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PROBLEMS AND BARRIERS IN ENHANCING THE ATTRACTIVENESS OF THE INVESTMENT CLIMATE

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Investments are one of the essential factors ensuring the sustainable development of national economies in the era of the global economy and digital transformation. Investments are widely recognized as a tool to stabilize economic growth, promote innovation, increase production capacity, and create more employment opportunities. According to the International Monetary Fund, the total share of investments in a country should not be less than 25–30% of the Gross Domestic Product.

However, for many countries, enhancing the attractiveness of the investment climate is complicated by uneven global capital flows, institutional and structural challenges in shaping the investment environment, macroeconomic instability, infrastructure limitations, and a shortage of skilled labor. In 2023, global foreign direct investment (FDI) reached USD 1.3 trillion, but according to the United Nations Conference on Trade and Development (UNCTAD), more than 70% of these flows were directed to just twenty leading economies.

These figures illustrate the intense competition for capital in the global investment landscape. Other countries compete for only about 30% of the available investment funds. In such a context, strengthening the investment climate becomes a strategic priority for each country. Approaches to improving the investment environment and overcoming existing problems and barriers are central issues for economic policymaking.



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Institutional challenges play a particularly critical role in developing an attractive investment climate. Rule of law, protection of property rights, contract enforcement, judicial efficiency, corruption levels, and bureaucratic obstacles directly influence investors' decisions. Research by the World Bank has shown that, for many developing and transition economies, institutional deficiencies are the primary barriers. High levels of corruption, complex administrative procedures, unfair court rulings, and weak property rights protection increase costs and risks, reduce profit margins, and lower the overall investment attractiveness of a country.

Macroeconomic stability is another key determinant of the investment climate. High inflation, volatile exchange rates, unstable public debt, large budget deficits, and balance-of-payments challenges represent serious risks for investors. Economic instability directly affects foreign investment inflows and often leads to capital flight, according to IMF studies. Therefore, ensuring macroeconomic stability and improving monetary, credit, and fiscal policies are essential conditions for enhancing investment attractiveness.

Tax and customs policies also play a crucial role. High tax burdens, complex tax systems, inefficient tax administration, and unstable incentives reduce the profitability of investment projects, while tariff policies can create additional barriers. High import duties and complicated customs procedures, including lengthy and cumbersome approvals, further discourage investors.

Underdeveloped financial systems remain a major obstacle. Weak banking sectors, limited and expensive credit resources, underdeveloped capital markets, and a narrow range of financial instruments restrict the financing of investment projects. According to World Bank research, financial system development is directly correlated with the volume of foreign investments. Therefore, financial sector reforms, banking system strengthening, capital market development, and



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the introduction of new financial instruments are critical to improving the investment climate.

Infrastructure deficits also significantly hinder investment attractiveness. Poor transport networks, outdated energy systems, and substandard telecommunications increase project costs and reduce competitiveness. According to the McKinsey Global Institute, the global infrastructure investment gap may reach USD 15 trillion by 2040, a challenge particularly acute for developing countries. Financing infrastructure projects, promoting public-private partnerships, and improving infrastructure management efficiency are fundamental to creating an attractive investment environment.

Another critical factor is the quality and skills of the labor force. Investors face challenges related to high-quality human resources, modernizing the education system, and structural mismatches in the labor market. In high-tech sectors, the availability of skilled human capital directly affects investment decisions. The World Economic Forum emphasizes that human capital quality is among the most important indicators of a country's global competitiveness. Improving education, aligning training systems with modern economic needs, and enhancing labor market flexibility are vital for investment attractiveness.

An underdeveloped innovation system also constrains the investment climate. Low R&D expenditure, limited patent activity, immature innovation infrastructure, and weak links between research and industry restrict the level of innovation. Developing the innovation system, increasing funding for R&D, and strengthening intellectual property protection are directly linked to foreign investment, particularly in high-tech sectors.

External trade policy is another important barrier. Low levels of trade liberalization, protectionist measures, and limited export promotion capabilities restrict a country's integration into global value chains. Studies by the



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International Trade Centre show a direct correlation between trade liberalization and FDI. Strengthening trade policy, supporting export-oriented projects, and expanding international trade agreements are key for enhancing investment attractiveness.

Regional disparities are also significant obstacles. Differences in economic development across regions, underdeveloped infrastructure in some areas, and shortages of qualified personnel for managing investment activities reduce overall investment attractiveness. OECD studies indicate that high regional disparities negatively affect a country's investment appeal. Therefore, improving regional development policies, enhancing investment potential in different regions, and establishing special economic zones, industrial parks, and technoparks are crucial.

Global economic changes—digital transformation, the transition to a green economy, restructuring global value chains, and demographic trends—introduce new factors shaping the investment environment. Many countries may find it challenging to adapt to these changes effectively. McKinsey and the World Economic Forum note that these trends increasingly influence investor decision-making. Countries unprepared for digital transformation, unable to transition to a green economy, or poorly integrated into global value chains may see their investment attractiveness decline. Accordingly, national strategies must account for global trends to enhance the investment climate effectively.

Despite differences in challenges across countries, one of the most important tasks of economic policy is to analyze these problems and identify solutions. Enhancing the investment climate is crucial for increasing capital inflows, promoting economic growth, creating jobs, and strengthening the competitiveness of the national economy. Systematically addressing these problems is a fundamental condition for ensuring long-term sustainable development.