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ATTRACTING FAIR INVESTMENT

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ATTRACTING FAIR INVESTMENT

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The global environment has become increasingly risky in recent years. The coronavirus crisis, russian aggression, Hamas attacks, migration waves, price shocks in the energy and agricultural markets, trade, fiscal and debt imbalances, and contradictory intentions and actions of major global actors have created complex chains of critical political and economic interdependence between countries, which increasingly hinders joint consolidating efforts and actions capable of ensuring sustainable socio-economic development of countries around the world.

It is undeniable that Ukraine, like any other country, desperately needs investment resources to accelerate its economic recovery. In the previous decades, the country failed to become attractive to investors, and even experienced a leaching of national capital (including human capital), which accelerated with the expansion of russian aggression. Therefore, when it comes to Ukraine's post-war recovery, one needs to recognise that with no international investment, the task of building a new civilised country will be postponed for the unforeseeable future.

It should be stressed that foreign investment is no longer just an economic factor of development but is increasingly gaining security implications. Moreover, the country's best defence against encroachments is the arrival of an international investor — the higher the volume of foreign investment, primarily from developed democracies, the more secure the country can feel against an uninvited imperial aggressor. Therefore, the attitude towards attracting foreign investment is increasingly subject to adjustment.

1. INVESTMENT AND SECURITY

Ukraine's investment needs are significantly higher than the amount of investment that has ever come to the country before and that the country has been able to absorb. Despite the recovery challenges, a prerequisite for the country's economic acceleration is a significant inflow of foreign direct investment (FDI), which, on the one hand, must be immediately effective and efficient, and, on the other hand, must cast no doubts about its fairness and reliability.

In the meantime, Ukraine's security needs are acquiring broader dimensions. The requirements for a rational and **effective economic policy** are increasing with the growth of its **inseparability from national security**. In other words, the requirement is that achievements of domestic and international businesses, as well as their production and technological cooperation, do not lead to a deterioration in the state and risks of national security.

The requirements for pure investment are not an unnecessary precaution. The main concern of governments has «traditionally» been to create conditions for attracting foreign investors, which was seen — often rightly so — as a significant opportunity to accelerate the country's economic development. However, over time, the side effects of opening national economies to foreign investors began to emerge, as expectations of foreign investment's positive impact on growth were not always justified, while some negative effects, such as a loss of national companies' competitive advantage, became more frequent, just like the opportunities for increased political pressure on national governments.

As a result, more countries are introducing mechanisms aimed at ensuring the cleanliness of investment resources, protecting

their economies from potentially risky foreign investments, and preventing their illegal or unfair use by foreign countries. It is worth recalling that in March 2019, the EU countries decided to establish the EU Investment Screening Mechanism, which was introduced at the end of 2020[1] and which, while establishing general rules for investment screening, allowed member states to determine the specifics and level of their application.[2]

With this instrument, all EU Member States and the European Commission can inspect individual FDI for countries to make informed decisions on inspections. This should contribute to the security of the EU members' national economies and enhance the ability to protect the collective security of the EU as a whole.[3] Also, although the mechanism is aimed at strengthening control over foreign investment in general, the main focus is obviously on restricting Chinese business entry into European technological assets.

Such measures are gaining additional relevance in view of russian aggression against Ukraine, the imposition of sanctions against the aggressor, and the uncertainty of further geopolitical processes and events, especially those related to critical and strategic key sectors (energy, space, defence), where advanced technologies are created and used, determining the competitiveness of the country's economy.

The introduction of such mechanisms in Europe means that Ukraine, as a candidate for the EU membership, will also have to develop and implement similar mechanisms in line with EU requirements.[4] Moreover, their application in the EU will benefit Ukraine directly in the near future, as the quality of investments coming from Europe and potentially having a direct impact on the Ukrainian investment environment will be much clearer.

It should be noted that the requirements and needs for protective and control mechanisms will only increase, as the risks of «trade wars» are now a reality that can easily escalate into armed confrontations, as evidenced by the situation around Taiwan. This should occur in parallel with countries having to reinvent their economic policies, choose the right paths among a number of proposed alternatives, and implement appropriate measures for ensuring proper macroeconomic balance and accelerating integration processes. Differences in cooperation offers between reliable and dubious partners may not always be transparent and clear — unfortunately, Ukraine has repeatedly suffered from the «eternal friendship» of its northern neighbour.

Therefore, along with the openness to the outside world and accelerated integration as an integral part of post-war recovery, Ukraine should clearly define its political and economic intentions, taking into account the experience of those partner countries that already have a balanced position in terms of investment attraction and expansion.

The clearing of domestic investment environment should obviously start from within, first of all, by cancelling special privileges (such as «investment nannies» and other fiscal and administrative privileges) and guaranteeing equal access for domestic and foreign companies, both public and private, to all investment projects and resources on open market conditions.

The second step is to establish criteria for determining friendly investments. This means that investments originating from jurisdictions that do not have the «tax haven»

[1] EU foreign investment screening mechanism becomes fully operational. — European Commission, *https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1867.*

[2] D.Horiunov et al. Screening of foreign investments in Ukraine — FREEhost.UA, *https://ces.org.ua/wp-content/uploads/2021/09/Скринінг-іноземних-інвестицій.pdf.*

[3] Report from the Commission to the European Parliament and the Council. — European Union, *https://op.europa.eu/en/publication-%20detail/-/publication/2484a1ca-4e68-11ec-91ac-01aa75ed71a1/language-en.*

[4] In early 2021, the government of Ukraine drafted and submitted a draft law on foreign investment in business entities of strategic importance for the national security of Ukraine to the Verkhovna Rada for consideration. However, in September, after its review in committees, the document was withdrawn, and the issue has not been revisited ever since.

status or made by companies only from countries that have always supported Ukraine in UN voting may be admitted.[5] Moreover, investments by companies that have been subject to sanctions imposed by democratic countries against the aggressor and those who support it or help violate sanctions regimes **should not be allowed under any circumstances**, let alone those **contacting russia and continuing to cooperate with the aggressor**. Who should the country be geared to, if it is to accelerate economic recovery along with strengthening its national (political and economic) security?

2. GLOBAL MACROECONOMIC SHIFTS

The past 15 years have been characterised by ever-increasing uneven economic growth and, consequently, a redistribution of the weight of the world's largest economies. There is nothing new in this unevenness, but current shifts are closely associated with global crisis shocks, the frequency of which is increasing (the Global Financial Crisis of 2008-2009, the EU debt crisis of 2012-2018, the COVID-19 pandemic of 2020-2021, russian aggression against Ukraine and the Hamas attack on Israel in 2022-2023). Also, global influences are growing, and global economic redistribution is accelerating – in previous decades, competitive inequality manifested itself over much longer periods of time.

Trends. Changes in the structure of global economy appear in all macroeconomic spheres and are characterised by the growing significance of the two most powerful nations – the United States and China. While in the early 2010s, these countries generated about 32% of global value added, today it is more than 43%, and this trend is likely to continue. At the same time, the share of the EU economy in global GDP production reduced by 10 percentage points from the mid-1990s to the early 2020s, and today it is only about 17% and tends to decline (Figure «*Share of the largest economies in the world economy*»).[6]

Moreover, differentiation is accelerating not only between global economic centres or groupings, but also between individual countries that were thought to have many common features that would ensure their «synchronous» dynamics. This primarily concerns Europe, whose decisive role in the world civilisation's development was considered unconditional only a decade ago.

More specifically, in the early 2000s, there were two competing positions regarding the rapprochement between the «old» and «new» EU members. Positive position was linked to the expectation that the flow of capital, labour and other productive forces would lead to a gradual convergence in welfare levels across the EU. Instead, negative position was the belief that income differentials between countries would deepen, not only due to the growing «gap» between Western Europe and Central and Eastern Europe (CEE), but also between developed countries, which in such circumstances would lose their consolidated leadership status.

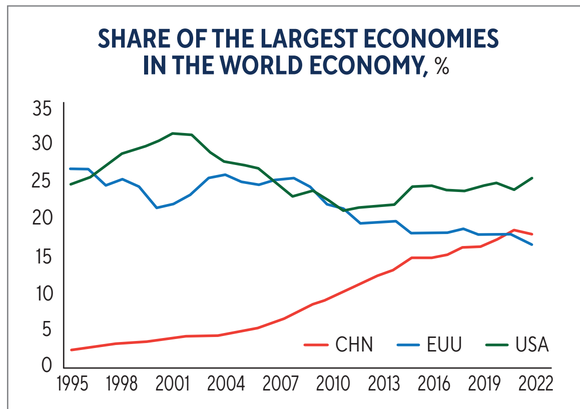
Indeed, the latter position was confirmed earlier than expected, even for the EU leaders – Germany, France and Italy. If economic convergence continued before the Global Financial Crisis of 2008-2009, then after it, economic growth rates[7] and, accordingly, welfare indicators have already demonstrated a marked differentiation – today, Germany's GDP per capita is almost 1.5 times higher than Italy's. And it is not even clear what can possibly be the source of another convergence.[8]

[5] Therefore, the investments of China, a country that claims to be a world leader but does not support the relevant resolutions, should not be allowed for implementation Ukraine. – For more information, see: The Russia-Ukraine conflict: from full-scale war to conflict resolution and post-war recovery, National Security & Defence, No.1-2, 2023.

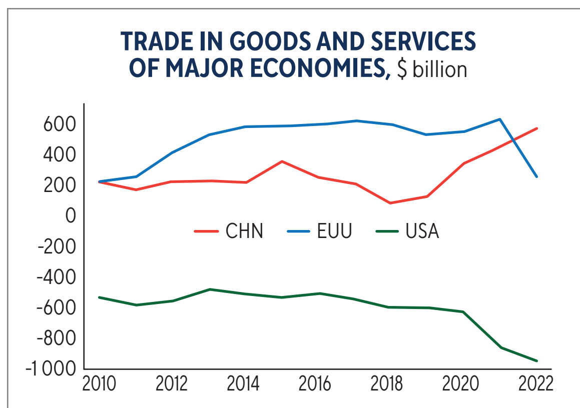
[6] Hereinafter, unless indicated otherwise, the authors use data from World Bank Indicators for international comparisons – *https://data.worldbank.org/indicator/*. Three-letter international abbreviations are also used to refer to economies: USA – USA, EUU – European Union, CHN – China, DEU – Germany, etc.

[7] An important factor of economic differentiation in the following years was the debt crisis, which manifested itself in different ways in a number of European countries.

[8] For more detail see Reducing foreign economic imbalances? Razumkov Centre, *https://razumkov.org.ua/images/2023/06/2023-MATRA-I-KVARTAL-9.pdf.*



In a way, the distribution of global GDP is «mirrored» by the distribution of foreign trade flows. The United States remains the country that absorbs the most goods and services produced by the global economy in general and by the EU in particular. Global current account data show that the US trade deficit is actually financed by the trade surpluses of the EU and China (Figure «*Trade in goods and services of major economies*»).



There are two circumstances worthy of attention. First, China's exports to the United States declined markedly in 2017-2019 due to the introduction of protectionist measures by the former. Despite drawing a considerable criticism, including in the United States, these measures did stabilise the US trade deficit and reduce China's trade surplus, which, given the positive economic dynamics, even led to a reduction in imbalances as GDP share in both countries.

Second, the EU's foreign trade balance declined sharply in 2022, primarily due to the collapse in trade in goods. The main factors behind the collapse are related to russia's aggression and its hybrid energy war against the EU, which triggered record price inflation first in European energy markets and then an inflationary shock in general, affecting export competitiveness. At the same time, global demand for European goods has declined significantly due to the imposition of sanctions restrictions on European exports and China's continued post-coronavirus isolation.

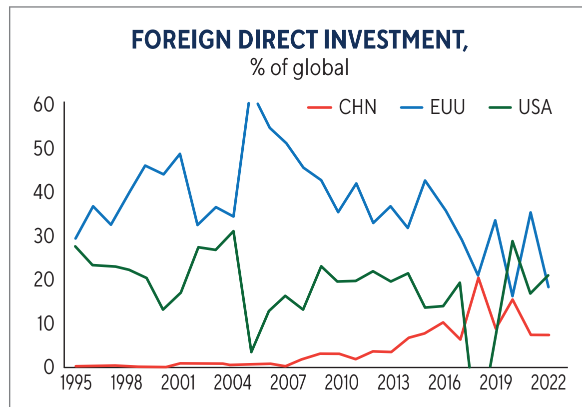
As for global FDI flows, they have been highly volatile in recent years, reflecting the risks and challenges of today. Even leading economies have little ability to quickly respond to them. In particular, global FDI flows in 2022 exceeded $1.7 trillion, but this is 21% less than in post-coronavirus 2021 (but 46% more than in the crisis year of 2020).[9]

As a general comment on global direct investment, changes in the cross-country structure are less noticeable than changes in the trade structure, because capital is less sensitive to short-term economic turmoil. However, changes of the last 20 years show the investment strengthening of the two largest countries – the United States and China. For most emerging economies, this means that many will soon need to make a choice about which capital, which investor, is more useful for their national economies.

First, let's look at the dynamics of direct outflow investment, since it is the leading investors who shape global influences. If back in the early 2000s the EU was the undisputed leader in the export of direct investment, and China's expansion was only getting

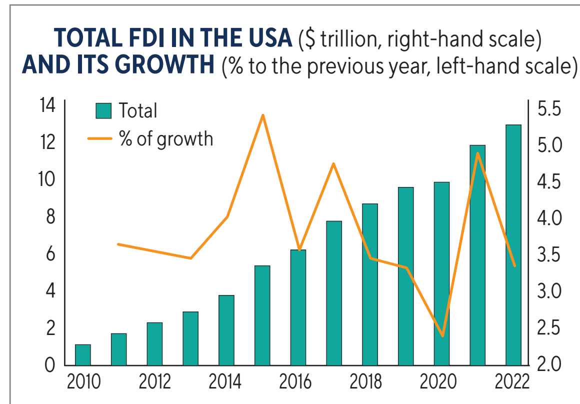
[9] FDI in figures, April 2023. – OECD, *https://www.oecd.org/daf/inv/investment-policy/FDI-in-Figures-April-2023.pdf.*

underway, then in recent years the shares of the USA, EU, and China in global volumes have almost equalled (Figure «*Foreign direct investment*»).



It is clear that in the coming years**, these countries / unions will compete for spheres and objects of direct investment**, and this will be not so much for the sake of profitability or rent, but rather for ensuring access to strategic resources and preventing opponents from such access. In such settings, countries in which global companies intend to invest may be tempted to quickly make money through uncontrolled opening of their own markets and allowing foreign investors to enter some national strategic sectors.

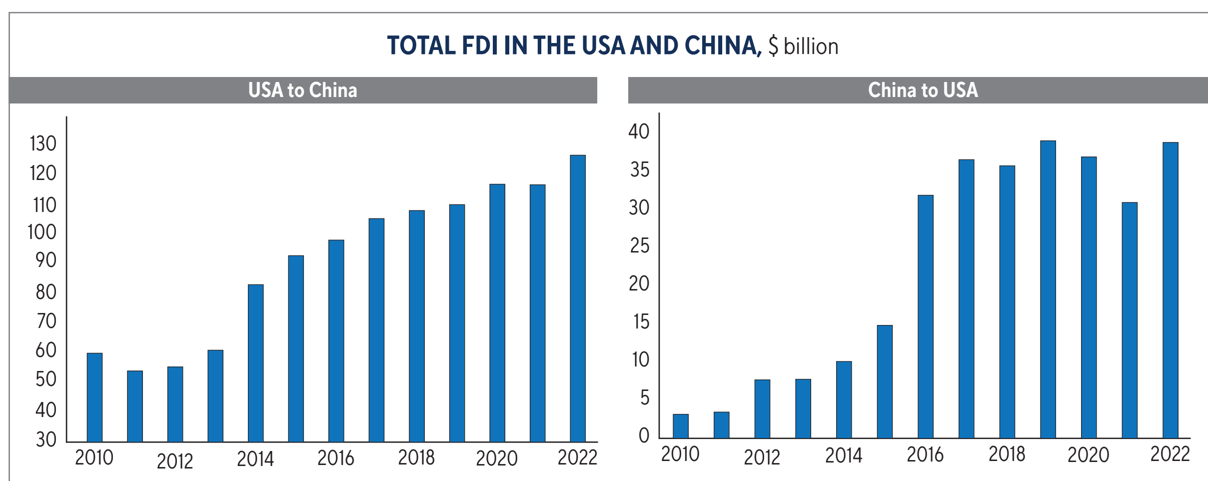
In terms of FDI inflows, the US and Chinese economies remain the most attractive for international investment. Since the early



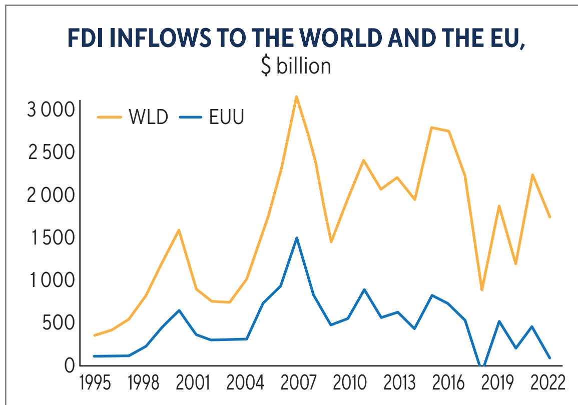
2010s, the volume of inward FDI in the United States has more than doubled, and inflows remained positive even in the coronavirus year (Figure «*Total FDI in the USA and its growth*»).

It is noteworthy that China's investments in the US have stopped growing recently due to both increased («Trumpian») protectionism and tighter US control over capital flows originating from «unfriendly» jurisdictions, as well as restrictions on capital exports in China itself (Figure «*Total FDI in the USA and China*»).

European peculiarities. Unfortunately, one has to acknowledge that the European economy is gradually losing its leadership position in the global distribution of goods and capital, including investment. While global FDI inflows recovered after the COVID-19 crisis, inflows to the EU continued

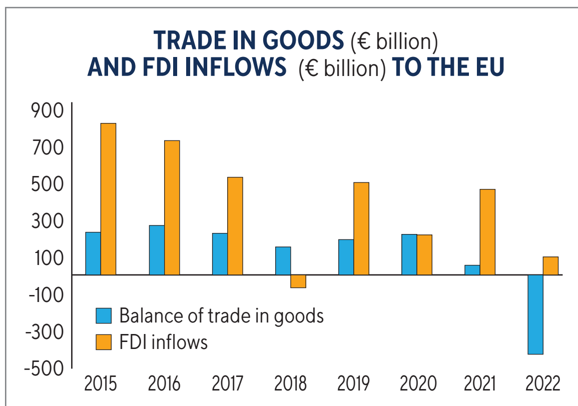


to decline (Figure «*FDI inflows to the world and the EU*»). Rapidly rising energy costs, inflationary surges, depressed aggregate demand, and deepening fiscal imbalances in Europe have created significant negative expectations among both households and businesses, including international ones, in terms of investment intentions.[10]



FDI INFLOWS TO THE WORLD AND THE EU,
$ billion

Moreover, the weakening demand for European goods was interlinked with a decline in FDI inflows to the EU countries, and thus the companies' lower ability to do business in Europe (Figure «*Trade in goods and FDI inflows to the EU*»).



TRADE IN GOODS (€ billion)
AND FDI INFLOWS (€ billion) **TO THE EU**

Deterioration of fiscal balances, even in countries that have traditionally had fairly balanced public finances, is another factor behind European markets' weakening investment attractiveness. For example, while in 2015-2019, Germany had a consolidated budget surplus of 1-1.9% of GDP, in 2020-2023, the annual deficit was already 3.0-4.3% of GDP. In the meantime, the same deficit in the Eurozone rose from a moderate 0.4-1.9% to 4-7% of GDP — a level that significantly violates the Copenhagen criteria.

Investment developments and expectations in 2023. The beginning of 2023 seemed to calm global risks associated with price shocks on the grain and energy markets. Although the war in Ukraine continued, partner assistance was taken shape and continued systematically despite the dissatisfaction of some countries. The tensions around Taiwan were eased, which significantly reduced security risks and allowed partners to assist Ukraine more boldly.

However, new risks and challenges were not long in coming, including the outbreak of hostilities, as Hamas' attack on Israel mixed in the ongoing Ukraine war. This significantly weakened the ability of the most politically and economically influential countries to understand each other. Moreover, in 2023, virtually no country in the world managed to restore a sustainable economic recovery, although some positive processes did emerge (Table «*Economic growth rates of the largest economies in 2023*»).[11]

ECONOMIC GROWTH RATES OF THE LARGEST ECONOMIES IN 2023,
% year-on-year (preliminary estimates)

	I кв.	II кв.	III кв.
United States	2.2	2.1	4.9
European Union	0.0	0.2	-0.1
China	2.3	0.5	1.3

[10] Investment Report 2022/2023: Resilience and renewal in Europe. – European Investment Bank, *https://www.eib.org/en/publications/20220211-investment-report-2022.*

[11] Tradingeconomics. – *https://tradingeconomics.com/indicators.*

In Q3 2023, the US economy grew by 4.9% (year-on-year), the highest growth in two years, in particular due to increased consumer spending, which was facilitated by the expansion of housing and utility, health, financial, insurance and other services.

China's economy grew by 1.3%, having a significant positive political and psychological effect after almost zero growth in the previous quarter. This was largely due to the continuation of post-coronavirus monetary stimulus, including lower base interest rates and liquidity injections into the market.

Global FDI flows in 2023 proved to be extremely volatile. Thus, in the first half of 2023, FDI totalled $727 billion, but two factors should be taken into account. First, a significant FDI growth occurred in the first quarter, but in the second quarter global FDI flows decreased by 44%.[12] Second, FDI in the first half of 2023 remained 30% lower than in the first half of 2022.

The negative trend that emerged in the second half of 2022 – a decline in the volume of investment deals, including in the European Union – continued in 2023.[13] It was the outcome of a slowdown in economic growth and rising financing costs due to higher interest rates, as major central banks tried to curb inflation. Thus, the previous year's risks – inflationary trends triggered by russia's war of aggression against Ukraine and exacerbated by the Hamas attack, and the related pressure on energy and commodity prices along with supply chain disruptions – did nothing to help investors to resume economic and investment activity, as they were expecting more favourable conditions.

Unfortunately, **there are reasons to believe that softening of the global investment environment is unlikely in 2024. Therefore, it is in this risky environment that Ukraine will have to start its recovery**. And China obviously will not hesitate to take advantage of the decline in the Western countries' investment activity and try to make up for lost profits after 3 years of coronavirus «containment».

3. INVESTMENT SLOWDOWN IN EUROPE

The slowdown in economic dynamics of developed European nations, which in recent decades have acted as global centres for absorbing goods and services and thus maintaining stable global economic dynamics, is now prompting many partner countries and competitors to search for new trade niches and foreign economic policy directions. On the one hand, this fully applies to the EU's emerging economies, or rather the countries of Central and Eastern Europe (CEE), whose basic macroeconomic indicators look much better than those of the «old» EU countries. On the other hand, this concerns China, the recognised economic leader of our time, which is looking for new opportunities to establish itself in European markets. In this case, China would take over the European success, if it happened –or, at least, the desired part of it, especially in terms of CEE's accelerated development.[14]

The fact that the total volume of direct investment by the EU in China and China in the EU differs only slightly is important for expanding economic contacts. In particular, over the past 20 years, the EU has invested more than €140 billion in China, and China has invested almost €120 billion in the EU. It should be borne in mind, however, that Chinese investment has been growing rapidly in the last decade, while European investment has been declining recently (Table «*EU FDI Exports to China*»). That is, the intensity of Chinese investment inflows to Europe is much higher, even despite its recent reductions due to the coronavirus and the Ukraine war.

[12] FDI in Figures, October 2023. – Studocu, *https://www.studocu.com/vn/document/truong-dai-hoc-kinh-te-thanh-pho-ho-chi-minh/japanese/fdi-in-figures-october-2023/75337604*

[13] Report from the Commission to the European Parliament and the Council. – European Union, *https://op.europa.eu/en/publication-detail/-/publication/2484a1ca-4e68-11ec-91ac-01aa75ed71a1/language-en.*

[14] Global Trends and Prospects: The World Economy and Ukraine – Razumkov Centre, *https://razumkov.org.ua/uploads/article/2018_global_trendns.pdf.*

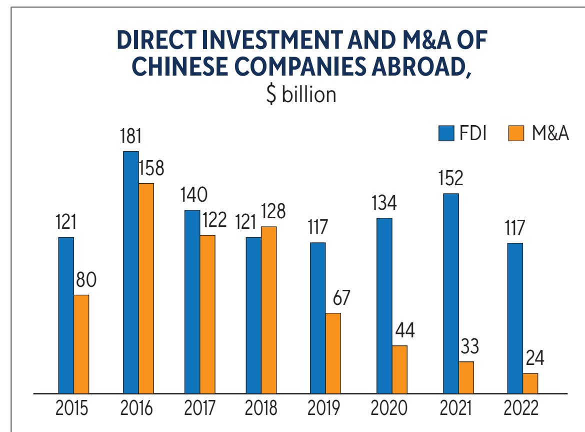
EU FDI EXPORTS TO CHINA, $ billion

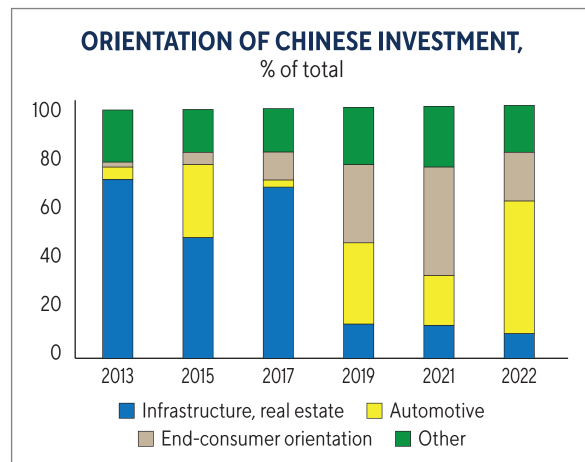
2017	2018	2019	2020	2021
8.3	10.4	7.3	5.7	5.1

The nature of Chinese investment in Europe has also changed.[15] Thus, mergers and acquisitions (M&A) dominated in the early 2000s, with Chinese businesses preferring projects that already had a reliable history within the European Union. Today, China is trying to form so-called initiatives (global or regional projects in certain areas) and then involve a wide range of allied countries. At the same time, the Ukraine war and the expansion of rules for monitoring and controlling (screening) of Chinese investment in the EU and the UK significantly limit China's appetite for entering the EU economic area.

It is a number of external and internal factors — from China's zero COVID policy to the rise in global risks following russia's invasion of Ukraine — that have created significant restrictions for Chinese investors around the world (Figure «*Direct investment and M&A*»). As for Europe, China's FDI in the EU in 2022 fell to its lowest level in a decade — by 22% compared to 2021 and amounted to €7.9 billion, with the main factor behind this decline being low M&A activity, as well as stricter screening of Chinese investments. This primarily concerns areas and industries that are strategic assets, namely companies that produce semiconductors and create the latest developments on their basis, as well as projects related to critical infrastructure (Figure «*Orientation of Chinese investment*»).[16]

One of the significant economic factors that reduced the Chinese investment's attractiveness for Europeans was the mediocre (far from expected) results of widely promoted 16+1 initiative to actively involve





Chinese companies in the development and modernisation of CEE transport infrastructure. The visible result was that European countries' trade balances with China have slipped. The expectations that imports would be accompanied by mutual FDI, and export growth did not materialise, adding to CEE countries' disappointment with their participation in the 16+1 and affecting the EU as a whole.[17]

Apart from economic issues, the EU and China's disagreements in other areas — political, diplomatic, and humanitarian — have also increased, creating a generally cool atmosphere in mutual relations.[18] China's position on

[15] Manca G. Chinese Investment in Europe Is Changing. – DIPLOMAT, *https://thediplomat.com/2023/06/chinese-investment-in-europe-is-changing/.*

[16] Kratz A., et al. Chinese FDI in Europe: 2022 Update. – Rhodium Group, *https://rhg.com/research/chinese-fdi-in-europe-2022-update/.*

[17] See, for example, Le Corre P. Chinese Investments in European Countries: Experiences and Lessons for the «Belt and Road» Initiative – *https://carnegieendowment.org/files/RethinkingtheSilkRoad.pdf.*

Knoerich J., et al. Chinese Foreign Direct Investment in the EU – *https://www.cesifo.org/DocDL/CESifo-Forum-2018-4- knoerich-miedtank-chinese-FDI-december.pdf,* which also contains links to other publications on the subject.

[18] Shifting EU-China relations. – China Briefing, *https://www.china-briefing.com/news/european-investment-in-china-prospects-for-2023/.*

the Ukraine war played an almost decisive upsetting role, as China remained «neutral» while all European democracies unequivocally condemned the aggression and expressed significant support for Ukraine.

Of course, the war in Ukraine and expanded regulations to monitor and control Chinese investment in the EU and the UK have created additional restrictions on Chinese investment in Europe, which remains a priority. It is also clear that **China will seek to make up for lost profits from FDI in Europe**. Since European wariness is not easily to dissipate, Chinese companies will look for «alternative» entranceways.

And Ukraine may be the best place to do so. It may seem overly optimistic, but post-war Ukraine can play a consolidating role for the European Union, as it already did when countering the russian invasion. On the one hand, Ukraine can expect an investment boom if russians are driven out fairly quickly and the country's reconstruction is successfully launched. On the other hand, Ukraine is taking consistent steps towards full EU membership. In the European dimension, Ukraine's post-war needs could generate significant demand for goods, services, and capital, providing the European economy with additional incentives for economic boost. The Chinese dimension is based on viewing Ukraine as a new springboard replacing the CEE countries in a new wave of Chinese investment in the EU economic environment.

With the competition for entry into Ukraine's investment space unfolding, economic policy decisions can be either positive (and contribute to the country's recovery and its approximation to democratic countries) or negative (and drive the country away from its European choice).

4. WHAT INVESTMENTS DOES UKRAINE NEED?

In the face of low domestic demand and low purchasing power, small open economies like Ukraine can achieve accelerated economic development by entering foreign markets, strengthening the export capacity of domestic industries and integrating them into established networks with a higher value added component. In other words, it is not so much about the existing opportunities to expand exports of goods and services as about expanding competitive export potential, including through investment expansion to foreign markets and entering the investment environments of other, more dynamic countries.

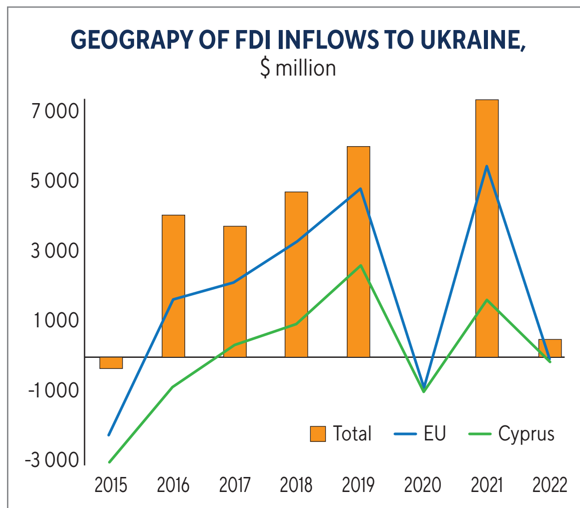
Where does FDI come from in Ukraine? As noted, Ukraine has failed to become an attractive investment destination since its independence, and its place in global FDI flows remains virtually invisible. In particular, in recent years, Ukraine has been absorbing less than 1% of global FDI.

Meanwhile, although each internal and external crisis led to both losses for the country's economy and a noticeable decline in FDI inflows, Ukraine's European integration steps have led to a gradual increase in FDI inflows. The main foreign investors are the EU countries, which annually account for 60-80% of total FDI inflows (Figure «*Geography of FDI inflows to Ukraine*»).

Of course, one should not forget about the peculiarities of FDI distribution by country. The main investor in Ukraine was Cyprus that long offered preferential taxation of foreign capital stocks. In reality, however, most «Cypriot investments» were russian and Ukrainian money that had previously been withdrawn and returned from Cyprus protected by international FDI status. In recent years, Cyprus has lost its offshore jurisdiction, and the corresponding FDI inflows to Ukraine have decreased.

As the economic revitalisation in the EU is still delayed, European investors may not rush to Ukraine, even if the country is fully liberated. This is a very unpleasant scenario, because the Ukrainian FDI niche may not be filled by a reliable investor.

What about other leading global investors? Ukraine remains invisible for both the US and China: in the total FDI that came to Ukraine over the decade, the share of



investments from the United States is 2-5%, and from China is less than 1%, although it was the largest trading partner among the countries.

Given the current global political and economic trends, there are reasons to believe that **China's economic and investment activity around Ukraine will intensify**, especially if the country's territory is liberated from the invader, let alone the need for quick economic recover. How such Chinese activity is a desirable scenario for Ukraine?

It should be stressed that Ukraine is exposed to significant external risks, limiting its ability to accelerate development and also creating traps and illusions of rapid growth thanks to its «temporary ties» (and economic dependence) to the «dynamic economic space».

Such socio-political illusions are a fertile ground for those external investors who have a «kind» practice of using an economic partner in difficulty for own benefits. Ukraine's task is and should be maintaining cooperation with partner democracies, thanks to which the country has survived and will be able to consolidate the benefits already achieved in the global economy, as well as to enter new competitive niches. At the same time, Ukraine should not take eyes off countries whose steps in previous years were neither balanced nor partnership-oriented. China stands out among these countries, as it does not conceal its interest in certain production sectors of Ukraine.

Let's highlight some of Ukraine's strategic niches, where investors should be allowed only if they have proven their partnership declarations with real actions to support Ukraine.

Agriculture. Recently, there has been a lot of concern around the world about food security, possible food shortages or high food prices, also caused and intensified by russian aggression. Demand for food and products used in the food industry will continue to grow globally. And the basis of such goods is cereals, a commodity that, on the one hand, largely determines the level of national food security, and on the other hand, defines the country's place in international supplies, that is, the share of the country's exports in world exports.[19] Therefore, agricultural production and the food industry are Ukraine's present and future strategic niche.

In previous years, Ukraine has secured a spot among the leading global grain exporters, particularly wheat.[20] Although the war has affected Ukraine's wheat exports and its share in global exports has dropped from 9-11% to 7-9%, there are reasons to believe that the country will be able to increase supplies to international markets as soon as the military situation returns to normal.[21] However, it should be borne in mind that the global trend is food's increasing quality, ecological properties and safety, which requires rapid technological and institutional transformations.

Will Chinese investors bring such transformations? It is highly doubtful, because they will probably be interested in the volume of production, that is, in intensive technologies

[8] Grain: World Market and Trade. – Foreign Agricultural Service, *https://www.fas.usda.gov/data/grain-world-markets-and-trade*.

[20] Wheat Exports by Country. – World`s Top Exports, *https://www.worldstopexports.com/wheat-exports-country/*.

[21] This is about wheat and corn only, but Ukraine is also a major exporter of sunflower, oil, etc.

for creating mass, including through the use of GMOs. This will hardly benefit the population of Ukraine, let alone future generations. Moreover, if the situation with investment in Ukraine's agricultural sector takes on an undesirable «taste», it could even damage the attractive niche in global markets that Ukraine has already won.

It is worth adding that China and India the world's largest wheat producers, but these countries are not exporters, as they consume as much or even more than they produce. In other words, they are net importers. Improved wellbeing in these countries will imply an increased demand for food products, where Ukraine holds a well-balanced niche.

The situation with corn production and exports is similar. Growing 3-4% of the world's corn, Ukraine is one of the leading corn exporters on global markets, supplying 13-16% of the world's export volumes. As with wheat, China is the world's largest producer of corn, but it uses almost all of home-grown corn for domestic consumption. This makes China dependent on external supplies (largely from Ukraine).

So, China will undoubtedly try to minimise this imbalance and, in the future, actively enter domestic agricultural assets to strengthen its global position in the agricultural sector and food security.

Ukraine already owns a significant potential for producing and exporting agricultural products that are in steady and significant demand around the world. This is why preserving and expanding logistics services related to agricultural production and the food industry, especially in the face of the sea blockade, is a fundamental task that can generate resources for the country's recovery in the relatively short term. However, this task is specifically directed towards the European integration dimension and can hardly imply the attraction of Chinese businesses, even in the declared very attractive financial terms.

In general, China's practice of investing in emerging economies points at some negative consequences. In particular, investment (loan) agreements with China are often based on non-public arrangements between officials of the two countries and **may have hidden conditions**, both economic and political. In terms of technology and innovation, China often includes the transfer of intellectual property or even the transfer of important production to China in its contracts.

Moreover, this type of agreements can also have negative implications for the host country's labour market, as investment agreements usually include requirements to engage Chinese (rather than local or national) contractors, Chinese equipment and labour.

Infrastructure. As for the Ukrainian-Chinese experience of investing in infrastructure projects, it is not very optimistic. For example, one of China's first major investment projects in Ukraine was supposed to be the Air Express (2013) — an arrangement of a railway connection between the city of Kyiv and Boryspil Airport.

The project ended before it could begin, as per official reports, its economic feasibility was not properly justified. Although the Ukrainian and Chinese sides assured of mutual understanding and even publicly discussed redirecting the planned funds to other projects,[22] such intentions were soon forgotten.

In 2016, there was another mysterious episode with the Ukrainian-Chinese agreement on the joint serial production of the An-225 Mriya in China. However, after a series of clarifications and denials, this initiative, like the previous one, did not go any further.

The delivery of Chinese COVID-19 vaccine, which was declared as an example of a «public good available to all», also had some «bad taste». Instead, China almost openly linked the supply of its vaccine to political

[22] Chinese money for the Air Express will be used for another project – Ministry of Infrastructure – RBC-Ukraine, *https://www.rbc.ua/ukr/news/kitayskie-dengi-vozdushnogo-ekspressa-napravyat-1434464333.html.*

demands. The episode with Ukraine's withdrawal of its signature from a joint letter of protest against the persecution of certain national minorities in China was somewhat scandalous.[23]

In practice, only a few minor Chinese investment deals have been implemented in Ukraine, such as the purchase of Active Solar's solar power plants by Chinese CNBM (2016) and the acquisition of a number of agricultural logistics assets by COFCO (2015).

The «renaissance» of Chinese investment in Ukraine was expected in 2021. Initially, a number of Ukrainian pro-government politicians announced that Ukraine should adopt the experience of China and its Communist Party in particular. It was stated amidst the slowdown in reforms and deteriorating relations between Ukraine and the IMF.

In June 2021, the first «regular» train from China arrived at the Odesa container terminal of DP World, one of the world's largest logistics operators. The train's route crossed Mongolia and Russia, so it is not surprising that everyone soon forgot about it.

The Infrastructure Agreement with China,[24] signed by the governments of the two countries on 30 June 2021, could have been more important, but it immediately raised suspicions of non-transparency and secrecy about important provisions, because the Ukrainian authorities announced it only a week later. In any case, these provisions have never been tested in practice. Meanwhile, the possibility of some politicians and businessmen returning to this agreement during the post-war recovery cannot be ruled out.

Strategic raw materials. Modern infrastructure development is increasingly dependent on the extraction, processing, and transportation of strategic raw materials, including rare earths. The latter are of strategic importance for the production of energy batteries, semiconductors, artificial intelligence, etc. Therefore, most governments are concerned with ensuring guaranteed access to strategic raw materials.

Thus, in November 2023, the EU Council and the European Parliament reached an agreement on a regulation establishing a framework to ensure a secure and sustainable supply of critical raw materials, which clarifies the provisions of the previously adopted Critical Raw Materials Act. By implementing its provisions, EU is expecting to become more competitive and independent from external challenges.[25]

Importantly, the agreement pays special attention to long-term partnerships with so-called third countries and focuses both on the extraction and production of critical raw materials and the transfer of the latest knowledge and technologies, as well as the training of qualified personnel.

in this context, Ukraine is trying to follow European institutions. With the West's expert assistance, Ukraine is developing a new Draft Law «On State Control over International Transfers of Strategic Goods»,[26] which will be integrated into EU legislation to the fullest extent possible. In the meantime, the provisions of the new law will help maintain

[23] On 22 June 2021, Ukraine, along with 43 other countries, signed a multilateral statement at the UN Human Rights Council in Geneva on the human rights situation in China's Xinjiang Uyghur Autonomous Region. However, already on 24 June, Ukraine withdrew its signature, which experts attributed to the possible suspension of supplies of a Chinese-made COVID-19 vaccine.

[24] Ukraine and China sign a cooperation agreement in infrastructure development – Government portal, *https://www.kmu.gov.ua/en/news/ukrayina-ta-kitaj-pidpisali-ugodu-pro-spivpracyu-u-galuzi-budivnictva-infrastrukturi.*

[25] Council and Parliament strike provisional deal to reinforce the supply of critical raw materials. – European Council, *https://www.consilium.europa.eu/en/press/press-releases/2023/11/13/council-and-parliament-strike-provisional-deal-to-reinforce-the-supply-of-critical-raw-materials/.*

[26] The new law on state control over international transfers of strategic goods should be integrated into EU legislation as much as possible – Government portal, *https://www.kmu.gov.ua/news/novyi-zakon-pro-derzhkontrol-za-mizhnarodnymy-peredachamy-stratehichnykh-tovariv-maie-buty-maksymalno-intehrovanym-v-zakonodavstvo-ies-ihor-fomenko.*

an acceptable balance between national and business interests on one side, and international requirements on the other.

Information and communication technologies. ICT is the only sector of the domestic economy that has maintained positive dynamics during the russian aggression, thanks to its mobility and adaptability. Ukrainian computer scientists are already included in international networks, so it is not surprising that even in 2022, the sector grew by 5.8%,[27] including due to its export capacity. The United States and the United Kingdom are main importers of such services, accounting for about half of Ukraine's ICT total exports, while most of the remaining services are exported to Canada and the EU. This means that the Ukrainian ICT sector is already focused on cooperation with developed nations.

This is further evidenced by the relocation of Ukrainian ICT companies: about 70% of them moved within the country and abroad, mostly to countries where they had previously opened offices or branches. These include Poland (49 companies), Germany (24), Spain, Romania, the United States, and Canada. So far, there are no reasons to worry that domestic ICT companies will fall under the unfair influence of investors from unfriendly countries.

However, one should not ignore the risks that, while not seeming significant, may manifest themselves in a very unpleasant way. The COVID-19 crisis and then the war led to a reduction in demand for specialists: although existing companies tried to retain staff, but new vacancies were fewer than the number of graduates of the relevant schools. As a result, the «surplus» of new specialists may be tempted to join Chinese projects that will try to enter the Ukrainian ICT sector. This could have long-term negative consequences for the country's computer security.

Areas for investment strengthening. Despite the enormous losses from the war, Ukraine still has an opportunity to further open its domestic market to investment, thus not only enabling modernisation and upgrade of its armed forces, but also accelerating its integration into the European economic space and finding worthy niches in the global division of labour, while further strengthening its institutional partnerships with democratic countries.

Although the country will require significant investment and financial resources, it still needs to demonstrate discernment and prudence in choosing partners. The United States, Canada, the United Kingdom, and the EU have consistently implemented investor and investment due diligence mechanisms based on a strong institutional framework. Emerging economies, including Ukraine, should implement screening mechanisms with caution and care, first, not to scare away potential investors by excessive complexity of procedures, and second, to prevent corruption loopholes for investors who, from the standpoint of Ukraine's interests, pursue dubious goals.

In fact, foreign investment screening in Ukraine can be quite simple. **Only companies from partner countries, which have already proven themselves as reliable partners, may be allowed to enter Ukraine's strategic sectors, especially those related directly or even indirectly to defence, access to strategic raw materials, or production of dual-use goods, such as information and telecommunications technologies**, and the production should be in line with NATO standards.

Seeking to build a powerful and sustainable defence industry, Ukraine is very interested in attracting foreign investment and manufacturers of weapons transferred to the Armed Forces of Ukraine, if these companies have advanced technologies and are ready to share

[27] Labour market of the IT sector in the conditions of war: realities and prospects. – NISS, *https://niss.gov.ua/news/komentari-ekspertiv/rynok-pratsi-it-sektoru-v-umovakh-viyny-realiyi-ta-perpektyvy/*

them with Ukrainian counterparts.[28] It is these partners that the Advantage Ukraine platform[29] is aimed at, drawing interest from potential investors from the USA, the UK, Germany, Denmark, and Belgium — the countries that are Ukraine's truly reliable partners.

Ukraine concluding investment insurance agreements (investment guarantees) in the largest donor countries, such as the USA, EU and Japan, is seen as an important area of investment cooperation and improvement of the economic and investment situation in Ukraine even in the context of the ongoing war, which is fully compatible with the screening tasks in view of the high risks that negatively affect investment decisions. It can be implemented with part of the assistance of partner countries. While a comprehensive solution has not yet been reached, this may be the way to bring in investment and ease debt pressure even before the end of hostilities, as large partner countries already have the necessary experience to control their companies.

Another course of action could be the creation of a fund based on US or UK financial institutions to insure political and military risks for foreign investors, as well as to support domestic exporters and investors in international markets.

To its credit, the Ukrainian government is taking the right steps in this direction. For example, according to the Ministry of Economy, the government has developed a new mechanism for insuring ships against war risks.[30] It will significantly reduce the current insurance premiums for carriers exporting and importing to Ukraine by sea. Ship insurance was made possible through cooperation with leading British reinsurance companies Marsh McLennan and underwriters Lloyd's of London through the launch of the Unity Facility. The total coverage under this programme is $50 million so far. France has introduced a bilateral insurance mechanism by the state-owned Bpifrance Assurance Export[31] for French companies that are ready to invest in Ukraine and participate in the country's reconstruction until the end of the war.

It should be emphasised that such mechanisms involving reliable partners, first, open up opportunities for foreign companies to invest in Ukraine despite the ongoing fighting. Second, they minimise the risks of investment loss, as insurance is provided and guaranteed in accordance with the companies' national legislation. And third, they minimise the risks of unscrupulous or dubious investors entering Ukraine.

[28] Strategic partners of Ukraine (realities and priorities in war) – Razumkov Centre, *https://razumkov.org.ua/images/2023/10/11/NSD193-194_2023_ukr_all.pdf.*

[29] #AdvantageUkraine. – *https://advantageukraine.com/ua/.*

[30] The new mechanism for insuring ships against war risks to return stability to shipping and safety of maritime transport. – Ministry of Economy of Ukraine, *https://www.me.gov.ua/news/detail?lang=uk-ua&id=561fa967-6839-4a8e-a5e1-717940af7db2&title=noviimekhanizmstrakhuvannia.*

[31] France to insure its companies interested in rebuilding Ukraine against war risks – Ministry of Economy of Ukraine, *https://www.me.gov.ua/news/detail?lang=uk-ua&id=eace03bb-4cb9-4abe-8da7-4042b587fff2&title=frantsiiastrakhuvatimevidvonnikhrizikivsvoikompanii-yakizatsikavleniuvidbudoviukraini.*