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THE INFLUENCE OF ACTIVITY OF TNC ON SMALL OPEN ECONOMIES: AN EXAMPLE OF UKRAINE

The urgency of the topic is determined by the significant role of TNCs in the modern globalized world, as TNC determine the main trends in the development of the world economy. TNCs are a driving force in the processes of integration and internationalization of individual economies. To date, the involvement of TNCs in production chains is an integral part of the foreign economic activity of any developed country. For Ukraine at the present stage there is a need to attract foreign direct investment to create new and modern production facilities. The presence of TNCs in the Ukrainian market, with their enormous financial capabilities, can be seen as one of the sources of attracting the necessary investments as well as another opportunity for Ukraine to expand and deepen productive relations between enterprises from different countries.

In the annual Doing Business report, which is trained by the World Bank Group, Ukraine ranked 80th place in ease of Doing Business (between San Marino and Bosnia and Herzegovina). This is three positions higher than last year. In such global investment attractiveness ratings, indicators such as GDP, country reforms, etc. are taken into account [1]. There is also a number of obstacles for foreign companies in Ukraine, among them are: problem of property rights protection; permission for temporary stay in the country; high bureaucracy of the procedure for obtaining a work permit; the inability to repatriate capital normally; administrative services; low English language proficiency; difficulties with opening accounts for non-residents [2].

Therefore, it is necessary to understand how influential the activity of transnational corporations can be in such a small open economy as Ukrainian. And what's more there: advantages or disadvantages.

According to UNCTAD's official definition, “a transnational corporation is an enterprise that brings together legal entities of all organizational and legal forms and activities in two or more countries and pursues a single policy and overall strategy through one or more decision-making centers” [3]. TNCs are empires that don't take into consideration countries' borders. There are currently 83,000 multinational corporations around the world with more than 825,000 branches in different countries. TNCs control more than 85% of world exports and 95% of foreign direct investment [4].

Factors attracting TNCs to a country include:

- cheap raw materials;
- cheap labor;
- developed infrastructure and transport chain;
- wide consumer market;
- favorable tax policies and government policies.[4]

In the Ukrainian market, transnational corporations appeared in the 90's, among them: McDonalds, Procter & Gamble, Nestle, Coca-Cola, Philip Morris International, Microsoft, Google etc. Investing in the national economy by transnational corporations is more beneficial than attracting loans from international organizations or other countries. Indeed, together with the financial assets of

TNCs bring the host country the latest technologies, management experience, a new corporate culture, a well-established system of product markets. In the following years, such TNCs entered the Ukrainian market: Shell, Nestlé, Alcatel, Kraft Foods (Mondelez International), British American Tobacco, Coca-Cola, British Petroleum, Danone, Hewlett-Packard, McDonalds Corporation, Huawei, Metro Cash&Carry, Samsung, Siemens, PepsiCo, Procter&Gamble, SUN Inbev, Toyota, Unilever.

According to the data, the assets of transnational corporations in the Ukrainian economy total \$ 68.7 billion year, the volume of their international production is \$ 31.2 billion, and the total export \$ 5.7 billion. For comparison, the aggregate assets of the 200 largest Ukrainian enterprises (according to Forbes) are \$ 57.1 billion, their revenue in 2016 amounted to \$ 51.9 billion. But it should be noted that only 118 of them on the list are profitable, which showed a net profit of \$ 2.24 billion. Due to data, it can be said that TNCs have a greater weight in the Ukrainian economy, and therefore have more influence and opportunities compared to national enterprises [5].

The entrance of TNCs in the economy of an individual country always means the injection of foreign direct investments into it. For Ukraine, raising funds on an investment basis is a great necessity, because investments give more opportunities for entrepreneurial environment development than lending. In addition, credit funds pass through the management of the state apparatus, and therefore it is more difficult to control their use. Let's consider the current situation in the Ukrainian investment environment.

Table 1.

Dynamics of direct foreign investment inflows to Ukraine in 2004-2016.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Volume of DFI, billion US dollars	6,8	9,0	16,9	21,6	29,5	35,6	39,2	43,8	49,4	53,7	57,0	45,9	37,7
Growth rate, %	-	32,4	87,8	27,8	36,6	20,7	10,1	11,7	12,8	8,7	6,1	-19,5	-17,9

It can be seen from the table, by 2013, the inflow of FDI to the Ukrainian economy has been steadily increasing, and since 2014 their volumes have started to decline. In 2015 and 2016, we have a negative growth rate in general. The main reason for this situation is the high political risks and vulnerability of the foreign investor [5].

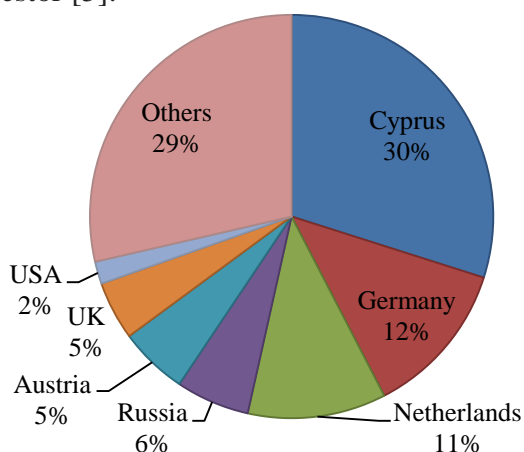


Fig 1. Structure of direct foreign investments in the Ukraine's economy by countries, 2016

The largest investors are Cyprus, Germany, the Netherlands, Russia, and the United Kingdom. With regard to proceeds from Cyprus, the origin of these investments is doubtful, since Cyprus is an offshore zone and is used as a land for money laundering. So the main investors are European countries. When considering investments by individual corporations, McDonald's

Corporation (US, Food Industry) accounted for \$ 7.4 million, Nestlé S.A. (Switzerland, Food Industry) – \$ 6,7 million, British American Tobacco (UK, tobacco industry) – \$ 6,2 million [5].

The positive aspects of TNCs' activity in the Ukrainian market include the following: attracting FDI, creating new jobs, which in turn leads to increased demand, the attraction of new technologies, the addition of Ukraine to world production chains, the introduction of a new culture of business in Ukraine, increased competition on the domestic market, increase of tax revenues, creation of new economic relations. At the same time, one should not forget that multinational corporations primarily pursue one goal of obtaining and increasing their own profits and, based on the markets of the new states, they seek to maximize their income and minimize costs. In this regard, there are such negative effects of TNCs: the expansive use of host country resources, environmental pollution, the creation of monopolies, tax evasion, the absorption of national producers, unfair competition. Multinational corporations have virtually unlimited resources, so it is easier for them to operate even under economical fluctuations both on the national and on the world markets.

The peculiarity of the activities of foreign TNCs (Coca-Cola, Volkswagen, Panasonic, Sony and some others) in Ukraine are the processes of mergers and acquisitions. Thus, Nestlé started its operations in Ukraine through the purchase of a controlling stake in the Lviv confectionary factory “Svitoch” in 1998, and subsequently acquired 100% of the shares of Volynholding (TM Torchin) and Tekhnokom. In 2006, Danone expanded its geographical presence through the purchase of Kherson dairy factory “Rodic” and became “Danone – Dnipro”. Since June 2010, as a result of the merger of Danone and Unimilk, the Ukrainian assets of Danone-Unimilk have been replenished by three companies - Danone-Dnipro, which produces more than 80% of Danone's products, Galakton in Kiev and Cremez” - in Kremenchuk. In metallurgy, mergers and acquisitions proceeded through acquisition by Metinvest BV (the Netherlands) in 2010 of a 74% stake in PJSC “Mariupol Metallurgical Combine”. Ilyich, and the same year the Russian investment company “Troika Dialog” buys a 48% shares in the Zaporizhstal metallurgical plant and others. In my opinion, the creation of joint ventures in which activities would be carried out by foreign multinational corporations a part with national producers is the best solution to this situation [6]. Artyom Chernys, General Director of Philip Morris International in Ukraine, in the interview with editing designated benefits of such cooperation. He state, cooperation with small local companies brings to the multinational corporation a better understanding of the customer's needs, the processes taking place in society and the economy. 60% of contracts with suppliers are agreements with local companies involved in the production of goods or services in the Ukrainian market. And 40% of contracts are concluded with foreign enterprises. Collaboration with Ukrainian companies allowed Philip Morris Corporation to cut costs by \$ 1 million by the end of 2015. For example, engaging in the annual research of a Ukrainian contractor instead of an international one allowed to reduce their cost by \$ 30,000. Using the Ukrainian representation of a global company instead of a standard international hub for the organization of the call-center reduced the relevant costs by \$ 330,000. Production of a piece of equipment (storage device) for the vein line at the Ukrainian enterprise allowed to save \$ 100,000 [7].

In Ukraine it is necessary to create an adequate regulatory framework that would recognize the limits of the activities of the TNCs, as well as would protect their rights, and compelled to be responsible for their activities. The legislation of Ukraine on the protection of workers and the environment in practice can be effective, although it needs to be improved. At the same time, state institutions are relatively weak, which means the possibility of significant influence on the government by large companies. If the state is weak, TNCs (like any other big business) can achieve such conditions for themselves, which will harm society as a whole. To prevent the negative influences of these corporations, strong state institutions are needed.

In my opinion, the feasibility of involving TNCs in the Ukrainian economy is obvious. At the moment, if necessary, the formation of a state law that would establish certain guarantees of welfare for foreign companies and a plane of functional restrictions in order to coordinate the impact on the economy of the country as a whole and subjects of entrepreneurial activity, in particular. National companies can withstand fierce competition on a global scale, namely with foreign transnational structures, only if powerful financial-industrial groups are formed that are capable of conducting active foreign economic policy. The future involvement of TNCs in activities in the Ukrainian territory depends on the growth of the economy and the implementation of macroeconomic reforms and international legislation.

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