

## **TRANSNATIONAL CORPORATIONS IN UKRAINE AS A FACTOR OF CROSS BORDER COOPERATION DEVELOPMENT**

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### **ABSTRACT**

Analysis of available sources predicates that the level of cross-border cooperation in Ukraine today is clearly too low and this area of international economic contacts are virtually ineffective, despite the fact that the country is a member of many Euro regions and special (free) economic zones. Besides, transnational corporations have unique opportunities to promote cross-border cooperation in national economy and their rate in the world has recently increased strongly. Nowadays, a leading role in global processes play American transnational corporations which outpace the companies from other countries in nature, scope of trade and investment. But this gap is gradually reduced by strengthening the position of transnational corporations in Western Europe and Japan, as well as the emergence of transnational corporations in developing countries.

In Ukraine, foreign transnational corporations appeared in the early 90s. First of all, they directed their activity in the main market segments: consumer goods, food, gasoline, tobacco; where the positions of domestic producers were weak. They took control on tobacco industry, the market of soft drinks, beer, advertising market as well as telecommunications. That is why; the development of domestic transnational corporations is an objective necessity and the real prospect nowadays. They can create a decent competition to foreign companies in the domestic and foreign markets on one hand and create unique opportunities for cross-border cooperation on the other due to its high level of internationalization.

**Key words:** transnational corporations, cross border cooperation.

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## **1. Introduction**

Cross-border cooperation has become an objective necessity in the practice of international contacts between countries with common borders. Cross Border Cooperation (CBC) is a key element of the EU policy towards its neighbours. It supports sustainable development along the EU's external borders, helps reducing differences in living standards and addressing common challenges across these borders. It was first recognised as such in the European Neighbourhood and Partnership Instrument (ENPI) regulation for the period 2007-2013. This was confirmed for the period 2014-2020 in the European Neighbourhood Instrument (ENI) regulations adopted in March 2014 (Cross, 2014). Unfortunately, the analysis of recent information in publications suggest that the level of cross-border cooperation in Ukraine is clearly too low and this area of international economic contacts are virtually ineffective, despite the fact that the country is a member of many Euro regions and special (free) economic zones. Besides, transnational corporations (TNCs) have unique opportunities to promote cross-border cooperation in national economy and their rate in the world has recently increased strongly.

So the main problem is to study the current situation with the present transnational corporations in Ukraine, its identification and the possible prospects of development due to their important factor in the development and intensification of cross-border cooperation.

## **2. The role and place of transnational corporations in the global economy and in cross-border cooperation.**

One of the special signs of the modern social-economic systems is progressing uncertainty, touching each time greater group of people which live on separate continents. Everywhere for main reason of this uncertainty processes of globalizations strengthening of which we look after from the II half of XX age are considered. Main beneficiaries of processes of globalization are TNCs with a heavy and ambiguous for identification essence and genesis (Sala, 2005). At the turn of XX-XXI centuries there is an intensive growth of foreign trade in the global economy and TNCs act in this process as investors, traders, distributors of modern technology and have become the main factors of international migration. These companies play a leading role in the internationalization of production, the process of expanding and deepening productive ties between enterprises in different countries. At the beginning of the third millennium, the international production of goods and services by transnational corporations was 7% of world GDP (Transnational Corporations..., 2016).

Nowadays, a leading role in global processes play American transnational corporations which outpace the companies from other countries in nature, scope

of trade and investment. But this gap is gradually reduced by strengthening the position of transnational corporations in Western Europe and Japan, as well as the emergence of transnational corporations in developing countries (Nemyrowska, 2014). First attempts of expansion of the Japanese corporations marked were just in the half of XX age and just the first use of concept of globalization is connected with that period. However just falling of the system of Bretton Woods, falling of economic conjunction in the USA influenced on dynamic expansion of the European and Japanese corporations (Jarczewska-Romaniuk, 2004).

Analysis of pectoral structure of TNK shows that the largest employment is traditionally observed in the banking sector (the industry leader – Industrial & Commercial Bank of China, China), fuel industry (the industry leader – Petro China, China) and the pharmaceutical and biotechnology (the leader industry – Johnson & Johnson, the USA) (World`s, 2010).

Globally about half of all foreign trade can be accounted to intra-firm trade, while the share for overall foreign trade where TNCs are involved is estimated to be even larger at about two third [Schaub 2004]. The scientists of Higher Technical School in Zurich examined 43 thousand TNC activities and determined that there is a relatively small group of companies (mainly – banks), which carries a disproportionately strong impact on the world economy. The researchers constructed a model of the global economy, through which they were able to identify 147 multinational corporations that control 40% of world income (There, 2011).

From 37 million companies and investors worldwide, this model has identified a core of 1318 companies that had the most indirect relations with other business structures. Each of them was directly connected to two or more others, and they, in turn, are somehow involved in the ownership structure of 20 companies. Although most of these 1,318 companies together account for 20% of world income, they share collectively a majority of the world's largest companies in the real sector, which accounts for another 60% of global income. As scientists continued to deepen the study it found out that 1318 of these companies collectively are owned by 147 corporate „monsters”. Corporations with „147 list” control 40% of the wealth in the system. In fact, less than 1% of the total number of companies in the world was able to control 40% of the global network. Most of them are financial institutions. Top 20 include Barclays Bank, JPMorgan Chase & Co, and Goldman Sachs Group (There, 2011).

Cross-border cooperation has three main objectives:

- promoting economic and social development in border areas
- addressing common challenges (environment, public health, safety and security)
- putting in place better conditions for persons, goods and capital mobility (Cross, 2014).

Cross-border cooperation is the collaboration between adjacent areas across borders. In the European Union this is one of the forms of territorial cooperation (in addition to transnational and interregional cooperation). The European model is very diverse with cooperation between border regions or municipalities, or through specific cooperation structures. These structures are usually composed by public authorities (municipalities, districts, counties, regions) from different countries organized in working communities, euroregions or EGTCs (European Grouping of Territorial Cooperation) (Cross, 2017). So, a border can be a barrier but it can also be a gateway, an opportunity and a resource as cross-border cooperation brings together the communities on both sides of the border and it helps to transform the border into a possibility for development [Cross...2011]. The resulted features and mission of cross-border cooperation and results of analysis of dynamics and specific of development of TNC testify that development of these two phenomena can be of mutual benefits for both of them. Therefore the prospects of creation and distribution of TNCs in Ukraine in a considerable measure can be instrumental in intensification and increase of efficiency of cross-border cooperation.

### **3. The existence of TNCs in Ukraine and their segment structure**

In Ukraine, foreign transnational corporations appeared in the early 90s. In Ukraine there are foreign transnational corporations, which appeared in the early 90's. First of all, they directed their activity in the main market segments: consumer goods, food, gasoline, tobacco; where the positions of domestic producers were weak. They took control on tobacco industry, the market of soft drinks, beer, advertising market as well as telecommunications.

The list of global corporations represented in the domestic market include Coca-Cola, Samsung, Toyota, Nestle, Nokia, Metro Cash & Carry, Hewlett-Packard, British American Tobacco and others (Actual, 2010). Large industrial concerns such as Westinghouse, Exxon Mobil or General Electric are unfortunately absent on the Ukrainian market. The exception is Mittal Steel, for which its Ukrainian asset Kryvorizhstal is an interim but not final link in the production chain (Transnational Corporations..., 2016).

Among the best-known transnational corporations that have opened subsidiaries, affiliates and joint ventures in Ukraine should be mentioned Swedish-Swiss group ASEA – Brown Boveri (ABB) in the electrical industry, SKF – in engineering, Tetra-pack – packaging, Procter & Gambel, Unilever, Dow chemical Company – in the chemical, Lukoil – in oil, Damen Shipyards - ship-building. Tobacco industry is dominated by investment prominent American and British transnational corporations Reynolds, Philip Morris Inc., British American Tobacco, in brewing – Investments consortium of Scandinavian companies

Balticbeverage Holding, TNK Belgian Interbrew. In the food industry operating subsidiaries of transnational corporations are Kraft Jacobs, Nestle, Coca-Cola, Cargill. A world-famous multinational corporations such as British Petroleum and Royal Dutch Shell attempted to enter the Ukraine oil market but abandoned their intention to work in our country because of the high cost and instability of legal framework (Actual Problems..., 2010).

Analyzing the activity of foreign companies in Ukraine economic sector (Figure 2), it should be noted that most of these companies are concentrated in trade and repair, manufacturing industry, real estate as well as construction. For foreign investors the most attractive in Ukraine are the following industries: food industry and processing of agricultural products – 15.7% of the total direct foreign investments to Ukraine; trade – 15.6%; financial sector – 8.5%; Engineering – 8.0%; transport – 7.6%; metals and metal products – 5.4%; real estate – 4.6%; chemical and petrochemical industry – 4,1% (Nemyrowska, 2014).

Thus European and American TNCs the most attractive are Ukrainian food industry, trade, financial sector and pharmaceuticals. In these areas the circulation of capital is fast and commercial risks is minimal. Investing in the infrastructure of business services for maintenance, primarily enterprises with foreign investments is also attractive to transnational corporations (Transnational Corporations..., 2016). However, foreign companies do not tend to invest their money in high-tech industries, mostly directing investments in trade industry that allows them to obtain quickly high profits (Official Website..., 2015).

The expansion of foreign transnational corporations in Ukraine is accompanied by the use of „mixed and masked” strategies. Thus in many cases, investment strategy’s main aim have become minimization of customs payments. The amount required for entry this investment can be correlative not only in turnover of the parent company, and even created a turnover in Ukraine.

This is confirmed in the soft drinks markets and household appliances (where investment of about 100 thousand dollars in lowest level technology was enough for major market position) (Transnational Corporations..., 2016).

In Ukraine TNCs are conditionally divided into two groups: companies that do not have enough real competition among local industry (for example, a manufacturer of hygiene products Procter & Gamble or tobacco company), and corporations whose interests are directly affecting many Ukrainian companies (manufacturers beer, soft drinks, such as Coca-cola and Sun Interbrew).

But realistically only Ukrainian producers compete with each others while position of transnational corporations in the market mostly remains secure. Firstly, transnational corporations can afford to incur losses in a particular region for compensation revenue growth in other foreign subsidiaries. Secondly, multinational corporations provide a powerful legal and political immunity „peculiarities of doing business” in Ukraine. Thirdly, they have undeniable

advantages in marketing and huge advertising opportunities. Most Ukrainian companies only replicate competitors' world-renowned original ideas to promote the product. One can predict that Ukraine will have problems with TNC in the future. In the tobacco industry monopoly position of Philip Morris, ABC and other tobacco giants may be affected only as a result of active campaigns against smoking. However Ukrainian society is not ready for such steps nowadays. In the sector of „fast food”, young Ukrainian companies are unlikely to make serious competitors to McDonald's.

Coca-Cola will have to make more efforts to maintain the share of Ukrainian market as Ukrainian producers of soft drinks have good potential for increasing production, which constrained by competition between producers in the domestic market and the lack of support from the state.

The share of Ukraine's GDP output produced by transnational-national corporations is growing. Following food and consumption, on the Ukrainian market has entered major multinational manufacturers of high-tech products such as Apple and Alcatel. In these market segments domestic producers have no chance of winning.

The largest investors in Ukraine remain the USA and Russia although in connection with current events the situation will change in the direction of the EU. American investors prefer food and non-alcoholic beverages, and Russia invests their money in the sphere of oil refining. Most major transnational corporations are focusing their activities in the sectors of banking, services, mining and processing of oil and gas, computers and IT – equipment, pharmaceuticals and biotechnology.

Recently, the volume of trade liberalization on the domestic market has been increasing, intensifying competition and entry into the Ukrainian market of foreign transnational corporations. Thus, for Euro 2012 in Ukraine, due to the lack of development of hotel infrastructure, availability of accommodation shortage and poor quality of services leading TNC in this field, such as: Starwood Hotels & Resorts Inc, Wyndham Hotel, Rezidor Hotel Group, Marriott, Hyatt and Radisson have made investments in the market of hotel services in Ukraine (Proceedings..., 2010). In the field of banking trend continues acquisition of Ukrainian financial companies by foreign investors, which in turn enter the Ukrainian market transnational corporations in the insurance industry.

Czech company Avia, owned by the Indian corporation Hinduja Group, announced to begin production of trucks in Ukraine. The company plans to build a new factory in Western Ukraine, or create a joint venture with one of the existing motor company, located in the south. These requirements meet Il'ichevsk car factory, Antorus Company and a new car assembly plant Vipos automotive group.

The second-biggest Portuguese retailer Jeronimo Martins plans to expand its Polish division Biedronka to Romania and Ukraine.

#### 4. Prospective creation and development of Ukrainian TNCs

There are certain segments of Ukrainian market that are powerfully mastered by foreign companies. In order to determine the area in which it is advisable to create domestic companies let us analyze goods of export group because it is clear that the activities of TNCs cover a group of countries globally.

As seen from Table 1 for the period from 2007 to 2013 export structure is the following: the first position is occupied by ferrous metals, followed by the agricultural sector, such as grain products group, just over 10.0%. In the structure of export commodity groups plays a significant production of chemical and related industries – the percentage of this group in total is about 7.0%.

**Table 1.** The export list of certain goods by the criterion of significance for the economy of Ukraine 2007-2013

No	Product name	The customs value of goods, ths. USA	% (the total amount)
1.	Ferrous metals	112703333,70	27,65
2.	Cereals	27479102,50	6,74
3.	Mineral Fuels; oil and products of their distillation; mineral waxes	24727859,20	6,07
4.	Machinery, equipment and mechanical devices	23363921,50	5,73
5.	Electrical machinery and equipment and parts thereof	19399183,80	4,76
6.	Ore slag and ash	18315263,10	4,49
7.	Railway locomotives or tram cars, rolling stock and parts thereof; road equipment and devices for railway or tramway and their parts; mechanical extinguishing equipment of all kinds	18048942,90	4,43
8.	Fertilizers	9902430,50	2,43
9.	Inorganic chemistry: inorganic or organic compounds of precious metals, rare earth metals, radioactive elements or isotopes	9810130,40	2,41

Source: Based on the (Official Website..., 2015).

Thus, we can conclude that many budget-products are exported. It means that there is the demand for these product groups abroad and we have opportunity to develop the national economy not only for their own consumption. It actually can be objective reasons for making TNCs in industries such as agriculture, steel, metals, and energy, chemical and petrochemical industries. Overall, the share of these industries in merchandise exports of Ukraine occupies 65% or 47.63 billion dollars US.

But do the statuses of large Ukrainian companies meet requirements of transnational corporations? In Ukraine, the first multinational corporation that began to form in the state includes PPG SCM, DCH Holding NVH Interpipe, OJSC Ukrnafta NEMIROFF Holding CC« ROSHEN ».

In order to determine the presence of transnational corporations in Ukraine let us consider compliance with these Ukrainian companies the terms of the UN Commission under defined to TNC related company, including their business in two or more countries, irrespective of their legal form and scope, and the annual sale of such the company has more than 100 million. US, the existence of branches in no less than six countries, while also analyzed the percentage of sales of goods outside the country of residence (Table 2.).

**Table 2.** Comparison of key indicators of leading Ukrainian companies

Indicators	Number of countries in which the branch is located	Annual sales mln. USD
H11 Interpipe	8	10230
PPG SCM	6	8151
Nemiroff Holding	5	204
SE CC Roshen	3	220
OJSC Ukrnafta	1	848
LLC BSN	1	493

Source: (*Proceedings...*, 2010).

The data in Table 2 indicate that only two of the companies responsible by signs 2 requirements UN status TNK – Independent Trade Union Interpipe and FPG SCM. OJSC Ukrnafta and LLC BSN correspond to only the second condition – their annual sales volume exceeds 100 mln. USD. They have branch offices in 6 countries and produce their products only in Ukraine (*Proceedings...*, 2010). The annual sales volume NEMIROFF Holding and SE CC ROSHEN is more than 100 mln. USD. These companies have manufacturing facilities in two countries and SE CC Roshen – in three, i.e., the number of countries where these companies have branches is insufficient. Good potential and prospects to become transnational corporations has NEMIROFF Holding.



## 5. Conclusions

1. Development of domestic transnational corporations in modern society is an objective necessity and a real prospect. TNCs largely took over a number of state functions; Secondly, the presence of domestic transnational corporations can create a decent competition to foreign companies in the domestic and foreign markets; Thirdly, transnational corporations creates unique opportunities for cross-border cooperation due to its high level of internationalization as international business contacts between companies in different countries are much easier and more cost-effective than outside.
2. The resulted features and mission of cross-border cooperation and results of analysis of dynamics and specific of development of TNC testify that development of these two phenomena can be of mutual benefits for both of them. Therefore the prospects of creation and distribution of TNCs in Ukraine in a considerable measure can be instrumental in intensification and increase of efficiency of cross-border cooperation.
3. Issues of further development of TNC in Ukraine is closely related to the development of the national economy of the state and state power maintains effective macro-economic reforms in the country. In addition, it is the ability to implement macroeconomic reforms in the country depends on its perception in the world, is also an important argument for the stimulation of foreign capital in Ukraine.
4. Large national corporations almost did not meet the level of public corporations of the developed countries, which are characterized by a high level of transparency and coordination of interests of all participants of corporate governance. Domestic corporations are characterized by low participation of institutional investors in government. In domestic corporate governance of joint stock companies are no effective mechanisms of economic incentives of officials. For example, the system of motivation are not used such indicators for assessing the effectiveness of corporate governance as capitalization (market value of the company) and capitalized corporate income.
5. Improving corporate governance is also impossible without an effective system of disclosure and transparency issuers whose shares must be in public circulation. In the practice of national corporate governance insufficiently implemented modern information technology. It demonstrates the need to transform the system of corporate governance in Ukraine with the transition to a market system.
6. Therefore, the strategic objectives of the state should be to promote concentration of finance, industrial and intellectual capital in priority areas, creating competitive financial-industrial transnational corporations - national economic leaders.

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