

**Globalization and Regionalization**

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**POSSIBILITIES OF TRANSNATIONALIZATION
OF ECONOMY OF UKRAINE ON THE BASIS
OF IMPROVEMENT OF PROCESS
OF ATTRACTION OF DIRECT FOREIGN
INVESTMENTS****Abstract**

The author makes the analysis of possibilities of transnationalization of economy of Ukraine on the basis of improvement of process of attraction of direct foreign investments.

Key words:

State policy, direct foreign investments, transnationalization process, transnational company (TNC).

JEL: F21, G11.

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In the beginning of XX-th century had development world processes of the integration caused by a movement of capital. At the initial stage, migration represents process of movement of the capital from more developed countries to the less developed. But dynamism of the world economy has a little changed the previous picture that has caused capital movement in both parties.

Topicality. One of defining characteristics of intensification processes of globalization, transnationalization of system of the international finance – is considerable acceleration of rates of increase of direct foreign investments (FDI). Only during the period from 1990 till 2003 total amount of FDI in economic has grown from 1954 bln. dollars to 7123 bln. dollars.

Research objective. To analyze possibilities of transnationalization of economy of Ukraine on the basis of improvement of process of attraction of direct foreign investments.

A number of works of the Ukrainian and foreign scientists-economists was brought by the powerful contribution to research of modern lines and laws of processes of global integration and transnationalization of economic systems. The most considerable works in the field belong to such scientists, as O. Belorus R. Vernon, M. Vilkins, J. Danning, M. Kasson R. Kejvz, C. Kindleberger, J. Kozak, D. Lukyanenko, J. Makogon, O. Movsesjan, V. Novitsky, T. Orekhova, O. Plotnikov, M. Porter, A. Rogach, A. Rumjantsev, E. Savelyev, B. Smitienko, G. Sorokin, A. Utkin, A. Filipenko, I. Shkola, A. Shnyrkov, S. Yakubovsky and others.

In the XXI-st century the scales of globalizations processes increase every day. According to definition of globalization which is presented in the annual report of the International currency fund for 2000 «globalization, in its economic context, is growth of integration of economy of the countries of the world, especially in the area of trade and financial flows. This concept also covers movement of people (labor) and knowledge (technology) through national borders». This definition proves to be true real indicators of growth of scales of world production, trade and financial flows. So, according to report UNCTAD on world trade and development in 2007, global gross national product has increased by 3, 4 % (in 2006 – 4 %) (Tab. 1). [6]

All open economies of the world take part in processes of transnationalization of the world economy. Ukraine, in turn, also tries to receive the status of economy with high factor of transnationalization. And improvement of process of attraction in the Ukrainian economy of direct foreign investments can be one of possibilities of achievement of the given purpose.

Table 1

Volume of world production (release), 1991–2007 [6]
(Changes per year in percentage to the previous year)

Region/Country	1991–2000	2001	2002	2003	2004	2005	2006	2007
World	2.9	1.5	1.8	2.6	4.1	3.4	4.0	3.4
The developed countries	2.5	1.1	1.2	1.8	3.1	2.4	3.0	2.4
<i>Including,</i>								
Japan	1.1	0.2	0.3	1.4	2.7	1.9	2.2	2.3
USA	3.5	0.8	1.6	2.5	3.9	3.2	3.3	2.0
EU countries	2.2.	1.9	1.2	1.2	2.3	1.7	3.0	2.8
Southeast Europe and the CIS	-4.2	5.9	5.2	7.1	7.7	6.4	7.5	7.0
Southeast Europe	-0.9	4.8	4.7	4.3	6.2	4.7	6.2	5.6
CIS	-5.0	5.2	5.4	7.8	8.1	6.8	7.7.	7.3
The developing countries	5.0	2.6	3.8	5.1	7.1	6.5	6.9	6.4
Africa	2.7	3.7	3.4	4.9	5.3	5.3	5.6	6.0
Latin America and Caribbean Islands	3.2	0.3	-0.5	2.1	6.2	4.8	5.7	4.7
Asia	6.5	3.5	5.9	6.5	7.8	7.4	7.6	7.2

For Ukraine as state with transitive economy, attraction of foreign investments in a context of structural changes and economic growth is important to consider. Officially certain priority problems which urged to be solved by the help of foreign investments are:

- Structural reform of economy;
- Technological updating of manufacture;
- Manufacture of the consumer goods;
- Overcoming of dependence on import.

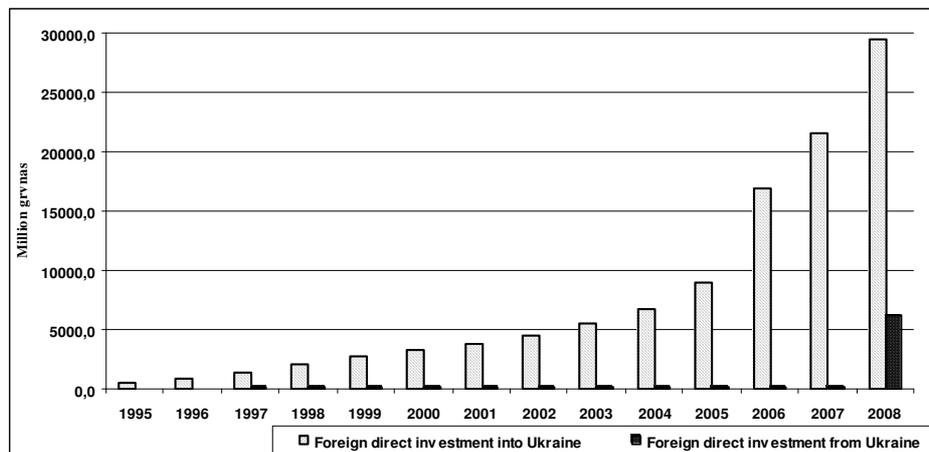
It is necessary to notice that the purposes of investors which work in the domestic market, contradict the internal economic program of development of the state. Yes, in structure of their economy the raw materials, metal, coal, products of the chemical industry and so forth are at the first position of interest. Their interest is caused by the enterprises which have certain technological advantages and prospects in development, and also scientific and technical poten-

tial. In other words, the attention of foreigners was involved with possibility of the simplified, cheap access in the Ukrainian markets of raw materials, scientific and technical base and the qualified labor. If Ukraine aspires to receive on means FDI access to modern technologies the western firms realize technologies which have already taken place half of life cycle and in the world markets is not competitive. Hence, competitive world corporations are guided by global export strategy, instead of on development of a domestic production of the goods in Ukraine. Without considerable and purposeful increase in volumes FDI to hope for overcoming of dependence of our state from import it is impossible.

The analysis of development of investment activity during the last years shows its some positive dynamics, expansion of scales, kinds and spheres (fig. 1.).

Figure 1.

Volume of direct foreign investments into Ukraine and from Ukraine [5]



Thanks to a favorable geographical arrangement – in the centre of Europe – and also to high educational level of the population, scientific and technical base and low level of a payment Ukraine is ideal base as for the enterprises which are guided on western – and central Europe commodity markets, and for the companies which plan to realize production in Russia and other CIS countries. However the foreign capital does not hasten yet to Ukraine. Our country has insufficiently high credit ratings by estimations of rating agency S&P at level BB/Stable/B (local currency) and BB-/Stable/B (foreign currency) that on 2–3

points below investment level. This fact constrains potential foreign investors from an investment of means in economy of Ukraine. But if to consider investment appeal of Ukraine at level of its separate regions the statement about an adverse Ukrainian investment climate for investors will not be perceived any more so categorically. Many regions of Ukraine are considerably underestimated from the point of view of an investment in them.

The indisputable leader among regions of Ukraine is the capital Kiev which by right takes the leading positions on total investment potential. Donetsk, Dnipropetrovsk, Zaporizhzhya, Kharkiv and Lugansk areas of the eastern region which has the most developed industry, which relative density in regional economy is one the greatest in Ukraine.

Despite of direct affinity to capital, the Kyiv area takes only the tenth position on an indicator of cumulative investment potential. It is connected with moving labor and financial resources to Kyiv that in addition increases its already high financial and economic indicators. The similar situation is characteristic for a number of other areas closely located to capital: Chernigiv, Zhytomyr and Sumy.

Cherkassy, Vinnytsya, Kirovograd and Poltava areas conditionally form the central region which is agrarian and industrial. Here work the enterprises which make the electric power, extract coal, let out mineral fertilizers, automation and computer facilities means, and the process equipment. In structure of industrial production of region the food-processing industry, mechanical engineering and metal working, electric power industry has the greatest relative density. For the region average values of investment risk are usual, also it is underestimated, from the point of view of investment appeal, and can attract to itself raised investment interest.

Ten of the largest countries-investors in economy of Ukraine are: Germany – 5917,9 million dollars, Cyprus – 5941,8 million dollars, Austria – 2075,2 million dollars, the United Kingdom – 1968,8 million dollars, the Netherlands – 2511,2 million dollars, the United States of America – 1436,8 million dollars, the Russian Federation – 1462,2 million dollars, France – 1046,2 million dollars, Switzerland – 583,8 million dollars and the Virgin Islands – 1045,7 million dollars.

Thus, ten the greatest investors in offshore zones (Cyprus, Switzerland, the British Virgin Islands) are of 26, 7 % of cumulative inflow of the capital in Ukraine. Though powerful Swiss investments are explained to a certain extent by a powerful share in them to the Swiss multinational corporation «Nestle», streams of the capital from other offshore zones, as a rule, connected with washing up of the capital from the CIS countries, and returning of this capital in the country under the image of foreign investments.

All years of independence constant leaders in a geographic distribution of investments into Ukraine were the USA, the Netherlands, Germany, Russia, Great Britain, Cyprus, and the British Virgin Islands. [5]

In 1997 the lion's share (37 %) of investments into the Ukrainian economy concentrated in two branches – domestic trade and the food-processing industry. Volumes of investments into the given branches essentially exceeded volumes of investments into mechanical engineering, metal working, chemical, building and financial spheres. In 2003 investments into mechanical engineering, metal working, financial sphere, transport and communication began to grow essentially. However, leading positions in attraction of investments remained also into domestic trade and the food-processing industry. In 2005 the subsequent reduction of a part of these branches in sector distribution of FDI and corresponding increase in a branch diversification of structure of foreign investments was observed. The part of «other» branches has exceeded 50 %. The analysis of dynamics of branch structure of FDI in economy of Ukraine testifies that in most cases and investment overall objective at the present stage is use of the capacious consumer market of Ukraine for reception of fast profit (a cumulative part of the food-processing industry and domestic trade – from 17 to 37 %). Thus, these branches allow receiving profit to the companies at the expense of a fast turn and also in this connection, are characterized by rather smaller level of investment risks.

However, during the last years, growth of a part of mechanical engineering, metal working, transport and communication – branches which are strategic and perspective for the Ukrainian economy is observed. The growth of the part of financial sector in distribution of FDI is caused by that this sector was not developed enough in previous years also and did not meet requirements of market economy, and also this tendency is a response on growing processes of globalization of the world financial market.

At the moment, many the foreign companies look narrowly at the Ukrainian enterprises, study their financial indicators and plans. And many of them are ready to begin negotiations about cooperation. In this connection, the basic tasks of a state policy of Ukraine in investment activity are: creation of equal conditions for business dealing by subjects of economic activities of different patterns of ownership, realization of process of investment on transparent and civilized bases, improvement of structure of investment sources.

Ukraine, unfortunately, is not ready to apply mechanisms of alignment of economic development of regions not only because of poor quality of a regional policy, but also owing to the historical reasons, such as low mobility of a labor and post socialist way of the economy characterized by weak self-management and necessity of constant centralized intervention of Kyiv or the regional power. However in Ukraine there are no regions with minimum and maximum risk level and it allows investing favorably in a national economy.

Owing to dynamism of development the statistical data of investment process quickly grows old. Therefore it is quite difficult to make the high-grade economic analysis of investment activity. However, it is possible to note formation of certain tendencies which qualitatively characterize attracting of foreign investment to Ukraine:

- Advantage on volumes of investments of partners from industrially developed and by quantity – from the countries which are developing, and also gradual increase in a part of the CIS countries;
- Orientation of the joint venture – manufacture of the goods by which the world markets practically are not sated, and on sphere of services;
- Realization of the general investment projects, as a rule, on a bilateral basis;
- Care of the western partners concerning the big investments, caused by absence of reliable guarantees concerning their protection, absence of the state strategy and exit tactics on one's almost unknown and closed market;
- Activity of the small foreign firms focused on fast rotation of the small capital or on benefit from single operations (quite often especially intermediary);
- Non-uniformity of distribution of investments on branches and regions of Ukraine, their concentration in industrial centers of Ukraine;
- The big share of property payments of foreign investors in total amounts of investments, weak use of mechanisms of the financial market for investment.

For stimulation of attraction of FDI and elimination of negative tendencies in economy of Ukraine is expedient to carry out a number of actions, leaning against following principles:

- optimum sufficiency (depth of penetration of the foreign capital at level of the separate enterprises, branches and economy as a whole should be leveled proceeding from the point of view of the interests of national safety);
- stability of the basic legislation base concerning foreign investment;
- the differentiated approach to tax and other privileges for foreign investors taking into account volumes and investment forms, and also priorities in national economy development;
- reliability and efficiency organizational and a supply with information of attraction of foreign investments.

Policy of Ukraine as young independent state concerning activization of process of attraction of FDI, first of all, connected with market social and economic transformation of a society. Hence, creation general-political, legal and lawful the conditions favorable for investment, acts simultaneously both the precondition, and result of successful reforms in our state.

Functioning of investment sphere of Ukraine complicates presence of such problems:

- Capital investments still make an insignificant part in gross national product;
- Deficiency of own investment resources of the enterprise takes place;
- There is no operating institute shortly – middle- and long-term crediting;
- Too high interest rates are established;
- The market of capitals is imperfect;
- Updating organizational-legal bases of enterprise investment activity demand;
- The infrastructure transport, communication, power systems is poorly developed;
- The amortization policy is imperfect;
- There are no accurate priorities in realization of the state investment policy.

Despite of that means, foreign investors cannot be considered as a component of national investment potential, their account is necessary from the point of view of the analysis of potential possibilities for development of investment processes in Ukraine [3].

Occurrence of Ukraine in the world market of investments compels at once its messages competitive struggle against industrially developed countries. And it is very weak competitor. Except world shortage of capitals and the imperfect legislation, on a way of inflow of the foreign capital there are purely economic conditions of realization of the international investment programs. According to the western estimations the rate of return on the invested capital in factory building makes in the Western Europe of 38,6 % at a recoupment for 6 years, and in Ukraine – 21 % with 11 – an annual time of recovery of outlay [3].

But, despite presence of serious obstacles, recently to Ukraine all the same began to show interest the of big western companies, among them Makulan-International (Austria) – 260 million dale., Pepsi Co (USA) – 250 million dale., Countri Squire International (Canada) – 220 million dale, and other (tab. 2).

As a whole the structure of foreign investors in Ukraine is formed at the expense of the Multinational Corporations, outsiders, and firms with the limited financial possibilities. The most competitive internationally corporations basically are focused on use of global export strategy. Besides, investors are involved by poor the Ukrainian consumers of the rather morally decayed goods, with low level of a payment, and high qualification of workers in some spheres.

Table 2.

The largest investors in Ukraine's economy [3]

Investor	Mln. dollars	Capital investments sphere
1. Maculan Internanional Gmb (Austria)	260	Building construction and offices
2. Pepsi Co (USA)	250	Manufacture of soft drinks, development of a network of restaurants Pizza
3. Countri Squire International (Canada)	220	Building of hotel complexes, manufacture of the medical equipment
4. Daewoo Monor	150	Car VAZ-DEU (manufacture of modernized Tavrii, Daewoo Nubira, Legansa, Lanos)
5. AT&T (USA), Royal PTT Nederland NV, Deutsche Bunder-sport, Telecom (Germany), 25 региональных компаний (Ukraine)	100	Utel (communication network development between regions Ukraine and others countries)
6. BAT Industries LTD (Great Britain)	35	Factory controlling interest in Pryluky, modernization of manufacture of cigarettes
7. Tambrands Ins (USA)	20	Tambrands Ukraine (manufacture of subjects of personal hygiene)
8. Otis Elevator Ins (USA)	17	UkrOtis (manufacture and service of lifts)
9. Royal PTT, Nederland, Telecom, Denmark Deutsche, Bundersport Telecom	17	Telephone systems
10. GPA (Ireland)	13	Air Ukraine International (the international airlines)
11. Remetel (Spain)	9,2	Intersplav (metallurgical manufacture)
12. Tetra Laval (Sweden)	7,6	Tetrapack Ukraine (manufacture of packing for foodstuff)
13. Siemens AG (Germany)	5,8	MTM Telecom (manufacture of the communication equipment)

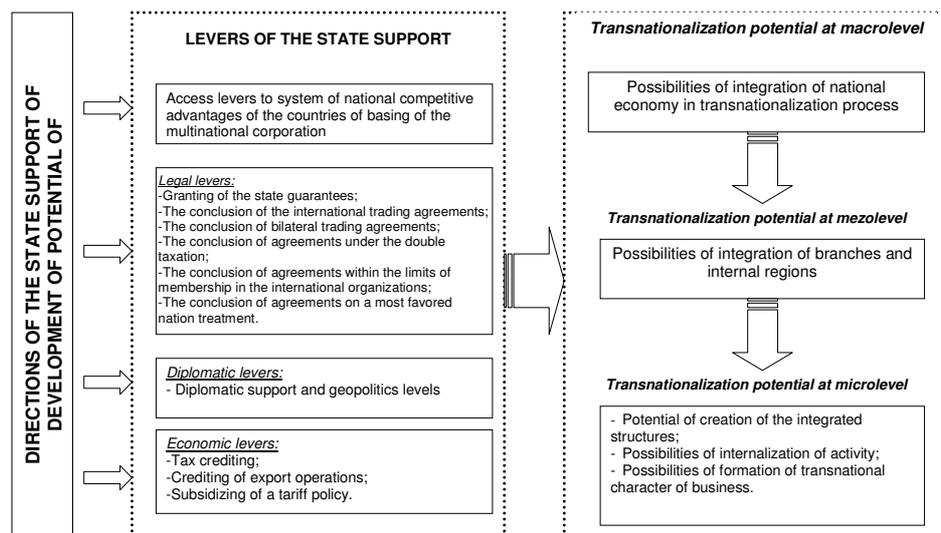
From its part, the state is obliged to create conditions for expansion of sources of financial support of manufacture by means of insurance guarantees, bill rotation, use of leasing, a delay of payments, associations of investment activity from the bank. Unfortunately, politicians and officials have not learnt to form professionally yet image of the state in the world community.

In view of necessity of working out of national integration strategy of Ukraine which will give the chance to raise the international competitiveness of the country, the author had been developed the mechanism of the state support of development of potential of transnationalization of economic systems makro-, meso- and microlevels (fig. 2).

It is possible to allocate yet one direction of development and improvement of national systems in the field of attraction of FDI. However the essence consists that this work should become nation-wide and national priority strategy of development of the state the next years.

Figure 2.

Model of the mechanism of the state support of development of potential of transnationalization of economic systems makro-, meso- and microlevel



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The article was received on March 5, 2009.