

УДК 330.341.1(477)

**O. V. Shkurupiy,**

*PhD. (Economics),*

**T. O. Bilobrova,**

*PhD. (Economics),*

**T. A. Deineka,**

*Higher educational establishment of Ukoopspilka  
“Poltava University of economy and trade”*

## **UKRAINE IN THE PROCESSES OF ECONOMIC CONDITIONS DEVELOPMENT TRANSNATIONALIZATION: POSSIBILITIES OF TNC'S INNOVATIONAL POTENTIAL ATTRACTION**

Transnationalization is an integral feature of the modern world economic development — process, the participants of which are virtually becoming all countries. Usually, the participation of the countries in the processes of transnationalization is different: one countries are passive recipients of the development' results as the after-effects of foreign TNCs, the other countries have such economic systems which are the base for creation of powerful TNCs and formation of so-called geo-economic influence. The relationship between economic developments of countries, where the transition from administrative-command economic system to market took place, and transnationalization, that as the process of economic globalization became very active exactly in 90-ties of XX century, manifests with considerable specificity. Such differences were formed and still exist not only compared to the current post-socialist countries with the traditional market economy, but also are traced in comparison with economic development and participation in the world economic development processes (particularly in the processes of transnationalization) of the countries, which overcame the transition period of system transformation.

Significant contribution to the theoretical comprehension of the transnationalization problems, institutionalization of global economic processes, development of transnational corporate systems, global and international strategies of TNC have made such foreign scientists: as D. Berch, A. de Gius, J. Dunning, R. Kaplinski, R. Coase, R. Ollio, P. Peckar, M. Porter, A. Rugman, F. Fukuyama, S. Hymer, E. Helpman and others. Significant contribution in the study of theoretical problems associated with the activities of TNCs have made the following domestic scientists: P. Buriak, A. Hal'chynsky, V. Horbatov, M. Kyzym, D. Lukianenko, V. Muntiyany, L. Rudenko-Sudareva, S. Iakubovsky and others.

Considering the problem of economic development terms transnationalization in Ukraine it is necessary to state, that during the 20-year period (including positive — Ukraine has become a market economy state) many changes have taken place. But in accordance with very active process of market reforms, privatization, provision

of foreign economic openness of the country etc, the issue of ensuring conditions for sustainable economic development has not been conclusively resolved. During the period of 1990-2010 GDP per capita in Ukraine decreased by 27%. According to different estimates [1; 2] it makes up 14.3— 19.5 % from that seen in U.S. and is substantially lower than the same index in the most post-socialistic countries of Central and Eastern Europe, former USSR (Slovenia, Czech Republic, Hungary, Poland, Baltic countries etc.) In the report of the UN Development Programme “The real wealth of nations: the ways of human development” [3] Ukraine was called a country with high level of human development (mainly due to high educational component of human capital) — in 2010 HDI (Human Development Index) was equal to 0.710. Nevertheless not only the formation of middle class did not take place in Ukraine (as an important precondition for sustainable economic development), but also, the differentiation of society deepened (in 2010 HDI, adjusted for inequality is equal to 0.652).

Considering the problem of national economic systems progressive development tasks' realization in countries that have experienced a systemic transformation and at the same time considering the objectivity and the overwhelming character of transnationalization processes, it is necessary to state the main principle — it is impossible to perceive the global economic processes indifferently. Scientists [4] note “the advent of transnational economic era”, or new “civilization of transnational business”. Today among 100 largest economies in the world, 52 — is TNC, and the rest are the states. From this point of view, the interaction between post-transformational countries and TNCs so to say “at the intersection” of the national economies and spheres of economic activities can not take place. At the same time it is necessary to keep in mind that the nature of TNCs is dual and contradictory (meanwhile such duality is inherent in TNC of both foreign and national origin). Respectively the consequences for the economic development of the abovementioned interaction can be both positive and negative.

In a globalized world the economic relations system (particularly those that occur with the participation of TNCs)

is mediated above all by functions of government influence institutions, but the problems related to the national development remain the prerogative of the institutions of government regulation. In the context of macroeconomic development interests the issues of TNCs' activities must be solved within a reasonable industrial policy. Without this, two groups of problems (complications) can arise for national development. They are as follows: 1) inconsistency between national and local interests of domestic multinationals may cause the fact that each of these companies will sell to foreign markets only practice of own competitive advantages export, exactly their activities will be focused on purely pragmatic interest — to produce and sell what is easier and cheaper; 2) inconsistency between national interests and the interests of foreign multinationals may result to either the dependence on foreign capital (in terms of proper state transnationalization control weakening), or limit the country's participation in the process of international division of labor (in terms of excessive closeness of the country because of the excessive strengthening of such control).

Considering the global economic processes and the need to adapt to them in the interests of macroeconomic development, the need in determination of Ukraine's place in the processes of transnationalization is arisen. The main prerequisite for this is the presence of large domestic companies, which tend to the status of TNCs.

According to the business-rating "TOP-100. The largest companies in Ukraine" data this sector in the economy of Ukraine is being formed successfully. In 2009 rating such companies as NAK Naftogaz Ukrainy, Metinvest, Energorynok, Azovstal, TNK-BP Commerce (companies that had the largest net income); Kyivstar, Metinvest, NAK Naftogaz Ukrainy, Northern GOK and Privatbank (the most profitable companies) were noted [5].

Domestic companies also show a decent result against the background of large national capital origin processes in CEE. In 2009 according to the Deloitte three Ukrainian companies entered the top ten in CEE — NAK Naftogaz Ukrainy, MetInvest Holding, Ukrzaliznytsya. Compared with 2007 and 2008 the number of Ukrainian companies in the ranking fell, but positive fact is that Ukraine is ahead of most countries in the named region in terms of revenue growth, which equaled to 21 % with an average value increase to 16.8; the exception makes up only industrial sector which suffered the most from the consequences of the crisis [6].

However, it is necessary to emphasize that the increase in of large corporations' scale is not that main feature at which the significance of TNCs for national economic development is assessed — important is that how the processes of big companies creation and the growth of national GDP correspond to each other, how actively financial-industrial groups, TNCs and other similar structures participate in the formation of national budget, paying taxes etc. One of the most important criteria in the system "TNC activity is the economic

development of the country" is the dissemination of innovative processes in the economy based on efficient use of TNC's assets.

The concept of the economic terms of development transnationalization should precede the fact that economic and industrial policy in particular, should become a well organized system of measures, where the innovational component is considered as decisive backbone element. This condition, considering the specifics of the modern world economic development is the principle for ensuring parity of economic relations of Ukraine in the system of international division of labor and the possibility to avoid dependence on multinationals by expanding their own base of high-tech sector.

Unfortunately, in fact the possibilities of industrial cooperation and scientific and technical cooperation with major domestic enterprises with foreign companies are not fully used in Ukraine, although the international partnership relations practice provides many positive examples. Particularly the experience of China is exemplary. In 1993 Motorola created the first foreign R & D laboratory in this country; now the number of foreign units has increased to 700 [7, p. 23]. At the same time another direction is implemented in the country: first slight, gradual, but consistent principles of scientific and technical cooperation with foreign multinationals expansion, carried through the programs of China's economic development, helped to transform this country into one of the most active participants of transnationalization — into country the economy of which is characterized by high rates of own TNCs organization and rates of foreign investment. In 2008, the number of Chinese enterprises abroad reached 1,000 units more than in 160 countries [8, p. 25].

As for the entry of domestic entities to the structure of foreign TNCs it is necessary to state that in modern terms TNCs are increasingly moving to the complex integration of the units into the parent company, refusing to delegate the affiliates, situated in receiving countries, certain limited (thus discriminating against such units) functions. In terms of the opportunity to become an equal participant in a single corporate system, participation of Ukrainian subsidiaries within foreign TNCs (but not at the actual state of economic situation) should potentially be considered positively.

For CIS countries (especially for Ukraine, Moldova, Georgia, Kyrgyzstan) in the structure of "value creation chain" the technology and production experience received from parent company indeed dominates. Their share makes up 42%. However, Ukraine these are mostly marketing technologies. This situation is explained by the fact that the majority of subsidiaries are operating in the area of trade, where large proportion of the elements of cost (60%) is imported [9, p. 32].

The possibility of participation of domestic enterprises' in world economic processes of cost creation,

global mechanism of which is determined by TNCs is directly related to creating economic development terms. The effect for the Ukrainian side from such interaction is determined by the place, which is occupied by the company in “value creation chain”. Undoubtedly in the system of interaction “parent company — subsidiary company” competence of the first (parent company) will always remain the most important links of production and marketing activities and, respectively, the defining links of value accumulation. For example: style, design, type of model construction (model range), brand, leading technology etc. Successful activity of Nike, Inditex (Zara), Procter & Gamble, Apple, Microsoft fully confirms this fact. Dominating in the value creation chains parent companies, besides, create opportunities for subsidiaries to engage in the formation of world income and receive tangible benefits during the partition. The practice of international business shows that according to the growth of subsidiary importance in creating value (especially if its activities are related to R&D) not only the entity but also the country of subsidiary’s origin receives benefits (stable revenue, employment, technological development, etc.).

In recent years a tendency to increase the technological gap between the Ukrainian industry and production in developed countries in most military and high-tech industries. It remains as scientists state [10, c. 52], modern foreign trade and investments are weakly correlated with the needs of economy’s real sector in innovative technologies and materials. The potential of foreign trade as the component of integration into world market preserves and largely sets the position of Ukraine as the producer and supplier of medium and low technology industrial products. According to the State Statistics Committee of Ukraine the share of firms that introduced innovations in 2009 was 10.7%, and share of innovative products sales in the volume of industrial production makes up 4.8% [11]. Thus, from the point of view of economic development based on innovation, neither possibilities of foreign TNCs nor large enterprises in Ukraine today are still nonrealized.

Transnationalization of economic development terms in Ukraine is being held ineffectively. Meanwhile, underestimation of this significance may “cost” the country quite expensive. Countries are participants of world income formation, but TNCs, gaining nowadays more and more power, create a significant alternative to the means of state foreign policy as a mechanism of its distribution. R. Kaplinski states, that due to the strengthening of globalization the income distribution between countries is complicated. First, by barriers to entry intensified — benefits come to those who can create new opportunities in rents at the removal of barriers to production. Secondly,

striving for sustainable income growth causes producers to position themselves in the service sector value chain accumulation, because they nowadays (into the parts of the chain mentioned) became growing areas of rent receiving [12, p. 16, 25, 26]. Hereby, the distribution of world income actually happens with direct participation of TNCs, TNB and other economic and financial structures of similar level. Respectively countries of TNC’s origin, according to the status gained get the possibility to receive the results of international economic activity in form of distinct part of inflows.

The general trend of modern world economic development is increasing the provision of services — factor and non factor. In the context of clarifying the transnationalization function mechanisms which are considered by us as the possibility to form the conditions of economic life, it is necessary to highlight special significance of the first factor services<sup>1</sup>, whose influence in creating “value chain” is becoming more crucial. This is especially true for services related to the formation of “non-substantial” factor incomes, the provision of which mediates international movement of intellectual products — copyright, trademark, design, marketing products, etc.

It is necessary to emphasize, that owing to the intellectual part of the TNCs’ cost, firstly, they receive a larger share of their incomes, and, secondly, due to advantages in the possession of intellectual capital, create barriers for other participants of market relations. Having the desire to acquire the widest possible effect of scale (that is, desiring to maximize the total profit), TNCs through subsidiaries, and other way, spread operations abroad. Under these conditions the integration of mobile and weakly mobile resources of receiving countries (natural resources, labor) with mobile resources of TNCs, which is knowledge, entrepreneurial skills and also capital.

The activity of TNCs usually goes in favor of countries from which they originate, and efficiency as a result of TNCs’ business causes progressive economic development of country-based macro-society. At the same time activities of foreign TNCs in host countries can not be measured definitely, because (taking into consideration “correlation of forces” of the both sides in fact) the probability of absolute equivalence of commodity, technological, information and other types of exchange seems to be very idealistic.

On the one hand, Ukraine gets an opportunity to establish mass production of goods at low cost, producing products in branches of foreign TNCs for technology that transmitted by the parent companies. But on the other hand, the presence of TNCs in the economic environment of the country allows foreign corporations to obtain excess profits. This is, firstly, due to high prices on the world market, fitted to the new products that offer

<sup>1</sup>Formation of factor services income due to the international movement of factors of production: capital (interest, dividends, and profits), technologies (license fees), labor (wage), and also land (payments for its use — royalties).

TNCs and containing typically high share intellectual component in the cost, and secondly, due to low cost — cheapness of its other components, including labor.

The reality of transnationalization deployment, which occurs through the mechanism of interaction between by the parent companies and their subsidiaries in Ukraine shows that in terms of national interests these processes are far from perfect. Imperfection is primarily shown in the fact that (a) the activities of foreign companies in Ukraine are oriented mainly to serve the domestic market of the host country and not to manufacture export products in Ukraine, (b) the presence of foreign TNCs' subsidiaries in Ukraine is poorly linked to the spread of new technologies.

In Ukraine, about 70% of the final product is aimed at domestic market. The representatives of foreign companies recognize that the capacity of Ukrainian commodity market is the main reason for their business in the country. Research shows [13] that for parent companies, production in the CIS countries with the aim of exporting to the EU is not strategically important issue. Subsidiaries placed in the CIS diverted abroad only small amounts of intermediate products (17% of total production amount). It means that they are poorly integrated into vertical production chains of TNCs.

Regarding the use of advanced, especially industrial technologies, it is necessary to conclude that investors who invest capital in the CIS and directly in Ukraine are not interested in the transmission of technologies, that significantly differentiates the content of economic relations between the parent companies and their subsidiaries (a) in CIS countries and (b) in Central Eastern and Southeastern Europe. Foreign analysts [13, p. 72] indicate that the external technological impact through FDI, even if it exists in fact, is limited by rather narrow range of companies and sectors.

The way out can and should be provided by the state above all focusing on priority areas of economic development according to designed innovative development programs designed, funding from the state budget, centralized funds focusing on the most profitable projects. In fact the thing is in creation the conditions for producing the breakthrough technologies in Ukraine at the expense of state and not about improving the imitating innovations. It is worth adding that the institution of national innovation systems in any country was not founded solely by market or through private enterprise. In the absence of government support, Ukraine in the processes of transnationalization of economic development conditions will gradually continue to lose ground in the international division of labor and distribution of world income, and the task of national economic development will be solved increasingly difficult.

When determining the contours of Ukraine's participation in the processes of transnationalization two aspects should be noted. They are international technology

exchange (licenses trade) and cross-border information exchange. Since Ukraine occupies rather insignificant place in these processes, its participation is evaluated mainly as potentially possible — nowadays it is not substantial, but requires compulsory expansion in the future.

Export of innovation in the form of R&D is a new but growing phenomenon. R&D are becoming an independent object of supplies. Export of innovations is very efficient and therefore profitable business, but above all requires a high concentration of capital. Therefore, mainly large corporations from developed countries are involved in the process of R&D internationalization; among developing countries — Central and Southeast Asia (above all China, India). The contribution of CEE and CIS countries in the international technology exchange is small.

Global information space is the infrastructure of post-industrial society based on economically developed countries; there the formation of transnational media took place. "Transnationality" of mass media implies the existence of established information supply and distribution system in many markets. Global informational space, as a manifestation of scientific and technological development, is the system of world information communications, where the system is based on modern information and communication technologies, and Internet is a factor for creation of this system. Structures of three types dominate in the global transnational media system: global groups, large media, which operate on regional markets and large media, acting in the national information space [14, p. 57 — 58].

Transnationalization processes, occurring in our time in the field of cross-border information exchange, as a result of growing magnitude and influence of corporate structures in this sector have become essentially determinative in political, economical and security spheres in different countries. That's why given the need to ensure the conditions of the domestic socio-economic development, the importance of TNCs operating in the information field can not be underestimated.

Summarizing, it must be stressed that the main criterion for policy towards TNCs given economic and social development of national systems is the degree of dissemination of technologies in the host country. The criterion on which we emphasize is the following: provided that there are both domestic and foreign TNCs in the domestic economic environment and the country does not have any positive changes, such as the modernization of production, development of science, raising the share of firms whose products are related to higher technological lifestyles, etc., it indicates the inefficiency of state measures of regulation and inefficiency of state policy towards TNCs. It is important not only to create their own TNCs and "attract" foreign companies, but also be able to use their technological advantage. In our time the level of innovativeness defines the borders between rich and poor countries and creates the base for

progressive economic development in those countries, which identified it for their purpose and consistently implement it.

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### **Shkurupiy O. V., Bilobrova T. O., Deineka T. A. Ukraine in the Processes of Economic Conditions Development Transnationalization: Possibilities of TNC’s Innovational Potential Attraction**

The problem of TNCs’ innovative potential use to ensure the economic development of Ukraine is considered in the article. The scientific position on the needs in economic and social development of national systems the extent of technologies’ dissemination in the country is that main criteria according to which it is necessary to evaluate the effectiveness of state policy towards TNCs is being grounded in the article.

*Key words:* economic development, innovations, transnationalization, transnational corporation (TNC).

### **Шкурупій О. В., Білоброва Т. О., Дейнека Т. А. Україна в процесах транснаціоналізації умов економічного розвитку: можливості залучення інноваційного потенціалу ТНК**

У статті розглянуто проблему використання інноваційного потенціалу ТНК з метою забезпечення економічного розвитку України. Обґрунтовано наукове положення про те, що з погляду потреб забезпечення економічного та соціального розвитку національних систем ступінь поширення технологій у країні є тим головним критерієм, за яким необхідно оцінювати ефективність політики держави щодо ТНК.

*Ключові слова:* економічний розвиток, інновації, транснаціоналізація, транснаціональна корпорація (ТНК).

### **Шкурупий О. В., Белоброва Т. А., Дейнека Т. А. Украина в процессах транснационализации условий экономического развития: возможности привлечения инновационного потенциала ТНК**

В статье рассматривается проблема использования инновационного потенциала ТНК с целью обеспечения экономического развития Украины. Обосновывается научное положение о том, что, исходя из потребностей экономического и социального развития национальных систем, степень распространения технологий в стране является тем главным критерием, по которому необходимо оценивать эффективность политики государства относительно ТНК.

*Ключевые слова:* экономическое развитие, инновации, транснационализация, транснациональная корпорация (ТНК).

Received by the editors: 05.04.2011  
and final form in 25.11.2011