. In 2019, the sale of billets in this direction amounted to 760 thousand tons (Scientific and innovative activity in Ukraine. Statistical collection, 2016).



Growth rate (% , year to year) Volume of steel consumption (million tons)

**Figure 1** – Dynamics of steel consumption in the world, 2019, 2020, 2021 – projected values

Source: compiled by the author based on (O. Reznikova, 2014, pp. 54–63)

The European Steel Association (EUROFER) predicts that demand for steel consumption in the world will improve in 2020-2021. Thus, demand is expected to increase in 2020 by 0.6%, and in 2021 – by 1.4% (Scientific and innovative activity in Ukraine. Statistical collection, 2016). However, square billet is not the only element of production of Ukrainian metallurgical plants. Since February 2020, negotiations have been underway between the leaders of two states: Ukraine and the United States of America. Under US law, imports of any type of metallurgical

product require a 25% duty. However, some countries in the world have exceptions, namely: Brazil, Mexico and Canada. Such conditions create a competitive advantage for these states. For Ukraine, the US market is important for the sale of pipes. For example, United States Steel Corporation (US Steel) is the largest steelmaker in the United States. In 2019, the corporation's net income amounted to 12.9 billion dollars. US (-9.2% in 2018), EBITDA – 711 million dollars. US dollars (-59.9% in 2018), net loss – 642 million dollars. US dollars (compared to a net profit of 1.1 billion US dollars in 2018). The most problematic segment of US Steel is pipeline (EBITDA has a negative profitability ratio) (Scientific and innovative activity in Ukraine. Statistical collection, 2016).

US Steel has limited production in 2020 and is shutting down blast furnaces. Thus, it was announced to close production in Detroit and stop investing in European divisions of the corporation. In May 2020, the blast furnace will be shut down at the plant in Gary.

From the conducted analytical review of the situation it is possible to draw a conclusion that pipe products manufactured at Ukrainian enterprises may be in great demand in the American market. In January-March 2020, the enterprises of the mining and metallurgical complex of Ukraine reduced steel production by 3.4% to 5.32 million tons, namely (Scientific and innovative activity in Ukraine. Statistical collection, 2016):

- agglomerate – by 0.4%, up to 7.86 million tons;
- pellets – by 6.7%, to 5.09 million tons;
- coke – by 6.5%, up to 2.44 million tons;
- tubular goods – by 25.4%, up to 211.7 thousand tons.

As of April 2020, 14 out of 21 blast furnaces, 4 out of 8 open-hearth steel furnaces, 11 out of 16 converters, 5 out of 15 electric furnaces are in operation (Scientific and innovative activity in Ukraine. Statistical collection, 2016). Under such conditions, it is fundamentally important to create an effective mechanism for managing the investment climate of the national economy in view of the attractiveness of the metallurgical sector, attracting investment funds that will create conditions for sector development, innovation and competitiveness.

In 2019 capital investments of PJSC «ArcelorMittal Kryvyi Rih» amounted 229.4 million US dollars (11.2% less than in 2018). The main projects implemented by PJSC ArcelorMittal Kryvyi Rih in 2019 are modernization of small section mill №250-4, construction of Continuous Casting Machine (CCM) №2 and №3, reconstruction of sintering shop with installation of electrostatic precipitators. However, in July 2019, the construction of the caster was threatened with failure due to criminal proceedings (Scientific and innovative activity in Ukraine. Statistical collection, 2016).

In addition, for the first time since 2008, PJSC «ArcelorMittal Kryvyi Rih» paid dividends in the amount of \$ 441 million USD. Withdrawal of funds, in parallel with the deterioration of the situation on the world market, had a significant negative impact on investment projects implemented at the enterprise. However, the management of PJSC «ArcelorMittal Kryvyi Rih» assures that by 2022 \$ 1.8 billion USD will be invested in the production of metallurgical products (Scientific and innovative activity in Ukraine. Statistical collection, 2016). Considering the transformation of the world economy, the transient changes in external conditions of influence, arises the question about the formation of a favorable investment climate in the Ukrainian economy. Disclosure of functioning patterns of complex economic systems in solving problems of investment processes intensification is impossible without the application of a multifaceted approach to determining the structural elements of such systems that would rely on the modern development of the national economy in the financial crisis and resource constraints. Thus, the analysis of the theoretical and applied base for the intensification of investment processes in Ukraine proved the need to transfer the center of gravity in the

management of investment processes to the national level. Since the tasks which the subjects of investment climate management in the Ukrainian economy perform are diversified, therefore, the management content is also different. It consists of a number of control functions. In the modern literature there are many approaches to the management functions classification, which is explained by the use of various criteria for their evaluation. After analyzing the publications of both domestic and foreign scientists (O. Gavrilyuk, 2013, pp. 99-100. Official site of the «Institute for Management Development (IMD)». [Http://www.imd.org/](http://www.imd.org/), official Website of Standard & Poors. [Http://www.standardandpoors.com/en\\_US/web/guest/home](http://www.standardandpoors.com/en_US/web/guest/home), Urata, S. & Ando, M., 2013, pp. 137-204., Vakulich, M., 2014, pp. 31-36, A. Escribano & J. Pena, 2012, pp. 121-126), it was found out that the issue of separation of investment climate management functions has not been studied.

We propose that the main functions of investment climate management in the economy of Ukraine should include the following (Fig. 2).



**Figure 2** – Functions of investment climate management in the economy of Ukraine

*Source: author's study aid*

Monitoring the effectiveness of investment climate management in Ukraine's economy – the process of comparing the planned results with the actual results that guarantee the effective implementation of all other functions. The essence of control is that it ensures the achievement of set targets aimed at the unconditional achievement of objectives of investment climate development under specified conditions. The objectives of control are: collection and systematization of information about the state of the investment climate; evaluation of the obtained results about the state of the investment climate of the national economy; analysis of causes of deviations and the factors influencing the investment climate formation; preparing and implementing decisions aimed at achieving the objectives of investment climate development in Ukraine's economy.

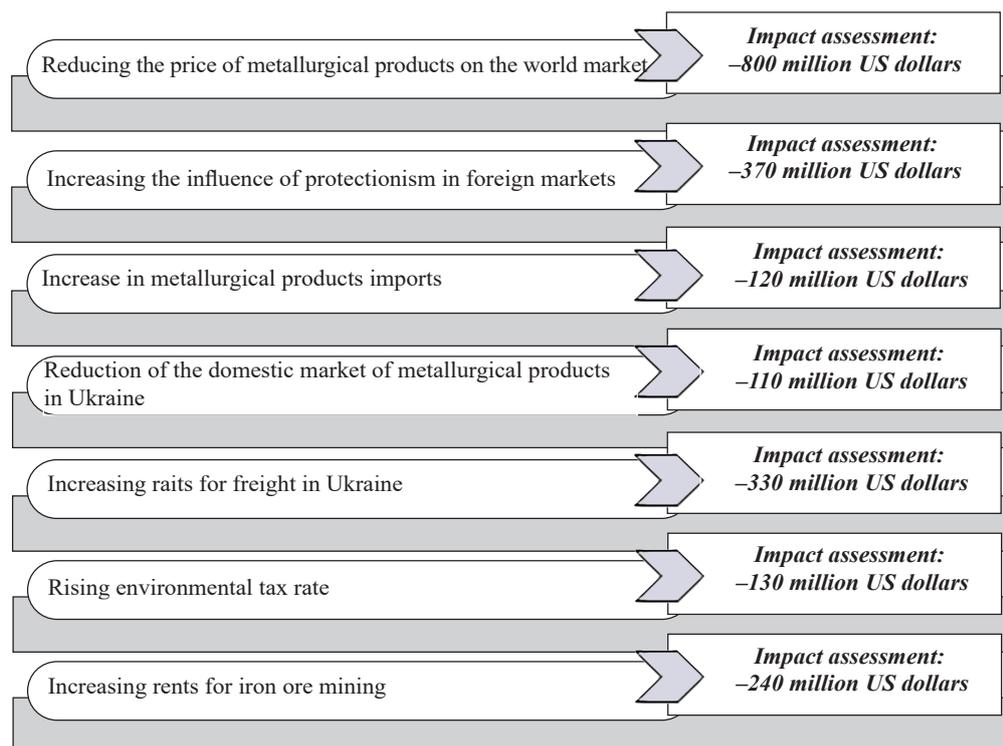
In the context of forming the principles of effective investment climate management in the national economy, we propose to highlight the following: the principle of integration with the management system at the state level, the complex nature of management decisions, the principle of high decision dynamism, variability of approaches to management decisions (Table 1).

**Table 1**Principles of effective investment climate management  
in the national economy

<b>№</b>	<b>Principle</b>	<b>The essence of the principle</b>
1	Integration with the investment climate management system at the macro level	Implementation of an integrated management system – the creation of a common investment climate management system that functions as a whole and aims to improve the efficiency of the national economy and achieve maximum positive effect from investment activities.
2	The complex nature of the management decisions formation	Management is a comprehensive system that provides the development of interdependent management decisions, each of which contributes to the overall performance of the national economy.
3	High dynamism of decisions	Taking into account changes in external and internal factors, resource potential, forms of investment activities organization, market conditions.
4	Variability of approaches to the management decisions development	Planning and forecasting options for long-term strategic development of the national economy, finding and justifying alternative management decisions in the field of investment climate.
5	Consistency with the strategic goals of the national economy	Focus on the strategy of long-term development of the national economy, constant comparison, within the control function, planned and actual performance indicators of the investment climate in the national economy.

In the context of identifying the principles of effective investment climate management in the national economy, it is necessary to introduce the principle of integration with the management system, which allows to increase the efficiency of the national economy and achieve maximum positive effect from investment activities.

Based on the study and identifying the lack of a unified approach to determining the factors influencing the investment climate formation in Ukraine's economy in view of the attractiveness of the metallurgical sector, we offer the following risk groups in 2020 for the metallurgical complex of Ukraine (Fig. 3).



**Figure 3** – Risk groups for 2020 for the metallurgical complex in view of the formation of the investment climate in the Ukraine's economy

Source: author's study aid based on (Official Website of Journal, Economist.

[Http : //www.economist.com/](http://www.economist.com/), Ratings Agency Moody's [http : //www.moody.com](http://www.moody.com))

According to practical studies, investors in most cases ignore micro- and meso-level factors when deciding to invest, if the host state is characterized by a high level of investment attractiveness and guarantees to a potential investor an appropriate level of return on investment with the minimal risk. This indicates the priority of influencing the factors shaping the investment climate at the state level, distinguishing their groups on the basis of content and reliable identification.

At the heart of the investment climate management process in the state economy are three fundamental components:

1. Investment policy of the state, which provides a set of measures aimed at creating favorable conditions for the investment climate formation in order to attract capital or ensure the social effect of the investment process.

2. Monitoring and controlling the investment climate, which is part of all stages of the investment policy development process, is an integral part of defining strategic and tactical goals of investment climate management in Ukraine's economy to assess the developed investment strategies and tactics and affects the investment policy implementation process. in the field of investment climate management. A key element of the investment policy development process in the field of investment climate management is that controlling and monitoring the investment climate are concepts that do not compare with each other because they are different in nature and are at different levels of government.

3. A set of tools for motivation and incentives for the investment climate development ensures the interest of domestic and foreign investors in investing and further reinvestment.

For the successful functioning of the national economy, a balanced, scientifically sound investment policy is needed, designed not only for the current situation, but also for fundamental development in the future. In addition, the

general science-based concept should be specified by economic sectors, regions and deadlines. Secondly, systemicity and complexity play an important role, because it is impossible to solve the economic problem of perspective development of the national economy by separate measures. Thus, investment climate management is a necessary condition for accelerating the pace of economic development of Ukraine, which provides conditions for sustainable economic development of the national economy.

**Conclusions.** The study of the problems of investing in the economy has always been in the focus of economics. In today's unstable economy, an important problem is to determine the effectiveness of investment costs, the relationship of capital investment and structural changes in the economy, the definition of priorities in the sectoral structure of investment.

The metallurgical industry is one of the most attractive sectors of the economy for understanding the need and possibility of restoring the strategic guidelines for the domestic economy development in modern conditions. The development and strengthening of the position of the metallurgical industry affects both the micro and macro levels of state development. The priority task for the formation and development of the metallurgical sector of Ukraine should be the urgent implementation of an innovative model of development, development of the mechanism of energy saving and strengthening the position of metallurgical products in foreign and domestic markets. Increasing the production and investment potential of the metallurgical industry should occur through improving the investment climate in relevant sectors of the economy and regions that need domestic products, intensifying investment demand, capitalization of savings by expanding access to economic resources, creating comfortable conditions for business activities. The main purpose of the metallurgical industry is to ensure the growing demand for metal products in the required range, quality and volume of supplies.

For example, the following measures have been implemented:

- ensuring the free entry of foreign investors into the economy of Ukraine;
- foreign investment, when crossing the border of Ukraine, is exempt from customs duties;
- the foreign investor is provided with the state guarantees of protection of the investment against any compulsory withdrawals determined by the international law;
- the free use of profits, income and other funds received in connection with the investment is guaranteed.

#### *Conflict of Interest and other Ethics Statements*

The authors declare no conflict of interest.

#### *References*

- American political journal Newsweek. URL : <http://www.newsweek.com/2010/08/15/interactiveinfographic-of-the-worlds-best-countries.html>.
- Computed results based on compiled data from Report Doing Business. Economy profile: Ukraine. URL : <http://russian.doingbusiness.org/data/exploreconomies/~ /media/giawb/doing%20business/ documents/profiles/country/UKR.pdf>.
- Financial Markets Portal. URL : <https://ru.investing.com>.
- Gromova Ya. Research of prospects of innovative development of metallurgical branch of Ukraine: marketing aspect. // Actual problems of economy. – 2012. – № 10(136). – pp. 37–45.
- Growth of investment attractiveness. – UCAB. URL : <http://www.agribusiness.kiev.ua>.
- Official site of the Research center «Brookings Institution». URL : <http://www.brookings.edu/>.
- Official Website of Journal, Economist. URL : <http://www.economist.com/>.
- Official Website of Journal, Euromoney. URL : <http://www.euromoney.com>.
- Official Website of Moody's Investors Service. URL : <https://www.moody.com/ Pages/atc002.aspx>.
- Official Website of Pricewaterhouse Coopers. URL : <http://www.pwc.ru/>.
- Official Website of Standard & Poors. URL : [http://www.standardandpoors.com/en\\_US/web/guest/home](http://www.standardandpoors.com/en_US/web/guest/home).
- Ratings Agency Moody's : Moody's. URL : <http://www.moody.com>.

- Reznikova O. Prospects for the development of metallurgical enterprises of Ukraine in terms of global competition // *Intelligence XXI*. – 2014. – № 3. – Pp. 54–63.
- Scientific and innovative activity in Ukraine. Statistical collection / State Statistics Service. – Kyiv, 2016. URL : <http://www.ukrstat.gov.ua/>.
- Scientific and innovative activity in Ukraine. Statistical collection / State Statistics Service. – Kyiv, 2015. URL : <http://www.ukrstat.gov.ua/>.
- Statistical Yearbook of Ukraine for 2015 / State Statistics Service. – Kyiv, 2016. URL : <http://www.ukrstat.gov.ua/>.
- Vakulich, M. Factor model of investment climate monitoring in chaotically structured economy. *Journal of Finance and Accounting. Special Issue: Synergy of Accounting, Finance and Management in Chaotic Environment*, 2 (1): 31-36. (2014).
- Worldsteel Association. URL : <http://www.worldsteel.org>.

**Марія Вакулич, Рафал Лізут**

**ОСНОВОПОЛОЖНІ СКЛАДОВІ ФОРМУВАННЯ  
ІНВЕСТИЦІЙНОГО КЛІМАТУ В ЕКОНОМІЦІ УКРАЇНИ  
В СУЧАСНИХ УМОВАХ ГЛОБАЛІЗАЦІЙНИХ ТРАНСФОРМАЦІЙ**

**Анотація.** Виклики, які постають перед економікою держав світу у XXI столітті, формують необхідність адаптування до змін факторів впливу, умов конкурентоспроможності, політико-правового середовища при здійсненні міжнародних економічних відносин. У глобальному масштабі зміни відбуваються постійно, проте швидкість таких економічних змін зумовлює потенційну необхідність запровадження інноваційних механізмів, пошуку стратегічних пріоритетів та формування умов для створення інвестиційного клімату держави, пріоритетного залучення вільних економічних коштів у стратегічно важливі сектори економіки, забезпечення дієвої моделі динамічного розвитку економіки держави. Першочерговим завданням, у контексті глобалізаційних трансформацій, є потреба забезпечення дії механізму управління інвестиційним кліматом економіки держави через формування привабливості у стратегічно важливих, пріоритетних секторах національної економіки. Однак, процес управління ускладнюється в зв'язку з відсутністю чіткого розуміння його сутності.

Незважаючи на значну кількість досліджень, наукових праць та публікацій вітчизняних та зарубіжних учених, питання з проблем реалізації системного підходу до управління інвестиційним кліматом через пріоритетно важливі сектори економіки України, – актуальне і не розкрито у повній мірі. Існує необхідність подальших практичних досліджень у цьому напрямку.

**Ключові слова:** *глобалізація, економіка, інвестиційний клімат, оцінка, сектор, складова, управління*

**Submitted:** 14.06.2020

**Revised:** 29.09.2020

**Accepted:** 01.11.2020