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The Impact of Geopolitical Instability on Investment Management in Ukraine: Analysis of Risks and Opportunities

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Abstract: The geopolitical situation plays a crucial role in an investor's decision to allocate its resources to a particular sector of the economy, country or region. Military confrontations, political crises, and the unattractive investment climate of certain countries are becoming key factors in investors' assessment of risks and opportunities for long-term investments and in building investment strategies. This paper analyzes the main geopolitical challenges and the current state of investment activity in Ukraine. The results show that in 2023, global investment flows decreased by 2% due to a significant increase in geopolitical tensions. However, despite all the geopolitical challenges, Ukraine has a number of prospects for developing its investment attractiveness. In particular, Ukraine has adopted a number of positive legislative initiatives. In addition, the growth of foreign direct investment flows is possible in the technology sectors, such as IT and the defence industry.

Keywords: investment risks, economic instability, strategic management, financial analysis.

Introduction

The geopolitical situation is one of the most important factors affecting investment strategies and forcing investors to significantly change their approaches to managing their resources and to assess risks and opportunities more carefully. This issue is particularly relevant for Ukraine. The ongoing military confrontation, political instability, inflation and other crisis phenomena significantly reduce confidence in the Ukrainian market and the country's investment attractiveness in general. Given the domestic situation and other geopolitical challenges, investors generally prefer to avoid long-term investments in the Ukrainian economy. Therefore, it is now extremely relevant to consider what risks and opportunities investors in Ukraine can expect, given the overall geopolitical situation.

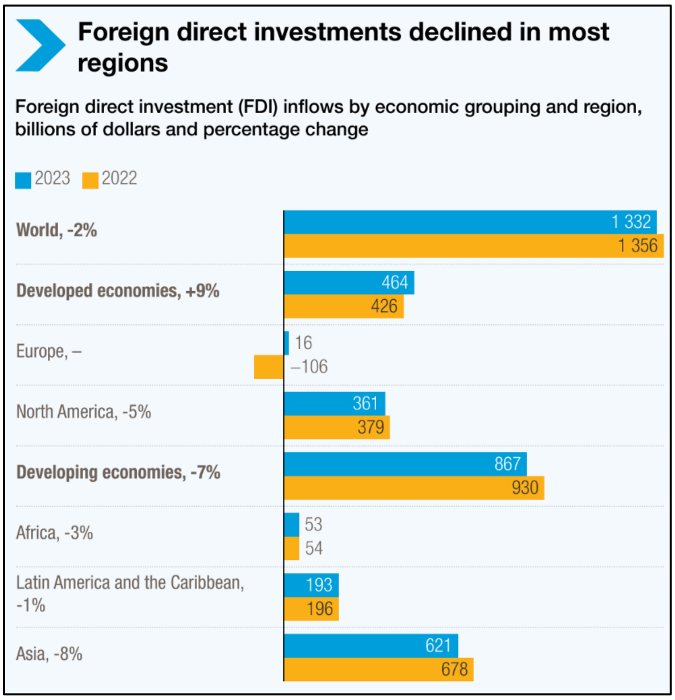
Results

In this paper, we have studied various analytical articles on the current geopolitical situation and its impact on international investment management. In addition, we present a number of opinions of Ukrainian scholars who have identified the greatest risks and opportunities that may affect investment management in Ukraine.

The main aspects of geopolitical instability and its impact on investment management are reflected primarily in the reports of international economic institutions and think tanks that cover the dynamics of direct investment. In particular, according to the World Investment Report 2024 (UNCTAD, 2024), amid rising geopolitical tensions, global foreign direct investment (FDI) decreased by 2% to $1.3 trillion in 2023 (Fig. 1).

Figure 1

Dynamics of Global Foreign Direct Investment (FDI) by Economic Groups and Regions in 2022-2023



Source: World Investment Report, UNCTAD (2024)

According to KPMG's forecast (KPMG, 2024), the global economy will experience a slight slowdown amid heightened geopolitical uncertainty. Thus, GDP growth is projected to decline from 2.7% in 2023 to 2.5% in 2024, but then increase to 2.7% in 2025. As for Ukraine, according to KPMG experts, its economy faces a number of challenges, including uncertainty about the further course of the war, the destruction of energy infrastructure, labor shortages, a decline in the manufacturing industry, and cyber threats. However, some sectors have prospects for development. These include the IT sector and the defense industry.

According to KPMG's Venture Pulse Q2'24 report (KPMG Venture Pulse, 2024), global venture capital investments reached USD 94.3 billion in the second quarter of 2024. Thus, significant investments are coming to the field of artificial intelligence. At the same time, investors may start focusing their funds on startups with unique value propositions in the industry rather than on large-scale projects.

In addition, it is predicted that in the coming years, the development of artificial intelligence is likely to increase and create new risks related to cybersecurity. Therefore, investments in cybersecurity startups are expected to grow. In addition, venture capitalists have been showing a growing interest in defence technologies (DefenseTech) for several quarters (KPMG Venture Pulse, 2024).

According to BlackRock Investment Institute analysts (BlackRock, 2024), the world is now entering the third geopolitical era after World War II, the Cold War, and the post-Cold War era, with constant competition and high levels of conflict. Despite this, the global economy and economic relations have remained fairly resilient. This is partly due to the fact that key hotspots, including Ukraine and the Middle East, remain under control. Therefore, the following themes are expected to remain relevant throughout the year: deeper fragmentation between competing geopolitical and economic blocs, a more unstable and less predictable world order, and accelerating globalization.

Also, according to the BlackRock Investment Institute, there are significant geopolitical risks that may affect the market and investment strategies. These risks and their degree of probability are presented in the table below (Table 1).

Table 1

Top risks by probability

Risk	Probability	Expert opinion
US-China strategic competition	High	The conflict over Taiwan remains a risk in the medium and long term and will have a significant global economic impact. Also, the United States and its allies, including the G7, are focused on accusations that Chinese financial institutions are supporting Russia's military efforts.
Global technology unbundling	High	The United States and China compete in advanced technologies such as AI, semiconductors, and quantum computing, as well as in military technologies.
The Russia-NATO conflict	High	Russia's invasion of Ukraine is the largest and most dangerous military conflict in Europe since World War II. At

		present, a ceasefire or diplomatic solution is unlikely in the short term.
Tensions in the Persian Gulf	High	Israeli military operations in Gaza are likely to continue next year as the conflict with Hezbollah continues to escalate. Elsewhere, Iranian-backed militants in Lebanon, Syria, Iraq, and Yemen continue to threaten Israeli and Western assets, including U.S. troops and commercial shipping. Another potential source of escalation is Iran's recent moves to accelerate its nuclear capabilities.
Large-scale terrorist attacks	High	There is an increased risk of terrorism before the 2024 US presidential election.
Cyberattacks	High	Increased geopolitical competition will lead to an increase in the volume, scale, and sophistication of cyberattacks. The rise in ransomware attacks, especially in healthcare and critical manufacturing, highlights the vulnerability of business infrastructure.
Political crisis in emerging markets	Medium	The aftermath of the war in Ukraine is putting serious strain on political systems. Countries such as India, Mexico, and Vietnam are likely to benefit from supply chain diversification, but other countries with significant short-term debt obligations, such as Argentina, remain vulnerable despite domestic policy adjustments.
The North Korean conflict	Medium	North Korea continues to build up its nuclear weapons and is noticeably getting closer to Russia, for which it has become an arms supplier. In January, Kim Jong-un abandoned peaceful reunification with South Korea as a key political goal. In response, South Korea and Japan have been bolstering their defenses and strengthening ties with the United States.
Climate policy	Medium	Clean energy will increasingly become a source of geopolitical competition, benefiting those who can control and access it.
European fragmentation	Low	Europe remains largely united on key issues. But several issues could worsen European unity in the future, including migration.

Source: author's own development based on data from BlackRock (2024)

The data obtained on geopolitical challenges allow us to further consider the situation with investment management in Ukraine in more detail. First of all, it is worthwhile to provide an example of the current investment situation. According to the Ministry of Economy of Ukraine (Ministry of Economy of Ukraine, 2024), investment activity is characterized by growth - in the first quarter of 2024, it is estimated at 4.5%. According to the National Bank of Ukraine, as of 31.03.2024, the volume of foreign direct investment in the Ukrainian economy amounted to USD 55,786.6 million. The amount of foreign direct investment in the economy of Ukraine amounted to USD 55,786.0 million, which is mainly directed to developed economic sectors. The main investor countries include Cyprus, the

Netherlands, Switzerland, the United Kingdom of Great Britain and Northern Ireland, Germany, Austria, Luxembourg, and France.

Also, according to the UNCTAD report (UNCTAD, 2024) on investment policy trends, it is known that despite the consequences of Russia's full-scale invasion, the country managed to maintain its investment attractiveness. More details on the indicators of foreign direct investment flows can be found in the table below (Table 2).

Table 2

FDI flows in Ukraine in 2018-2023 (millions of dollars)

FDI inflows (FDI inflows)						FDI outflows					
2018	*2019*	*2020*	*2021*	*2022*	*2023*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*
4 732	6 017	-36	7 320	557	4 247	-127	842	22	-198	344	42

Source: author's own development based on data from UNCTAD (2024)

According to KPMG experts, investment trends in Ukraine in the second quarter of 2024 did not contradict global ones. Ukrainian startups continue to actively attract venture capital investments, albeit in smaller amounts compared to previous years. Investors showed interest in the technology sector, AI, blockchain, and the Internet of Things. Drone production and satellite technologies are of particular interest. In this area, Ukrainian companies have a significant advantage, as they offer technological solutions for the army that can be directly tested and improved in combat. There is also growing attention to green technologies and renewable energy sources (KPMG Venture Pulse, 2024).

To stimulate the inflow of strategic investments to Ukraine and increase the country's investment attractiveness, the Law of Ukraine, "On State Support of Investment Projects with Significant Investments in Ukraine," was adopted (Verkhovna Rada of Ukraine, 2024). Thus, the state promises to support investment projects with significant investments in the following forms: exemption from certain types of taxes and fees; exemption from customs duties on new equipment necessary for the implementation of the investment project; ensuring the preemptive right to land use - leasing a land plot of state or municipal property; guaranteeing the construction of engineering and transport infrastructure facilities or compensation for facilities built by the investor; compensation for the cost of joining the engineering and transport infrastructure; and compensation for the price of connecting to the Regarding investment insurance instruments, it should be noted that at the national level, the Verkhovna Rada of Ukraine adopted the Law of Ukraine "On Amendments to the Law of Ukraine "On Financial Mechanisms for Stimulating Export Activities" on Insurance of Investments in Ukraine against Military Risks" (Verkhovna Rada of Ukraine, 2023). According to Nikolchuk and Lopatovska (2023), Ukraine has formed a strong foundation for stable economic development in recent years, which contributes to increasing investment attractiveness and attracting foreign direct investment. However, investment attractiveness is currently affected by unfavourable factors such as martial law, slow progress in structural reforms, high levels of corruption and the tax burden. To improve the situation, it is necessary to reduce the tax burden, eradicate corruption, reduce unemployment and inflation, and improve legislation and risk insurance for foreign investment. Savchenko and Porokhnya (2024) add that an important condition for attracting investment and economic development is an effective public administration system, which currently remains imperfect.

Conclusions

Geopolitical instability remains a significant challenge for investment management. International institutions predict a decline in investment flows over the next few years. In addition, analytical centres predict the emergence of new and aggravation of several long-term geopolitical conflicts that may become new challenges for investors worldwide. Therefore, the critical task for investors shortly should be to adapt their investment strategies to the current realities to minimize risks and enhance opportunities in an unstable geopolitical environment. This issue is especially relevant for Ukraine, which is in a state of war and prolonged political instability. However, the Ukrainian economy shows positive investment sector trends despite the difficult situation. The following steps to improve investment attractiveness should be effective governance, reducing corruption, and continuing structural reforms.

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