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## CONCEPTUAL MODEL OF ATTRACTING FOREIGN DIRECT INVESTMENTS IN TERMS OF INTERNATIONAL ECONOMIC INTEGRATION

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**Annotation.** Based on the positions of taking into account geoeconomic factors and processes of international economic integration, a conceptual model of attracting foreign direct investment (FDI) in the industry of the regions of Ukraine has been developed, which target is to ensure consistency of interests between a recipient region and foreign investors in investing. **Goals.** The goal of the article is to substantiate theoretical provisions and develop practical recommendations for improving conceptual model of attracting foreign direct investment in the industry of Ukrainian regions. **Methods.** Methodological basis of the article are fundamental provisions of economics, economic theory, the theory of foreign investment, as well as scientific results of leading domestic and foreign scientists and economists on foreign investment issues. **Main results.** A system of principles for the implementation of such model has been proposed, which includes general and specific principles, particular sectoral orientation, adaptability, complexity, efficiency, coherence and publicity. A system of coordinated goals and measures of regional investment policy within the conceptual model has been formed, which is structured in the following areas: creation of an effective system of FDI incentives in terms of technological modernization of industry, formation of attractive investment image of regional industries taking into account best international practice and setting up intensive and effective cooperation between local governments and FDI donor countries.

**Keywords:** international economic integration, foreign direct investments, organizational and economic foundations for foreign direct investments attraction, investment process participants', strategic priorities and directions for foreign direct investments.

**JEL Classification:** E20, F21, G31.

### INTRODUCTION

Ukraine's integration into global financial space, comprehensive application of free trade conditions and decentralization processes require high-quality new approach from public authorities, local governments and civil society in order to attract foreign direct investment,

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which is a key indicator of region's industries capacity for modernization transformations through introduction and practical application of advanced technologies, innovative management methods and organization of industrial production. Hence, strategic direction for generating necessary changes in real sector of the economy of Ukrainian regions, namely in industry, is intensification of investment activities and introduction of incentive mechanisms in order to attract foreign direct investment.

Main theoretical concepts of foreign investment are given in scientific papers of Dunning J.[6], Vernon R. [14], Hymer S. [8], Iversen C. [9], Gitman L. [7], Sharpe W. [11] and others. However, the issue of attracting foreign direct investment in the industry of Ukrainian regions context of international economic integration and transnationalization of industrial production requires additional attention and in-depth research. Regarding this, there is a need to improve and substantiate conceptual model of attracting foreign direct investment in the industry of Ukrainian regions, which led to the choice of research topic, purpose, formulation and solution of main objectives of the article.

The purpose of the article is to substantiate theoretical provisions and develop practical recommendations for improving conceptual model of attracting foreign direct investment in the industry of Ukrainian regions.

## **METHODOLOGY**

Methodological basis of the article were fundamental provisions of economics, economic theory, the theory of foreign investment, as well as scientific results of leading domestic and foreign scientists and economists on foreign investment issues.

## **RESULTS OF RESEARCH**

Decentralization processes, increasing attention to the impact of foreign direct investment on the economy in the context of Ukraine's integration into international economic space, especially through the creation of a free trade zone with EU countries, require improvement of existing models of FDI.

In world practice, there are three main models of attracting of foreign investment:

1. Liberalization of capital movement rules, or "open window" principle, when rules of control over capital transactions are extremely simplified, which should attract foreign investors by simplicity of such transactions [2].

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2. Ensuring foreign capital movements monitoring in order to mix simplicity of capital operations and tracking of major trends in capital movements in order to be capable of taking appropriate measures in case of serious threats to economic security of a country [3].

3. Foreign investment targeting, when a state creates not only conditions attractive to foreign investors, but also sets specific goals for the volume, geographical and sectoral directions of foreign capital in national economy [1].

However, decentralization, increasing attention to investment factors of influence on national economy in the context of Ukraine's integration into international economic space and urgent need to attract investment for technical re-equipment and industrial production reconstruction, from our prospective, require a transition to a new model of FDI. That is why we propose a conceptual model of attracting FDI in the industry of Ukrainian regions in the context of its international economic integration with justification of relevant conceptual provisions, principles, functions, structural-functional and content-practical components to harmonize interests and goals in foreign direct investment for regions of Ukraine, and for a foreign investor. This is the only way to ensure mutual benefit for a region and a foreign investor in direct investment.

The main purpose of the model is to promote the attraction of FDI in the industry of a region by creating an attractive and stable investment climate, a positive investment image. Some of the highest priority and necessary which have to be implemented in order to achieve the above goal are following:

- deepening of integration relations in a region, particularly through the creation of free trade zones with trading partner countries;
- establishment in the region of local self-government advisory commissions to promote pre-trial settlement of disputes with foreign investors;
- establishing close cooperation between local governments and FDI donor countries in a region;
- improvement of regional infrastructure, especially through the creation of industrial parks;
- ensuring the quality of labor resources in a region according to the industry needs;
- providing main places in a region in the ratings of investment attractiveness.

Main criteria for the effective implementation of a set of measures within the conceptual model are [4]:

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- 1) positive dynamics of GRP growth;
  - 2) increasing profitability of regional industrial enterprises;
  - 3) increasing growth of employment rate in a region at industrial enterprises and training and retraining of top managers and specialists;
  - 4) intensification of innovative activity of regional industrial enterprises;
  - 5) intensification of international cooperation.

Main conceptual provisions of the model are:

- intensification of industrial production in a region on an innovative basis;
- creation of new production capacities, renovation of material and technical base, rise of technological level of industrial production in a region;
- promoting the export of industrial products in a region;
- preservation and creation of new or additional jobs in the industry of a region, training of a labor force;
- development of ecologically safe industrial production in a region;
- international integration relations development.

Conceptual model that has been developed includes structural-functional and content-practical components. Structural and functional components within the conceptual model of attracting FDI in the industry of a region are manifested in the coordination of interests of a recipient region of FDI and foreign investors in direct investment, decomposition of investment process risks with their subsequent leveling, ensuring free movement of FDI and capital payments and repatriation according to provisions of the FTA with the EU and FDI incentives introduction, based on world best practice.

Content-practical components are reduced to the decision to implement FDI in the industry of Ukrainian regions. Provided that the decision of a foreign investor is positive – the tasks are implemented and the endgame is achieved (attracting FDI in the industry of a region), if negative – the identification of errors in the organization of the investment process with their subsequent elimination.

In order to reconcile the interests between FDI recipient region and a foreign investor, investment projects in industry, for the implementation of which foreign investors apply for additional benefits and guarantees, should belong to the priority areas of socio-economic development established by regional strategy, in particular:

- 1) have a long-term direction, aim to a high level reinvestment profits;

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2) promote creation of new production facilities, upgrade material and technical base, increase technological level of industrial production;

3) foresee use of equipment, components of Ukrainian production;

4) focus on rational use of raw materials in regions of Ukraine and reduce import dependence;

5) promote introduction of modern resource-saving and environmentally friendly technologies;

6) promote creation of new jobs in industrial enterprises that carry out FDI, and in the economy of a region in general;

7) promote development of Ukrainian brands and technologies.

In turn, regional economic policy should be aimed at taking into account interests of foreign investors, especially:

1) reducing the level of taxation of industrial enterprises with foreign investment in excess of a certain level of FDI, increasing employment rate;

2) free movement of FDI and payment or repatriation of invested capital and profits;

3) provision of guarantees for foreign loans, minimization and insurance of risks by commercial banks and their associations in a way to create appropriate infrastructure, etc.

Based on the analysis of scientific sources and own research, following principles of the conceptual model of attracting FDI in the industry of a region are proposed:

1. General principles – principles that provide necessary axiological dimension to processes of attracting FDI at regional level. These include:

– the principle of balancing – assumes that actions and decisions of local governments related to foreign investors are based on proportionality, which primarily reflects that among all possible legitimate forms of foreign investment should be chosen that does not restrict rights of a particular foreign investor; as well as potential harm and loss of a foreign investor must be proportional to their benefit;

– the principle of good faith. According to this principle, local governments have to be honest in complying with contractual and non-contractual obligations to a foreign investor;

– the principle of reasonableness – reflects the validity of local governments' behavior and their rationality concerning foreign investors.

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2. Special principles – principles used for the formation of regional investment policy in the context of balancing interests of FDI recipient region and a foreign investor in the implementation of direct investment:

- the principle of sectoral orientation – is a strategically conscious activity of local governments, aimed to attract FDI in industrial activities that are strategically important to a regional economy;

- the principle of adaptability – reflects the ability of participants of the investment process to respond quickly to changes in economic, political and social nature in a region;

- the principle of complexity – reflects the implementation of systemic, interconnected measures of local governments aimed to analyze, plan, forecast and manage investment activities in the industry of a region;

- the principle of effectiveness – the ratio between raw materials, economic, labor, production, infrastructure resources used in a region to attract FDI and expected results from their implementation;

- the principle of coherence – reflects the achievement of a positive effect of both recipient region of FDI and foreign investors, considering their divergent goals;

- the principle of publicity – is to provide local governments with a broad discussion at regional level of investment projects in industry.

The conceptual model provides for the performance of the following main functions by subjects of the investment process at regional level:

- analysis and forecasting – is to study regional investment market, identify possible forms and legal conditions for the sale of FDI, identify the impact of factors on FDI, and on this basis – the formation of a forecast for the implementation of FDI;

- evaluation – annual evaluation and reliable information on the investment attractiveness of the industry;

- current planning and operational management of investment projects in industry – development of calendar plans for FDI implementation with specific deadlines, targeted funding, expected results of attracting FDI and responsible people among local governments, which provides effective management of investment activities at regional level;

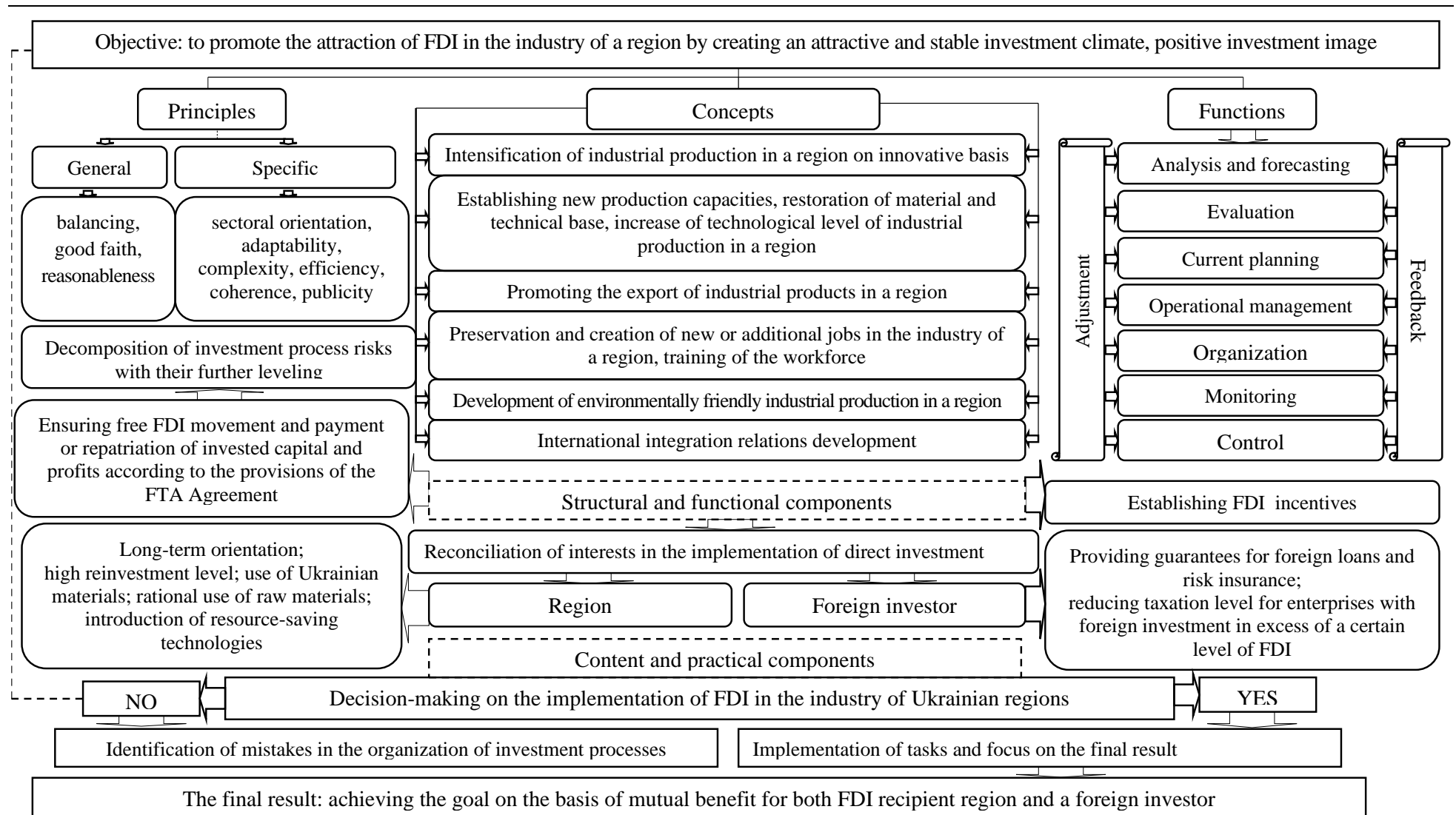
- organization – a function within which the division of labor between local governments and the executive related to creating a favorable investment climate in a region;

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– monitoring of FDI involvement in industry – provides an opportunity to respond quickly and eliminate barriers to effective FDI attraction at regional level;

– control of implementation of investment projects in industry, as well as consequences of attracting FDI and compliance with investment commitments. In this context, it is worth noting the need to apply personal responsibility of local governments for FDI invested on preferential terms.

According to these conceptual provisions, principles and functions, the proposed conceptual model of attracting FDI in the industry of a region takes the form shown in Fig. 1.



**Figure 1.** Conceptual model of attracting FDI in the industry of Ukrainian regions (compiled by the authors)



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Conducted own researches of investment attractiveness potential of the industry of regions, the analysis of international experience and generalization of domestic scientists offers have allowed to form system of actions within the conceptual model structured on the following directions:

1. Comprehensive harmonization of legal framework for FDI in the industry of regions with European standards:

– reducing of existing restrictions on free FDI movement in regions according to the Association Agreement between Ukraine and the European Union [12];

– involvement of local government specialists to create a system of certified translations of EU legislation and Ukrainian regulations provided for in the implementation of the Association Agreement between Ukraine and the EU in order to ensure comprehensive implementation of investment commitments, according to regional needs;

– development and adoption of regulatory guarantees to further ensure the free attraction of FDI, including in industry, existing in the EU member states;

– gradual easing of temporary currency restrictions for foreign investors operating in priority areas of a region's industry. Especially this applies to the requirement for mandatory sale on the interbank foreign exchange market of Ukraine of 75% of foreign exchange earnings in accordance with the NBU Resolution “On Amendments to Certain Legal Acts of the National Bank of Ukraine” of September 22, 2014 № 591 [10], which makes a foreign investor sell funds that are proceeds from export operations, and then buy them in order to ensure further current operating activities (for instance, to purchase raw materials or components for an industrial enterprise abroad). Considering the volatile situation in Ukraine in recent years, foreign investors have been in a position where, due to the prevailing demand for foreign currency in the domestic market, they have been unable to buy it, even in part;

– transformation of financial reporting principles according to European requirements for unprecedented preparation of industrial enterprises in regions for privatization processes;

– reduction of the role of the National Bank of Ukraine regional offices as market makers, particularly due to further abolition of requirements for transfer abroad of funds received by foreign investors due to sale of shares, corporate rights and currency acquisition, which was introduced by the National Bank of Ukraine Board Resolution “On Amendments to Certain Regulations Of the National Bank of Ukraine” dated September 22, 2014 № 591 [10];

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– ending the practice of banning FDI repatriation to securities and corporate rights of industrial enterprises, as well as profits, income and other funds received from foreign investment activities at regional level.

2. Establishing active and effective cooperation of regional authorities with FDI donor countries:

– maintaining diplomatic relations with FDI donor countries and following generally accepted norms and principles of international law, as well as ensuring the fulfillment of obligations under international economic agreements on the principle of “pacta sunt servanda” in order to guarantee rights of foreign investors working in the industry of a region;

– implementation of existing in regions and active preparation and conclusion of new bilateral agreements on cooperation and mutual encouragement and protection of FDI, especially with such EU countries (their counties, provinces) as Ireland, Luxembourg, Malta, Romania, Slovakia; with EU candidate countries, namely Turkey, Iceland, Serbia and Montenegro, which is quite important and relevant in the context of the establishment of a deep and comprehensive free trade area with the EU, as well as with China, the Netherlands, Japan, Canada, Luxembourg and other countries;

– increasing the level of professional competence of local governments in the area of investment activities according to international standards, particularly by developing and implementing targeted training courses, creating a system of distance learning and internships abroad, as well as personal commitments and responsibilities for quality support of investment projects industry;

– promoting the involvement of FDI in the production of export-oriented industrial products of countries that have already confirmed their fundamental interest in direct investment, in particular: the United States, Germany, Denmark, France, Great Britain, Switzerland, Bulgaria, Finland, Norway and Canada, using components for industrial equipment and machines of Ukrainian production;

– expanding opportunities for direct investment in industry at regional level by intensifying international cooperation through cross-border cooperation projects that follow the State Strategy for Regional Development for 2021 – 2027 [5];

– improving the use of EU external assistance under the European Neighborhood Instrument and other industrial support programs available to local authorities;

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– establishing a dialogue with the IMF and other international institutions, including the International Bank for Reconstruction and Development, the International Finance Corporation to combine grants and loans, which can be effective while encouraging FDI by international financial institutions in the region's industry;

– ensuring the initiative of local communities to take part in international grants, projects and programs, as well as comprehensive support for existing and relevant projects aimed at attracting additional investment in the development of industry in the regions, namely:

2.1. European Investment Bank Municipal Infrastructure Development Program of Ukraine for 2016 – 2030, approved by the Law of Ukraine “On Ratification of the Financial Agreement (Project “Municipal Infrastructure Development Program of Ukraine”) between Ukraine and the European Investment Bank” dated 03.02.2016 № 975-VIII [13], which provides for the attraction of 400 million Euros for modernization of housing infrastructure, especially in the areas of water supply and sewerage, ultimate beneficiaries of which can be local executive bodies, local governments and businesses.

2.2. Eastern European Partnership for Energy Efficiency and the Environment Fund, which grants are targeted at interested municipalities and provided by financial institutions to support energy efficiency investments.

2.3. Swedish Agency for International Development’s Energy Efficiency Project is co-financed by investment projects proposed by international financial institutions through the EBRD’s Multilateral Trust Fund to increase energy efficiency.

2.4. The International Bank for Reconstruction and Development’s Urban Infrastructure Development-2 program is the largest investment project in the field of water supply and sewerage implemented at 11 industrial enterprises in Kyiv, Kharkiv, Donetsk, Kirovohrad, Zhytomyr, Ternopil, Ivano-Frankivsk and Cherkasy regions.

3. Creating an effective system of incentives for direct investment at regional level in terms of technological modernization of industry:

– involvement and implementation of advanced technologies of multinational and transnational corporations in the industry of a region, using both externalized and internalized channels of their transfer;

– identification at local governments level (taking into account decentralization reform) of priority areas of economic activity those types of industrial activities that are aimed to meet the needs of a region in high-tech, competitive, environmentally friendly products and offering

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tax benefits or lease terms for foreign investors long-term orientation, according to these areas, and also contribute to increasing of employment rate in a region;

– certification of industrial products by regional chambers of commerce and industry in accordance with the requirements of regulatory and technical documentation in the «CERTEX» system;

– further improvement of regional investment and innovation infrastructure, particularly creation of regional networks of technology and industrial parks, taking into account existing industrial enterprises that meet environmental safety standards, as well as the system of personnel and information support for their activities.

4. Formation of attractive investment image of the industry of regions taking into account the best international practice:

– involvement of foreign investors and members of the Council of Exporters and Investors in preparation of presentation materials in terms of investment potential of the industry with coverage of positive business practices in a region;

– organization and holding international investment business forums in regions in a modern way, as well as participation of local governments in similar forums abroad to inform foreign investors about current investment proposals in the industrial sector, including projects, industrial sites and land in this way participation of a potential foreign investor;

– creation of a system for finding foreign investors for priority investment projects and ensuring constructive cooperation between local governments and foreign investors interested in the implementation of priority investment projects in industry;

– development of the practice of providing infrastructural preparation of potentially attractive investment industrial sites and introduction of a support system for investment projects in industry;

– assisting in the establishment of local structures for servicing foreign investors and ensuring their compliance with the best corporate ethics standards developed on the basis of OECD recommendations;

– ensuring orientation of local budgets to stimulate foreign investment activity and promote the development of regional brands for the production of industrial products;

– cooperation of local authorities with mass media and regional news agencies, as well as active participation in the most widespread international B2B online platforms, business portals

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and business social media in order to create a favorable investment image of the industry of a region;

– increase the efficiency of industrial facilities sales, as well as privatization processes at regional level.

## CONCLUSIONS

Implementation of the tasks and measures of the conceptual model of attracting FDI in the industry of a region mentioned above will allow to:

- increase the level of investment activity of industrial enterprises in a region;
- improve technical and technological condition of domestic industrial enterprises;
- increase revenues to local budgets;
- create new jobs at industrial enterprises in a region, increase incomes;
- increase the volume of export industrial products;
- expand and strengthen bilateral international economic ties between regional industrial enterprises and foreign investors;
- reduce disparities in economic and social development of regions;
- improve existing and establish new business contacts with potential foreign investors;
- improve the awareness level in the international business community regarding the investment potential of Ukrainian regions;
- increase self-sufficiency of territorial communities in the conditions of decentralization, etc.

Practical implementation of the proposed conceptual model of attracting FDI in the region's industry will ensure the formation of a favorable investment climate, positive investment image, realization of investment potential in the foreign market and promote incentives for investment activities based on world best practice.

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