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## **THE ROLE OF THE TRANSNATIONALIZATION PROCESS IN THE DEVELOPMENT OF MODERN ECONOMIC SYSTEM OF UKRAINE IN THE CONTEXT OF GLOBALIZATION**

Article investigates the essence of multinational corporations, comprehensive assessment of problems of interaction of TNCs and national economies is made in order to create approaches to reducing the proportion of conflicting interests and potential threats to the development of the nation state.

**Keywords:** multinational corporations, globalization, process of transnationalization, economic security, the national interests of Ukraine

**Introduction.** Statement of the problem. The processes of transnationalization of production and capital, the expression of transnational corporations (TNCs), today are the foundation and driving force of the global economy. Globalization leads to the appearance of economic interdependence of states, resulting in the gradual erosion of national economic sovereignty and the appearance of new supranational economic entities – global corporations – transnational management structures. In the conditions of global economic market infrastructure forming under the influence of globalization and integration of world economy transnational corporations conquer all new markets and seek to further expand economic power.

The specialty of modern TNCs is in their some kind of «double standard». On the one hand, the management of TNCs interested in further liberalization and democratization of the world economy, on the other – the laws of free market, operating globally, do not work within the structure of the TNC, where in fact planned economy is implemented, domestic prices are set due to the strategy of the corporation, not the market.

The research of transnationalization influence is actualized in the present conditions, when national governments lose their own sovereignty not through traditional methods of aggression, but due to reasonable expansion in the field of economy, policy, indirect influence. Thus, substantia-

tion of the future prospects of the world economy, defining the strategic objectives of the national policy of Ukraine in the context of national security and interests cannot be done without in-depth study and evaluation of globalization processes, the main driving force of which, as we noted earlier, are modern transnational structures.

At the current stage of development of the economy of Ukraine TNCs play an important role in forming strategy of the national economic system. For modern Ukraine transnationalization of companies can act as economic mechanism that will determine new priorities of social reproduction, goals and foreign economic policy, characteristics and conditions of the country's participation in the international division of labor.

**Analysis of recent research and publications.** Problems of researching the nature and activities of TNCs, and the processes of transnationalization for a long time are the focus of many scientists and research institutions, both foreign and domestic, such as: M. Aoki, R. Vernoy, C. Hill, R. Griffin, J. Dunning, H. Cose, T. Oryekhova, M. Pastei, A. Plotnikov, A. Rogoch, V. Rokocha, L. Rudenko-Sudareva, S. Yakubovsky.

However, despite this scientific achievement and ongoing research interest in these problems in recent years, has not been formed a consensus interpretation of the essence of modern transnational corporations, in many ways the

evaluation of their impact on national economies is controversial, particularly in the context of their economic security and national interests that require further research and monitoring.

**The purpose of the article.** The main purpose of the article is to analyze the origin and nature of economic TNC, determine the main directions of TNCs, research the current stage of transnationalization of the world economy and identify prospects and possible consequences of the intensification of transnational processes in Ukraine for the national economic system in the terms of globalization.

**The Main Body of Text.** Theoretical understanding of transnational corporations began in the 30s of the twentieth century with D. Williams' research that showed the presence of conflict between the neoclassical theory of international trade and the development of

international production and M. Baia, who investigated the effectiveness of vertically integrated companies. However, the real scientific development of transnationalization perspective of economy was in the 60's – 80's of the twentieth century [7]. At this time the basic theoretical concepts of TNCs were formed, grounded causes and spread of TNCs (Table 1). Researches of scientists from different scientific schools allowed forming major factors of emergence of transnational corporations: a low cost or quality of inputs, access to new markets, reduction of competition, reduction of production costs, increasing competitiveness.

The modern definitions of transnational companies, with a single source – transnationalization of economic relations, reflecting different approaches to expression forms of the latter. The definition of TNCs is based on, firstly, the

Table 1

**Theoretical concepts of TNCs**

<b>Title of the theoretical approach</b>	<b>Founders</b>	<b>Core</b>
The theory of market power	S. Haymer	Company in the early stages of growth, expanding its share in the domestic market through mergers and acquisitions, increasing the concentration of production and capital. When further strengthening of the market power in the country is impossible, the firm invests profits abroad.
The theory of internalization and appropriation	R. Cose, O. Williamson, E. Penrose	The development of international production is analyzed from the perspective of reducing transaction costs and economy of scale sectors.
Theory of international competitive ability of industry	R. Vernon, R. Stobauh	Finally, at the end of the life cycle of the product, its production and sales in the domestic economy decreases. In order to maintain profits companies are forced to look for new overseas markets for the product – to prolong its life cycle
"Tax" theory	V. Rokocha, O. Khoroshun	According to the theory, the purpose of foreign direct investment is the desire of TNCs to reduce the amount of tax deductions.
Theory of organization of TNC forms	M. Aoki, I. Samson	The main indicator of the efficiency of TNCs is a form of organization. National characteristics in the organizational structures of TNCs have been steadily losing value and TNCs, without dependence from the location of their headquarters, gradually become supranational associations that have the same goal – maximizing profits by establishing economic entities on a global scale.
Eclectic theory of international production	J. Dunning	Eclectic concept absorbed the main provisions of all the above-described approaches and based on basic scientific lines of economic research: financial management, marketing, organization theory, international relations, law, economic history.

criteria of ownership – a company is defined as transnational only when the parent company is owned by citizens of at least two countries. Secondly, the criterion of the national board of the company – the company is transnational when management of the parent company consists of several citizens of different countries. Thirdly, economic and entrepreneurial criteria – transnational companies are defined by their organizational structure and business strategy. In particular, R. Vernon considers transnational company as “parent company, which controls a large group of corporations of different countries”. J. Behrman, defining the essence of transnational companies by attempting to «interpret different national markets as one,» emphasizes the existence of a single center of management (or strategic center), which controls the actions of foreign subsidiaries. It should be noted that most leading economists propose to classify corporations of modern world economy by the number of branch-based countries, decision-making and the type of production, where we can allocate transnational, multinational (multinational) and global (international) corporations (Table 2).

The core of the modern world economic system create nearly 500 TNCs with almost unlimited economic power. Total in the world there are about 60 thousand business groups and TNCs with 250 thousand branches outside their home countries, controlling 50% of world industrial output, 65% of foreign trade, 80% of patents and licenses for new equipment, technology and know-how. At the same time, most of the payments related to the transfer of new technologies made within TNCs: their share in the U.S. is 80%, in the UK – 90 [10]. On the background of the aforementioned process there is the growth of international production. Sales, value added and exports 78,000 TNCs and their 780,000 foreign affiliates increased accordingly by 18, 16 and 12%. They accounted for 10% of global GDP and 1/3 of world exports. On the first place in the world by number of existing foreign affiliates in the country is China, and the growth rate of the number of TNCs from developing countries and countries with economies in transition for the last 15 years exceeded TNCs from developed countries. Among transnational companies dominate the TNCs of developed countries, however, the number of non-financial TNCs from developing

Table 2

**Classification of corporations**

<b>Indicator</b>	<b>Transnational corporations (TNCs)</b>	<b>Multinational corporation (MNC)</b>	<b>Global (International) Corporation (GC)</b>
Number of branches-based countries	At least in two countries with different political and legal, economic environment.	Not less than three countries with different political and legal, economic, socio-cultural and infrastructural environment	Not less than six countries (required arrangement of branches in countries 'Triad' – the EU, U.S., and Japan).
The process of decision-making	Decision-making takes place mainly in the parent company.	Decision-making occurs independently in each country-based affiliates with the need of the current reporting separately established multinational governing center.	Decision-making occurs independently in each country-based affiliates with the need of the current reporting separately established governing center (according to the group of countries "Triad").
Type of production	Transnational production – the corporation has a single strategy that comprises key indices that affect the overall efficiency of the corporation.	Multinational production – the corporation has a number of policies relating to each country to compete with local companies or running their own market position	Global production – the corporation has a strategy concerning the functioning of the market of each of countries "Triad".

countries is growing, in the list of 100 largest TNCs: from 5 in 2004 to 9 in 2012. This occurs because of the rapid internationalization of operations with emerging markets. In 2012 the volume of foreign sales and number of employees abroad 100 largest TNCs in developing countries have increased accordingly by 48 and 73%. The list of the top 100 TNCs in developing countries, dominated by Asia (78 TNCs), the following positions are occupied Africa and Latin America (in 11 companies) [9, 10]. TNCs of this regional affiliation in its activities cover a wide range of industries than the largest TNCs from developed countries.

Domestic national economic system, developing transnational activities is to address two main objectives: to attract the necessary capital for development and persuading its own expansional policy in foreign markets. From this point of view, let's consider the dynamics of spreading the ideas of transnationalization in Ukrainian business. In Ukraine, in October 1, 2012 there were 2,307 foreign enterprises compared to 2011 (2323) shows the decrease of foreign activity on the Ukrainian market.

Among the reasons of doing business in the Ukrainian market in the first place of the ranking there is «the size and potential of the market» (20%), followed by – «interest in market access» (15%) than such reasons as «an increasing share in the world market «(7%),» export opportunities «(12%),» export support «(9.8%),» access to resources «(9.8%),» cost of resources «(9.8%), «quality resources» (9.8%), «business conditions» (7%).

At the same time, due to deliberate expansionist actions and mechanisms of expansion their own internal corporate organizational structure under partial or even full control of the TNC has got quite powerful and strategically important national enterprises, in particular Zaporozhye aluminum plant, Mykolayiv aluminous plant and others. However, it should be noted that the transnationalization of Ukrainian economy must take place not only through foreign corporations' investment, but also through the creation of national transnational corporate structures.

As for this area, the development of Ukrainian TNCs, it is too early to talk about any progress. Today the highest form of economic

activities, that exists within the country, is the financial and industrial groups that are aimed to further expansion of their activities and transformation in transnational corporations. Among these groups can be noted financial-industrial group «Privat» financial-industrial group «Interpipe». However, even such powerful industrial and financial systems fail to act in the international arena at the same level as other TNCs. According to the rating of «Financial Times» and consulting company «Deloitte» on 01.01.2013, the share of Ukrainian companies is 13.4% in the list of 500 largest companies in Central and Eastern Europe, the share of Polish companies is 34.3% Czech and Hungarian – 15.4% and 14.4%. Leading positions among the largest companies in Ukraine have metallurgy, petroleum industries and companies associated with transporting Russian gas to Europe and selling gas in Ukraine.

Among the objective problems, that exist in Ukraine, connected with formation of domestic TNCs there are the following: unstable political and legal environment of the country, lack of market infrastructure, instability of the national currency, lack of domestic investment market, limited external business orientation, information backwardness of the country, small (globally) the sizes of the business groups, overtaking the nature of scientific and technological activities, innovative component of management, crisis tech industries and so on.

Special attention should be paid to the issue of economic security, which refers to the condition of the national economy, providing critical needs of the country in material goods regardless of the origin of the global economic system in the country or force major circumstances, socio-political, economic or environmental. [8]

At the same time, trends and perspectives of sustainable development of the national economic system of Ukraine and the transnationalization of the economy should be determined perspective and economically safe to state objectives:

- development of the energy integration processes the former Soviet states;
- prospects of Ukraine's integration into the world market of steel products;
- prospects of Ukraine's integration into the global services market;

– areas of developing cross-border cooperation with Ukraine.

The study of foreign and domestic literature concerning transnationalization of the economy showed that there are both positive and negative effects of this process. For each country such consequences will be specific while in the national economic development of Ukraine should be considered generalized factors (Table 3).

Taking into account possible negative impact of transnational corporate structures on the domestic economy, there must be selective, apparently quite tough, state policy, focused on the formation of their own multinationals. Formation of business model organizational components of domestic TNCs may primarily by adapting international experience, including the Russian Federation, the United States, South Korea and Japan in the creation and development of financial and industrial groups.

Partnership of global companies with small Ukrainian companies may become an important point of domestic transnationalization that have mostly innovative profile. Small knowledge-intensive business interaction (due to the high risk of the activity) with global companies using their production capacity, human resources and great potential to attract a wide range of funding sources. This type of interaction stabilizes business and economic connections of small businesses, allowing them to take a niche in the market, and provides access to the path of sustainable development. According to domestic scientists, including L. Rudenko, the most level and the «quality» of market relations in Ukraine, which are characterized by a high degree of imperfection and even lack the necessary cooperation for the development of the legal framework, corresponds such a form of large and small businesses partnership, as entrepreneurship (creation of small,

Table 3

**Impact of transnationalization on the development of modern national system of Ukraine in the context of globalization**

Positive features	Negative features
International specialization based on the interpenetration of capital	Increasing competition in the domestic market, the decline of domestic producers and industries that are not attractive to TNCs
Formation of international industry and business units (clusters)	The sharp rise in cross-border mergers and acquisitions of domestic companies
Alignment of national production of reproductive structures	The gradual destruction of national economic sovereignty – the emergence of supranational economic entities – TNC, TNCs’ impact on the economic power of the country
Possibility of target funding of priority areas and sectors of the national economy	The emergence of monopolies in certain vital sectors
Increased competitiveness	Possible slowing the processes of restructuring, the location in the state of labor-intensive, energy-and material-, environmentally hazardous activities
Opportunities of entering new international markets while maintaining traditional	The threat of shortages of certain products due to the active development of exports on preferential terms
Attracting of foreign capital with a focus on national production priorities	The probability of outflow of capital from the country through the manipulation of prices.
Capacity utilization, job creation	The distribution of financial resources between large TNCs with limited funding of medium businesses
Strengthening the role of the state (country of TNCs basing) in the international area	Avoidance of profit taxation

often temporary staff to implement a particular purpose or design ideas needed to improve the technical level of large enterprises) [6, p. 215]. Unlike satellite (organization of small firms satellites – various subsidiaries that store «family connections» that are legally independent but economically closely dependent on native structure) and incubator («growing» small firm providing various assistance stages of development) form of interaction entrepreneurship helps to ensure competitiveness and economic efficiency through synergy organizational and industrial advantages of big business and the flexibility and mobility of the creative potential of small businesses, including innovative. Harmonization of the partnership based on agreement on the strategic priorities of small innovative sector of Ukraine with the interests of TNCs may be in the future one of the determining factors of economic security, the development of high-tech sector.

In Table 4, in the result of the study, we presented the factors arranged as a table in order from highest to lowest impact on the success of cooperation of Ukrainian companies with TNCs. Based on these factors, Ukrainian firms may be involved in corporate systems of TNCs according to the requirements of most multinationals.

At the same time, there is number of factors that contribute to the transnationalization of the economy of Ukraine: the transition to International Financial Reporting Standards, purchase of assets abroad, purchase of shares in foreign companies (the creation of vertically integrated systems), institutional changes in the companies, long-term supply contracts with foreign partners, the implementation of government guarantees.

It should be noted that the creation of Ukrainian TNCs can be greatly accelerated and advanced in the industry spectrum in case of attracting foreign partners. For this companies that cooperate with foreign firms on the basis of specialization and cooperation, can form common structures with them, join strategic alliances by creating international corporations. It should be noted that in its history Ukrainian business knew a lot of alliances among domestic firms in different configurations. However, they differ the fact that were created or to lobby for joint projects, or for political support for their business projects. For these reasons, economic unions identified, usually short-lived and few functional. However, the need for expansion and entry into foreign markets makes top managers of Ukrainian companies pay attention to business capabilities. Alliances have become

Table 4

**Factors of successful cooperation of Ukrainian companies with TNCs**

<b>Factors / impact strength</b>	<b>Strongly affects</b>	<b>Influences</b>	<b>Slightly affects</b>
Culture (Values)	Attitude to work discipline	Creating values reputation	subordination
Personnel	Experience education	Lack of specialists in human resources	Training of personnel, motivation and encouragement
Organization of work (organizational structure)	Compliance with international standards	Flexibility of organizational structure	
Management (delegation of powers)	Education management Experience Global Vision	Mobility The ability to quickly and adequately respond Openness to innovation	Readiness for Change (co)Responsibilities (delegation)
Finance	Solvency Co-financing and investing	Accounting timeliness	Willingness to share risk

an essential for doing business. For example, within banking for successful bond placement, especially when the issuer is a large company and it comes to serious amounts already almost impossible to do without forming a pool of banking institutions. As an example, a pool of the three largest Ukrainian banks «Raiffeisen Bank Aval», «UkrSotsbank» and «UkrSibbank» that held the country's first issue of mortgage bonds.

The Alliance is also convenient form of cooperation of national companies with transnational capital. Establishing an alliance, as opposed to the type of cooperation acquisitions, private equity or contractual arrangements are the easiest and most reliable way to meet the interests of both parties. Share alliances for emerging markets as a percentage of total foreign investment, according to the agency McKinsey, as at 01.10.2012, the costs: in South Korea – 77% in China – 72% in Eastern Europe – 54% in Latin America – 52%. However, despite all the profitability of such a partnership in the Ukrainian market, it is hard to find examples. The reason for this is, above all, strict legal restrictions and lack of transparency of the domestic market. Possible forms of cooperation with the international companies at this stage, according to independent consultants may be licensing the technology to local companies and the conclusion of agreements on distribution.

Thus, building relationships of the receiving state, what is especially important for Ukraine, with TNCs should be based on several important points, including specific principles of opti-

mal interaction TNCs and national economies in today's international business development: respect of the sovereignty of the countries where they operate, ensuring of legal systems compliance in these countries, in creating its strategy to base on the priorities of economic policy, compliance with competition and antitrust regulation, non-interference in the internal politics of host countries, refrain from corruption, respect for cultural purposes, values and traditions of the host countries, ensure the requirements of the global environmental safety, respect for the principles of social responsibility to the community, providing the implementation of the principles of relations with governments based on the model of «strategic partnership».

**Conclusions.** So, the actual problem for Ukraine's national interests in the global environment is the system integration of national economy in the world economy and providing real competitive international position. Due to the growing systemic threats and challenges, it should be solved through transnationalization of Ukrainian economy not only through foreign direct investment by the world's TNCs, but also focusing on the transnational business formation of own enterprises without losing control over the strategically important enterprises and the priority areas. Thus, the basis for mechanism of providing effective management of domestic competitive TNCs and economic security in the process of transnationalization of the economy is constant purposeful state activity to create competitive advantages of leading sectors of national economy on foreign and domestic markets.

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