

УДК 339.9(477)

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## TRANSNATIONAL CORPORATIONS ACTIVITIES IN UKRAINE: ANALYSIS AND PROSPECTS

The article examines the problems and prospects of the investment activities of transnational corporations within Ukraine. The author has determined positive and negative consequences of TNC affiliates' activities in Ukraine's economy. The paper also contains the analysis of sectoral and geographical structure of FDI in Ukraine; the author emphasizes the necessity of examining all aspects of TNCs' investment activities in order to create conditions favourable for attracting transnational capital into domestic economy on mutually beneficial terms.

**Key words:** *transnational corporations, foreign direct investment, investment strategy of TNCs, FDI sectoral structure, FDI geographical structure.*

**Introduction.** At the present stage of the world economy development transnational corporations (TNCs) have become one of the main driving forces of globalization. They account for over 50% of world production, over 75% of world trade and international migration of capital, more than 80% of international technology transfer. In recent years, multinationals have become the main structural element of the economies of most countries, the leading force of their development and efficiency increase. The internationalization of production and capital, liberalization of foreign trade and the emergence of cross-border strategic alliances shifted TNCs in the centre of the world economic development. TNCs today actually solve the key issues of the new economic and territorial division of the world, having formed the largest group of foreign investors and bearers of new technologies in production and non-production areas.

Activities of multinationals have a direct impact on the balance of payments, production volumes, foreign trade turnover, employment, competitiveness of the host economy. Due to the fact that investments in a particular sector of the recipient country are often accompanied by movement of labour, technological and other resources

from home country, increasingly importance has been attributed to political factors related to exercising control over a national economy and matters of extraterritorial and national independence. That makes it necessary to analyze the principles and mechanisms of TNCs' activities in order to improve public policy of their regulating and create favourable conditions for attracting translational capital to domestic economy.

Transnationalization processes and TNCs' activities have been deeply investigated by both foreign and domestic authors. Among foreign researches there are J. Bailey, G. Breuil, J. Dunning, R. Keyvs, H. Coase, S. Myers, S. Ross, S. Haymer. In our science the problem has been investigated by A. Arkhipov, A. Astapovicha, O. Belarus, G. Davtyan, A. Kovalev, D. Lukyanenko, Y. Makogon, A. Nahovytsyna, O. Stag, V. Rokocha.

But despite the large amount of scientific achievements the problem of TNCs' functioning is still important in the current economic conditions. The impact of TNCs on the global economy becomes more and more differentiated, the global financial and economic crisis has caused changes in behaviour of TNCs – all these trends require continuous scientific monitoring. However,

determining the prospects of translational processes in Ukraine remains an important issue due to the fact that expansion of foreign TNCs in the Ukrainian market has been one of the most significant consequences of the integration processes. However, TNCs in Ukraine are not working at full capacity, so Ukraine still has a chance to make a real impact on their activities in its territory and, as a result, especially needs a comprehensive and balanced public regulatory policy.

The aim of the study is to assess TNCs' investment activities and its prospects in Ukraine in conditions of globalizing world economy.

**Main Body.** Analyzing the activities of TNCs in Ukraine, first of all, it should be noted that lagging behind in infrastructure development and modernization of national industries does not allow Ukraine to enjoy its geopolitical advantages. Ukraine's participation in the global value chain and global production networks is extremely limited. That hinders the formation of foreign policy in geopolitical dimension (creation of TNCs, participation of national money and capital markets in the operations on the world markets, participation in the global production and investment chains which means participation in the world income distribution processes). Finally, it causes the situation when «Ukrainian foreign policy gets stuck in the vicious circle of geopolitical alternative West-East» [1, p. 10].

According to UNCTAD (World Investment Report 2004) in 1999, Ukraine had 7,362 foreign affiliates of TNCs, but data for 2010 indicate a significant reduction in their number to 872, while in many other Central European countries this figure is much higher. In particular, the number of foreign multinationals in Lithuania reaches 2430, Russia – 2139, Estonia – 1079, Poland – 7016, Hungary – 28994, Czech Republic – 56808. Also striking is the comparison with Western European countries and newly industrialized countries, especially China, with 434,2 thousand foreign branches [2].

To date in Ukraine there is not a single sector wherever TNCs would have positioned themselves. Arrival of multinationals in a

country and expansion of national firms on the global commodity and financial markets testifies to a country's integration into the world economy, its involvement in the process of globalization. This phenomenon has been dubbed «transnationalization» of the economy. The main channel of TNCs' influence on the national economy and way of most TNCs' creation is foreign direct investment (FDI).

According to The Balance of Payments methodology, FDI in Ukraine is defined as «a category of international investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy in an enterprise resident in another economy» [3].

Investments are classified as direct if they provide 10 percent or greater participation in the authorized capital of the enterprise and (or) a significant part in the management of its activities.

In Ukrainian legislation the category of foreign investors is determined by the Law of Ukraine «On the regime of foreign investment» [4, p. 2].

In Ukraine, foreign investors may invest through the establishment of wholly foreign-owned companies, branches, joint ventures, or the purchase of entire ownership of existing entities, or the acquisition of a portion of shares in existing firms [5]. However, the most common method is to create a joint venture in the form of joint-stock companies and limited liability companies.

Each of the above methods of entering the Ukrainian market by TNCs, to some extent, affects the level and development trajectory of national competitiveness. This is due to the fact that activities of transnational corporations on the Ukrainian market leads to changes in the competitive environment, threat to the balance of competitive forces. An important aspect of the impact of TNCs on the national economy is aspiration of corporations to cut costs, namely by reduction of labor costs and costs connected with ensuring safety in the workplace and environmental production.

The impact of TNCs on the development of a country's competitive environment also

appears to be ambiguous. Positive aspects include the creation of additional jobs, access to technology, exchange of experience. In the Ukrainian economy one could observe a string of negative effects from TNCs' activities. The goal of many TNCs in Ukraine is to create marketing networks to promote their products on the Ukrainian market or establish enterprises processing agricultural products and minerals. The former results in the fact that Ukraine actually subsidizes the production of developed home countries, the latter often implies environmental degradation and depletion of resources.

This means that Ukraine's economic strategy should be formed on the basis of explicit projects involving establishment of international banks, formation of offshore mechanisms which serve them, tax havens, preservation and development of the transcontinental pipeline infrastructure, transport and telecommunications infrastructure, developing and maintaining port and storage facilities. This, in turn, requires efforts to improve transport and transit policy, customs and tax services, performance of banking and other financial and investment institutions in Ukraine [1].

Ukraine has significant potential for foreign investors, driven by a relatively large and growing market, availability of inputs, infrastructure, and favourable geographical position. However, instability and uncertainty of tax legislation, lack of transparency in financial markets and privatization processes, insufficient protection of property rights, the bureaucratization of management and unreasonably high degree of state involvement in economic life make up an incomplete list of factors hampering arrival of foreign capital in Ukraine and its

integration into the global financial system. Recently, this list has been supplemented with macroeconomic instability caused by the volatility of fuel prices and a high level of political instability. Thus, the national economy does not make full use of existing opportunities to increase FDI, hence the problem in FDI attraction still remains vital for Ukraine.

According to State Statistics Service, inward FDI stock in Ukraine on January 1, 2013 amounted to \$ 54,5 billion dollars. Dynamics of inward FDI stock in Ukraine for the period 1995–2013 is shown in fig. 1.

Data in fig. 1 show a growing trend of FDI in the Ukrainian economy, but growth rates remain low. High latency in investment could be explained by the fact that normal and civilized arrival of investors is usually the result rather than the cause of the improved investment climate, while opaque and unstable markets often attract investors prone to fraud and money laundering. This is confirmed by the sectoral structure of the inward FDI stock in Ukraine (fig. 2).

Most of foreign TNCs' capital has been accumulated in the food and tobacco industry, commerce, finance, real estate, i.e. in areas with rapid turnover of capital and secured markets. In addition, there is a negative trend in foreign capital inflows in the real sector (fig. 2). The share of FDI in agriculture, engineering and metallurgical production is unreasonably low. Strategic industries do not attract the necessary amount of capital to upgrade morally and physically obsolete fixed assets.

This suggests that most foreign investors are focused on licensing and investment strategies focusing on gaining quick profits and outflow of funds. These so-called

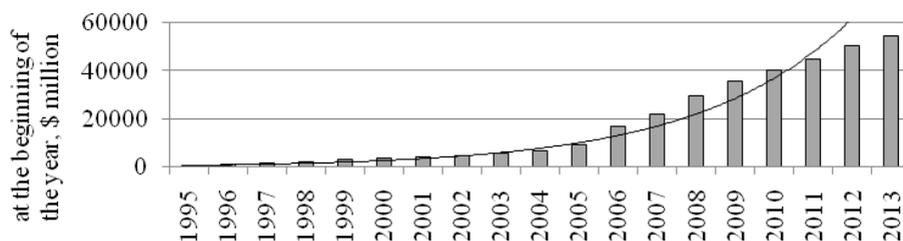


Fig. 1. Inward FDI stock in Ukraine and its exponential trend

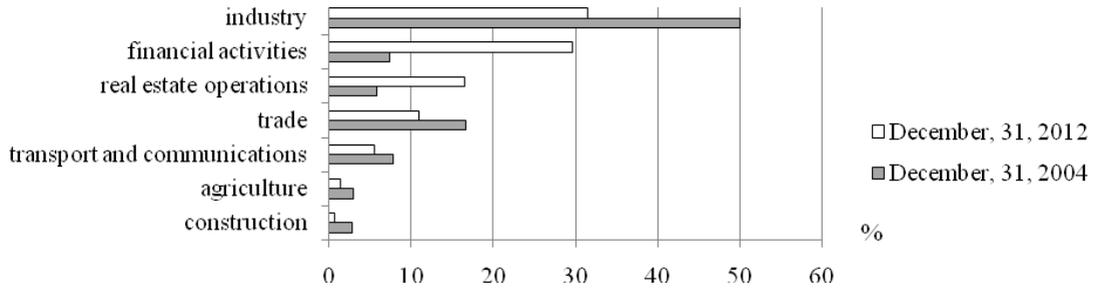


Fig. 2. Distribution of FDI by economic activities

pseudo-investing strategies are not aimed at to exploit economic potential of the national economy but to obtain the opportunity for getting around customs and protectionist restrictions. This hampers the development of the Ukrainian export potential. In addition, there is a negative impact of TNCs on development of the particular branches of the national economy, such as automotive, tobacco and food industries.

All these trends require investigation of all the aspects of transnational corporations' investment activities which will be helpful in creating conditions for attracting transnational capital into domestic economy on mutually beneficial terms.

Geographical structure of inward FDI also remains adverse. Much of the foreign investment in Ukraine is made by offshore firms that launder dirty capitals. That is why Cyprus is one of the leading sources of FDI in Ukraine (fig. 3).

Quantitative and qualitative analysis of TNCs' activities in Ukraine indicates that the national economy is only beginning to benefit from the placement of TNCs' affiliates in its

territory. To improve economic performance Ukraine ought to create conditions for further expansion of foreign TNCs and uphold the integration of domestic enterprises into the global economy.

To ensure a combination of foreign TNCs' corporate strategies and national economic development priorities we need to shift the center of TNCs' interests from trade and distribution operations to production and R&D, reduce the risk of foreign capital flight in the form of repatriation of profits and outflow of short-term speculative capital («hot money») resulted from reduction of confidence in the government and its economic policy.

Development of measures aimed to induce foreign TNCs to use technologies developed by Ukraine is also of great importance.

Understanding the strategy of the corporation helps avoid situations where the activities of its subsidiaries lead to suppression of competing Ukrainian companies or formation of an oligopoly or even monopoly.

**Conclusions and suggestions for further research.** Summarizing all the above, it should be noted that the arrival of TNCs in Ukraine, on the one hand, carries with it a positive impact on the domestic economy, as corporations usually demonstrate high labour and capital productivity, bring in new technologies and efficient management. On the other hand, TNCs are completely indifferent to the Ukrainian economy as a whole, for they are interested in bringing only profitable sectors of the Ukrainian economy to the system of international division of labour. Such an orientation of TNCs may

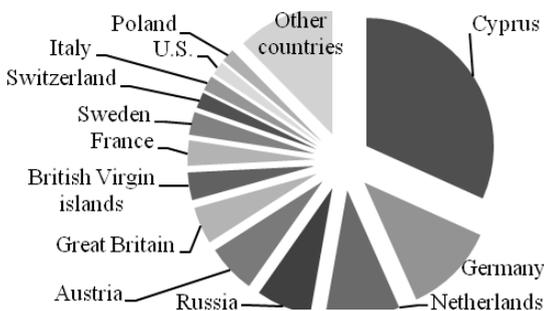


Fig. 3. Geographic structure of FDI inflows to Ukraine as of December, 31, 2013

lead to decline in less profitable segments of the national economy.

Economic reforms in Ukraine envisage further transnationalization of Ukrainian enterprises to improve their competitiveness and financial capacity. Assessing Ukraine's present stage of economic development, it should be noted that transnationalization of the economy can become a mechanism that will generate new priorities of socio-economic development, foreign policy strategies and benefits from Ukraine's participation in the international exchange. One of the main strategic objectives of public policy should be further establishment of national TNCs, which will result in increasing social production efficiency, better customer satisfaction and improving competitive positions of the national economy. We will focus on this issue in our future research.

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У статті розглядаються проблеми і перспективи інвестиційної діяльності транснаціональних корпорацій на території України. Автор визначив позитивні і негативні наслідки діяльності філій ТНК для економіки України. Стаття також містить аналіз галузевої та географічної структури ПІІ в Україну, автор робить акцент на необхідності вивчення усіх аспектів інвестиційної діяльності ТНК з метою створення сприятливих умов для залучення транснаціонального капіталу у вітчизняну економіку на взаємовигідних умовах.

**Ключові слова:** *транснаціональні корпорації, прямі іноземні інвестиції, інвестиційна стратегія ТНК, галузева структура ПІІ, географічна структура ПІІ.*

В статье рассматриваются проблемы и перспективы инвестиционной деятельности транснациональных корпораций на территории Украины. Автор выявил положительные и отрицательные последствия деятельности филиалов ТНК для экономики Украины. Статья также содержит анализ отраслевой и географической структуры ПИИ в Украину, автор делает акцент на необходимости изучения всех аспектов инвестиционной деятельности ТНК с целью создания благоприятных условий для привлечения транснационального капитала в отечественную экономику на взаимовыгодных условиях.

**Ключевые слова:** *транснациональные корпорации, прямые иностранные инвестиции, инвестиционная стратегия ТНК, отраслевая структура ПИИ, географическая структура ПИИ.*

*Одержано 3.10.2013.*