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CONTENTS

INTRODUCTION

Transnational corporations are long since stopped being considered a “new” form of business but still require research as to how do they operate, what effects do they have on home and host economies and what approaches should be taken to study TNCs as a phenomenon. The relevance of this paper’s topic lies in the necessity of evaluation of how exactly Ukrainian economy can benefit from the current trends in the development of international structure and interconnectivity of TNCs. This thesis aims to evaluate the degree and the character of the impact transnational corporations have on the economy of Ukraine – whether there is really a connection between TNCs activity and their presence in Ukraine, and, if possible, suggest how the government may stimulate or inhibit the TNCs activity, depending on the findings. This will be done by elucidating different theories, which apply to emerging transnational entities, their ways of penetrating new markets and current activity – which, in turn, will serve as a framework for a larger research of impact of TNCs on host economy.

Various researchers have already put their efforts to the studies of aspects of TNCs activity: inter alia - J. Johanson and J. Vahlne explain a sustainable multinational process; A. Aspelud have described model associated with innovation; H. Wai and C. Yeung propose the term "transnational entrepreneurs" and how their approach affect the TNCs activity; Y. Luo and R. Tung describe the concept of Springboard Approach; E. Rasmussen and T. Madsen distinguish four types of early launch and the Born Global theory.

Main purposes of this final qualifying paper are suggestions of ways to stimulate host (Ukrainian) economy via either involvement or inhibition of TNCs activity.

The object of this final qualifying paper are relations and interdependence between TNCs activity and different factors of their environment that shape TNCs approach to the business.

The subject of the following paper are theoretical and methodological aspects, approaches and practical tools of evaluation of TNCs impact on host (Ukrainian) economy.

For achieving the purpose of the research the following milestone tasks have been formulated:

- study of the existing theoretical framework in order to establish the direction of studies;

- systematization of knowledge about existing patterns in TNCs activity to establish the factors that affect the host economy;

- establishment of methodological tool of TNCs activity intensity assessment and further forecasts of TNCs activity;

- retrospective and current analysis of investment practices, legal, social and political environment in which TNCs have to operate in Ukraine for the purposes of suggestion of measures of possible mitigation of emerging problems;

- analysis of investment structure in Ukraine by industrial, recipient region and donor cut-off;

- aggregation of statistical data as preparation for interconnection analysis;

- correlation analysis as assessment of degree of connection between certain parameters of the state of Ukrainian economy and patterns of TNCs activity;

- choice of model and forecast of the relevant parameter which will be determined during the fulfillment of task #3 – to evaluate the investment flows in Ukraine;

- suggestions based on the results of forecast.

Research methodology:

- systematization – determination of the scope of study, the direction and the parameters of TNCs activity and presence;

- aggregation – assignment of data to the relevant groups for correct mathematical analysis;

- retrospective research studies and compilation – assessment of theoretical framework already in place;

- methods of information processing – both initial and final results presentation (comparison, grouping, graphical and tabular presentation of data, methods of bringing performance to a comparative format);

- introduction of author's own aggregated indicator;
- statistical, mathematical modelling and econometric methods;
- methods of economic and expert analysis;
- abstract-logical method.

The paper itself consists of 3 parts with 3 subsections each – theoretical framework revision, retrospective and current analysis TNCs impact and forecast/suggestions – respectively. Paper contains 16 graphical illustrations and 26 tables to present the data and information analyzed.

PART 1

THEORETICAL AND METHODOLOGICAL PRINCIPLES OF THE STUDY OF THE IMPACT OF TNCS ON THE COUNTRY'S ECONOMIC DEVELOPMENT

1.1. TNCs in the Context of Globalization-Integration Processes

According to UNCTAD, Transnational corporations (TNCs) are incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates. A parent enterprise is defined as an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity capital stake.

An equity capital stake of 10 per cent or more of the ordinary shares or voting power for an incorporated enterprise, or its equivalent for an unincorporated enterprise, is normally considered as a threshold for the control of assets (in some countries, an equity stake other than that of 10 per cent is still used. In the United Kingdom, for example, a stake of 20 per cent or more was a threshold until 1997.).

A foreign affiliate is an incorporated or unincorporated enterprise in which an investor, who is resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise (an equity stake of 10 per cent for an incorporated enterprise or its equivalent for an unincorporated enterprise) [1].

TNCs are the most powerful actors of globalization and integration processes, while realizing not only their economic role, but also exerting a great influence on the policies of many states.

TNCs can be defined as institutions:

• which is present in no less than six countries;

• in which at least 25% of workers involved are foreign;

• whose asset structure is at least 25% of capital investment abroad;

• annual turnover of no less than 1 billion dollars;

• the volume of sales of goods outside the main (parent) company is not less than 20%;

• pursuing a unified strategy for managing the development of national enterprises that are part of the organizational structure of TNCs.

The main features of TNCs are as follows: international both within the sphere of operation and in the sphere of capital application; have enormous material and financial potential; have the opportunity to finance large-scale research and development (R & D); have close links with national banking companies, banking systems and are part of financial groups; often multidimensional firms with a high level of diversification of activities; relative independence of the movement of capital [2].

Today there is no significant process in the world economy that would take place without the participation of transnational corporations (TNCs). They accept both direct and indirect participation in world economic processes. Although TNCs operate internationally, their impact extends to all countries and all spheres of life, including the political one, which allows TNCs to be seen along with states and international organizations. Therefore, the phenomenon of TNCs is still a controversial issue for both scholars engaged in the study of contemporary international relations and the leaders of states and enterprises. In the paragraph 3, the theories of TNCs functioning will be reviewed more closely [3].

TNCs are being introduced even into the national governments' field of economic activity and make adjustments to their policies. The largest of them are able to influence the state of the world economy. Countries and non-state transnational structures have become strong partners that interact and compete with each other, representing two qualitatively different subsystems of a single globalization structure. Transnational corporations are objectively considered as the prevailing element of the world economy. TNCs, whose control extends beyond the countries of the location of the headquarters (parent companies) of giants, serve as a catalyst for the development of new technologies. TNCs have become a dominant factor in international specialization and international trade; therefore, the domestic and foreign markets of individual countries serve as separate segments of the world market. This became possible due to the fact that there is no concept of national or regional boundaries for TNCs:

specialization and cooperation relations are established and developed between enterprises located in different countries but belonging to the same corporation [4].

The activities of corporations are a reflection of the needs of the development of economic relations and a vivid example of overcoming customs barriers. With the help of TNCs, production processes go beyond the boundaries of individual countries, on this basis, new industrial complexes are created. The direct manifestation of such complexes is the export of capital, primarily foreign direct investment (details in paragraph 2 and part II). In addition, by creating enterprises abroad, the TNCs are trying to use in their interests the uneven economic and technical development of individual countries, combining modern technology and inferior tech with cheap labor [5].

The first notion of TNCs scope of activity can be acquired by looking at the amounts of Mergers & Acquisitions partaken during the last 2.5 decades (see Fig 1.1):

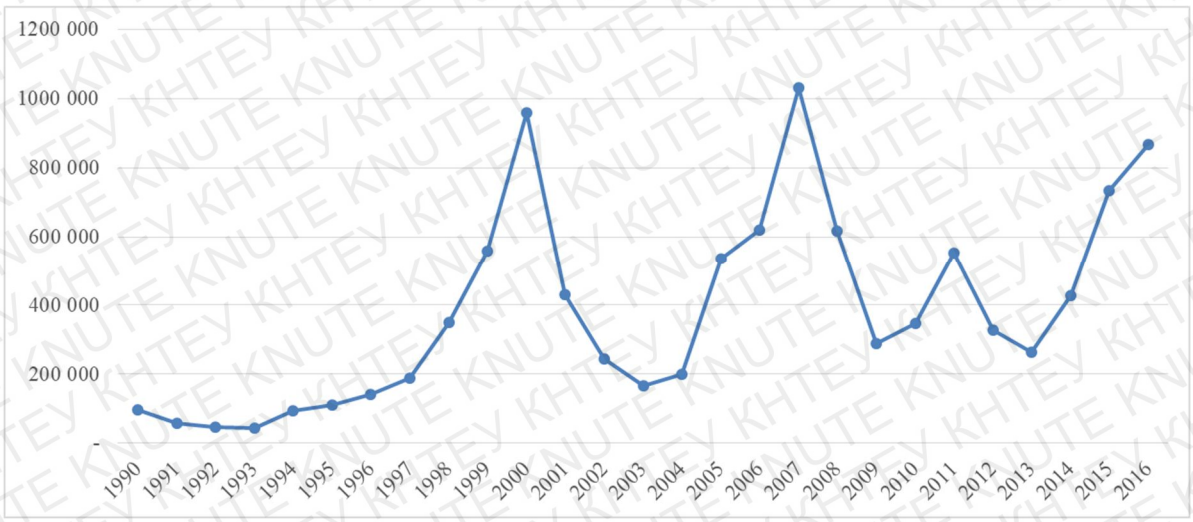

Figure 1.1 Yearly M&A Sales, mil USD
Source: UNCTAD World investment Report ’17 [1]

The international concentration of production and the centralization of capital, activity crossing the national boundaries stimulates the development of TNCs, enhances their role in the field of international political and economic relations. The growth of TNCs is primarily due to the expansion of the production network of private corporations, as well as the absorption of TNCs of foreign firms. There are new and modified old forms of TNCs and methods of their activities. First of all, this can be traced in overcoming the closeness of national economies of countries. There is a

qualitatively new interconnection and interaction - the mutual interweaving of national economies, the elimination of economic boundaries between them, the emergence of branched multidisciplinary complexes and conglomerates that do not coincide with national boundaries [6].

Consequently, TNCs are the most powerful part of corporate business, which operates on an international scale, and play a leading role in strengthening global economic ties.

The economic mechanism of the TNC's activities is determined by the economic and regulatory environment in the countries of origin and countries of the activities of the branches of the TNC, the regime of trade, customs, tax and financial relations between the countries of the TNCs, the possibilities of using the benefits of transnational activities to improve the final efficiency of the operation of TNCs [4]

At the heart of the economic mechanism of TNCs there are four interrelated components:

1. Tax conditions for TNCs that determine the incentives and opportunities for cross-border transfer of production and sales.

2. International positioning of TNC assets or transboundary relocation of TNC assets in order to reduce risks and tax liabilities.

3. Transfer prices for transactions between TNC affiliates in different countries.

4. Management of financial flows of TNCs, that is, the management of internal settlements between branches of TNCs and external financial calculations with other counterparties [7].

Hereby in order to assess the TNCs impact on Ukrainian economy these componens should be reviewed to get the grasp of TNCs motives

1. Tax conditions for TNCs

The tax effect has a decisive influence on the key aspects of TNC's activity: foreign investment, financial structure, structure and value of capital attraction, currency risk management, financial control. The following aspects of taxation at the national and global levels are crucial in determining the tax conditions for TNCs:

- the structure of taxation, which is considered as a system of basic taxes and the procedure for their payment;

- comparative level of taxation of basic operations and performance;

- Application of national or global approaches to taxing profits in different countries;

- the difference in the modes and conditions of avoidance of double taxation between different countries in conducting cross-border transactions;

- presence or absence of tax privileges, loans for operations of TNCs [3]

Important to determine the tax conditions of TNCs is the applicable approach in the country to the taxation of corporate profits. There are two main approaches: national, resident or world and territorial.

The first approach is based on the fact that all profits of a corporation registered in a particular country are taxable. This means that the profits earned in the country of registration are taxed, as well as the profits earned from the activities of the branches of the corporation in all other countries of the world. The second approach involves the taxation of profits received by local and foreign companies in the territory of a particular country. Depending on which approach to the taxation of foreign operations is used in the country of registration of TNCs, different tax problems may arise. So, if a TNC is registered in a country with a world-wide tax-free approach, then the profits from the activities of branches of the corporation in other countries may be taxed twice - in the foreign country where the branch is located and in the country of registration of the TNC. In order to reduce the negative effects of double taxation between countries, bilateral agreements on avoiding such taxation are concluded. These agreements include the declaration of profits received by affiliates of foreign corporations in another country, as well as the profits paid by TNCs in this country. In accordance with the tax legislation of the TNC registration country, the tax on profits of a branch paid in another country under the terms of the agreements may be taken into account in determining the taxable profits of the TNCs. At the same time, double tax treaties contain reduced tax rates for the transfer of profits, dividends, royalties and other types of income from branches to the parent corporation [7].

In order to optimize the taxation the TNCs use certain methods, which are classified into two main groups: organizational and economic. The organizational methods of optimizing the taxation of TNCs include:

- export of goods and services in special ways (without the actual crossing of the border; on the basis of tolling - the temporary import of raw materials and components to the customs territory and their processing for finished products with subsequent exports);

- Foreign operations on the basis of agency agreements, partnership or joint investment with local companies without the creation of a legal entity;

- creation of a foreign representative office, and not a branch, which allows not to declare profits in the country of origin where the representative office operates;

- the creation of special subsidiaries in countries with favorable or preferential taxation or in offshore areas;

- the transfer of part of foreign affiliates or subsidiaries under the control of a special holding company registered in the country with a favorable taxation of capital operations and the repatriation of dividends.

The main economic methods of optimizing the taxation of TNCs include:

- application of transfer prices in payments between branches and subsidiaries of TNCs in different countries;

- the concentration of dividends and other income of corporate financial companies located in countries with preferential tax treatment of financial transactions, preferential double tax avoidance or offshore zones;

- application of forms of intra-corporate lending using own financial structures or lending to subsidiaries under the guarantees of TNCs;

- Investment through own accumulated revenues or attracted resources through its own investment company in the structure of TNCs;

- Transfer of TNC assets through licensing agreements with its own affiliates;

- creation of enterprises and the acquisition of real estate through intra-corporate real estate companies located in countries with preferential taxation of real estate transactions or in offshore areas;

- Carrying out transport operations of TNCs through their own shipping and shipping companies registered in offshore areas [3].

2. International positioning of assets of TNCs

Tax administration of TNCs is closely linked with another important component of their economic mechanism - the international positioning of assets [4].

When a company operates only on the domestic market, it solves the problem of uneven income from sales of products or excess liquidity based on well-known and homogeneous domestic market opportunities. E.g., this could be placing excess liquidity on deposit accounts of those banks that either serve the company or offer competitive interest rates.

Another situation is observed in international operations of TNCs. In this case, there are limitations and risks associated with the movement of assets and financial assets that are the result of political, tax, currency and other constraints, as well as the existence of various restrictions on the liquidity of assets (financial resources) in different countries and their movement between countries. Political reasons may directly or indirectly restrict the transfer of financial resources between branches in different countries of TNC operations. These restrictions include:

- introduction of limited convertibility of currencies;

- application of special unfavorable exchange rates for financial transactions;

- restriction on the purchase of foreign currency in the domestic foreign exchange market for purposes of transferring abroad as dividends or investments in other branches of TNCs [7].

Individual countries apply restrictions on the transfer of dividends or forced reinvestment in their country, additional taxation of dividend transfers to headquarters of TNCs [8].

"Blocked funds" are corporate assets of TNCs that are invested or used in countries with unconverted or restricted convertible currencies and other significant currency restrictions that prevent the transfer of dividends from branches to TNCs headquarters or significant restrictions on the transfer of dividends, control and the limitation of the payment of royalties to the headquarters of TNCs [3].

From the standpoint of TNCs as investors, such funds are economically "blocked", since the profit derived from their use can not be transferred to an investor with an acceptable level of political risk and economically feasible transaction costs [8].

For economically expedient use of "blocked" funds, TNCs use different methods. The main ones are:

- *firstly,* fronting loans, or related financing. They represent a form of lending to their parent's TNCs not directly, but through a large international bank. Fronting loans are loans provided by large international banks to affiliates under the collateral of a TNC deposited in a bank account at one of the major financial centers of the world. This funding structure increases loan repayment guarantees, because in the event of political changes in the country where the TNC affiliate operates, this branch and the TNC itself are less politically protected than a large international bank that, due to its financial and political weight, can provide repayment of loans;

- *secondly,* unconnected exports. Its essence is the use by its TNC affiliates of their local currency revenues for the purchase of local products and their subsequent exports. Unconnected exports are a method of overcoming non-convertibility or limited convertibility of local currency in order to ensure the currency return on investment;

- *thirdly*, forced reinvestment of profits in the country of the TNCs' affiliate's activities. As a rule of a thumb, it leads to a break in the return on investment. Possibilities for using the instruments of the local financial market may also be limited. In this case, TNCs implement a reinvestment strategy in their own production or acquisition of certain local assets (stocks, securities, real estate, etc.) that in the future may increase their value and become more liquid [7].

3. Transfer prices in the activities of TNCs

Transfer prices play an important role in the economic mechanism of TNCs and the global economy as a whole. This is primarily due to the fact that a significant (almost half) share of global exports is the domestic turnover of TNCs between affiliates in different countries. The domestic turnover of TNCs is mediated by intra-

corporate prices, which are called "transfer". Transfer prices perform various functions [9].

The mechanism of transfer prices is based on the possibility of their deviation from the market. Relative reduction of transfer prices for imported subsidiary components and raw materials from other TNC subsidiaries means in fact its additional financing and increase of profits. Relative increase of transfer prices for the imported goods from the corporate structure of the TNC leads to the actual transfer of financial resources to the parent company. If we consider this in terms of exports, dependence will be reversed [6].

Key features of transfer prices:

a) they are not freely marketable, but are internal regulated prices of TNCs, and therefore they are more stable;

b) they are based on production costs or indicators of market prices, but at the same time set at a level that meets certain needs of TNCs - minimizing taxes and customs costs, transferring financial resources from one branch of TNC to another, accumulation of assets in a particular country, etc. The deviation of the transfer prices from the market determines the amount of redistribution of finance within the TNCs;

c) transfer prices contribute to the formation of an internal rate of return of TNCs by redistributing financial resources and minimizing tax and other liabilities in the global corporate structure;

d) transfer prices affect the main macroeconomic indicators: the level of exports, GDP, national income, the state budget of the host countries [7].

Tax authorities in developed countries monitor the level of transfer prices of TNCs because of their important role; in other countries, such controls do not actually exist. Tax control of transfer prices is aimed at establishing the underestimation of tax liabilities of TNCs by establishing "unfair" prices. Any other consequences of transfer prices are not taken into account [3].

4. Management of TNCs financial flows

Managing the internal financial flows of TNCs is, in essence, operational finance management of the company or management of its cash flows.

For this purpose, TNCs use certain specific models and structures that are selected in order to achieve optimal placement and management of financial resources globally. The most commonly used in global trading TNCs is decentralized financial management. In this case, each branch manages its own decisions and manages all financial transactions [7].

The centralized depository system in TNCs is characterized by the fact that each branch maintains a minimal financial balance for only urgent production needs. All other monetary funds are centralized and managed at the TNC level (or TNK's regional management company). This minimizes foreign exchange risks and reduces external investment costs, generates additional returns from placing excess liquidity on deposit accounts or short- and medium-term investments in international financial markets [3].

Corporate Multilateral Clearing involves calculations for the supply of products between branches centrally, through multilateral mutual accounting of payment obligations. The logical development of such a system is the use of the so-called intra-corporate bank. They are either a corporate financial company or a financial department of TNC that conducts special corporate clearing and financial accounts in a bank, or a corporate bank in which TNCs are a controlling shareholder [7].

Thus, the economic mechanism of transnational companies is a structural unity of four components: tax conditions, international asset positioning, transfer pricing, and financial flows management. All components are interconnected and meet the purpose of using the benefits of transnational activities of the company to improve the ultimate efficiency of the operation of TNCs.

1.2. Evolution of the development of TNCs

In order to paint a picture of historical trends of development of TNCs in Ukraine, historical data on world tendencies has been analyzed. For the purposes of this study, biggest TNCs present today in Ukrainian economy have been identified and evaluated (see Table 1.1).

Table 1.1

TOP 10 TNCs in Ukraine

No	Company	HQ	Parent Company	Field
1	Kyivstar	Kyiv	VEON (Netherlands/Russia)	Telecommunications
2	Vodafone Ukraine	Kyiv	Мобильные ТелеСистемы(Russia)	Telecommunications
3	Cargill Ukraine	Kyiv	Cargill (USA)	Grain and sunflower oil
4	JTI Ukraine	Kyiv	Japan Tobacco (Japan)	Tobacco
5	Philip Morris Ukraine	Kharkiv	Philip Morris International(Switzerland/USA)	Tobacco
6	Bunge Ukraine	Kyiv	Bunge (USA)	Grain and sunflower oil
7	Carlsberg Ukraine	Zaporizhzhia	Carlsberg (Denmark)	Beer
8	Mondelēz Ukraine	Trostyanets	Mondelēz International (USA)	Confectionery, snacks and coffee
9	ВТБ Банк Ukraine	Kyiv	Банк ВТБ (Russia)	Banking
10	Samsung Electronics Ukraine	Kyiv	Samsung Electronics (South Korea)	Distribution of consumer electronics

Source: author's estimation of TNC's financial reports. (inter alia – [10-27])

Color code refers to the origin country of parent company – pink for Russia, green for US, blue for Europe and yellow for Asia. Here we can see that Ukrainian market is being dominated by US and Russian capital. To further assess the evaluation of historical trends top 5 largest were chosen and Transnationality Index has been calculated for each of them.

TNI has been calculated according to UNCTAD methodology as the arithmetic mean of the following three ratios:

- the ratio of foreign assets to total assets;
- the ratio of foreign sales to total sales;
- the ratio of foreign employment to total employment;

where "foreign" implies those outside of the parent company's home country.

Philip Morris International (PMI)

Philip Morris International Inc. is an American multinational cigarette and tobacco manufacturing company, with products sold in over 180 countries outside the United States. In 1994, an investment agreement was signed with JSC "Kharkiv Tobacco Factory" and 51% of the shares of JSC "Kharkiv Tobacco Factory" were purchased.

In 2003, the company began construction of a new factory in the village Communist of the Kharkiv region, which has been working since May 2006. In Ukraine, a number of brands are produced for both the domestic market and for export.

This includes, in particular, Chesterfield, Bond Street, Marlboro, L & M and Parliament.

Calculations of PMI TNI are shown in the Table 1.2:

Table 1.2

Philip Morris International TNI index

	Total assets, mil USD		Employees		Sales, mil USD		
	Total	Foreign	Total	Foreign	Total	Foreign	TNI index
2006	26143.00	21609.00	74200	55828	48302.00	40143.00	80.34
2007	31777.00	27248.00	75500	53469	55243.00	45034.00	79.36
2008	32972.00	28299.00	75600	54749	63640.00	52993.00	80.51
2009	34552.00	29410.00	77300	54635	62080.00	53010.00	80.40
2010	35050.00	28786.00	78300	59233	67713.00	56303.00	80.31
2011	35488.00	29856.00	78100	55099	76346.00	64466.00	79.71
2012	37670.00	31375.00	87100	62241	77393.00	65681.00	79.87
2013	38168.00	31473.00	91100	66120	80029.00	68392.00	80.17
2014	35187.00	29599.00	82500	59622	80106.00	67305.00	80.14
2015	33956.00	28394.00	80200	58698	73908.00	61395.00	79.96
2016	36851.00	31139.00	79500	57168	74953.00	63987.00	80.59

Source: PMI financial statements [10], [11], [12]; author's calculation

For better understanding of data, the yearly dynamics of calculated TNI has been represented as a graph and is shown on Fig. 1.2 below:

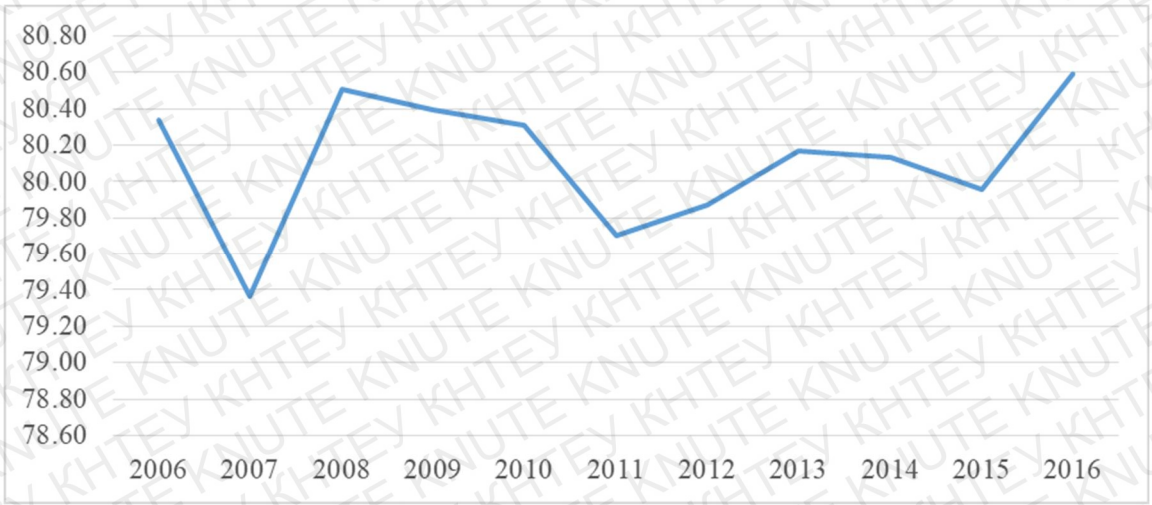

Figure 1.2 Philip Morris International TNI yearly index dynamics
Source: PMI financial statements [10], [11], [12]; author's calculation

Japan Tobacco International (JTI)

Japan Tobacco Inc. is a cigarette manufacturing company. It is part of the Nikkei 225 index. In 2009 the company was listed at number 312 on the Fortune 500 list. Production facilities of JTI in Ukraine are concentrated in the city of Kremenchug. This

factory was founded in 1993 and produces the following brands: Camel, Winston, Magna, Monte Carlo. Calculations of JTI TNI are shown in the Table 1.3:

Table 1.3

Japan Tobacco International TNI index

	Total assets, mil USD		Employees		Sales,mil USD		
	Total	Foreign	Total	Foreign	Total	Foreign	TNI index
2008	45777.02	33215.80	24494	15681	57677.49	49320.03	74.03
2009	34912.26	25409.15	30638	19823	61480.25	50573.65	73.25
2010	34847.48	25989.25	22067	13628	55202.92	46552.62	73.56
2011	31891.48	23676.23	27210	17822	21889.68	18083.06	74.12
2012	34667.51	25868.89	33944	22175	19078.56	15274.29	73.34
2013	41544.14	31465.53	26733	16868	21594.53	17590.90	73.43
2014	42335.10	30544.78	26733	16395	20329.34	16428.14	71.43
2015	41016.83	30668.28	27412	17672	20272.65	17152.69	74.62
2016	42692.34	32036.33	24237	14886	19286.42	15915.15	72.99

Source: JTI financial statements [11], [12]; author's calculation

For better understanding of data the yearly dynamics of calculated TNI from the Table 1.3 is shown on Fig. 1.3 below:

Figure 1.3 Japan Tobacco International TNI index dynamics

Source: JTI financial statements [11], [12]; author's calculation

Carlsberg Group

Carlsberg A/S is a global brewer. Founded in 1847 by J. C. Jacobsen, the company's headquarters is located in Copenhagen, Denmark. The company's flagship brand is Carlsberg (named after Jacobsen's son Carl). It also brews Tuborg, Kronenbourg, Somersby cider, Russia's best-selling beer Baltika, Belgian Grimbergen

abbey beers, and more than 500 local beers. Carlsberg Ukraine includes plants in Zaporozhye, Kyiv and Lviv. The company employs about 1500 people. Calculations of Carlsberg Group TNI are shown in the Table 1.4:

Table 1.4

Carlsberg Group TNI index

	Total assets, mil USD		Employees		Sales,mil USD		
	Total	Foreign	Total	Foreign	Total	Foreign	TNI index
2007	9.83	7.04	46577	34895	7.19	6.14	77.35
2008	22.91	16.82	46328	34028	9.63	7.92	76.38
2009	21.60	15.86	41443	30721	9.54	8.04	77.30
2010	23.16	17.04	41402	31366	9.64	7.97	77.32
2011	23.72	17.90	42670	31584	10.21	8.17	76.51
2012	24.72	17.93	47534	34590	10.67	8.69	75.58
2013	24.46	17.72	47235	35058	10.33	8.35	75.83
2014	22.07	15.79	48302	34449	10.36	8.76	75.83
2015	20.06	14.27	42062	31756	10.49	8.66	76.39
2016	20.38	14.65	47464	34007	10.05	8.56	76.21

Source: Carlsberg Group financial statements [13], [14] author's calculation

The yearly dynamics of calculated TNI is shown on Fig. 1.4 below:

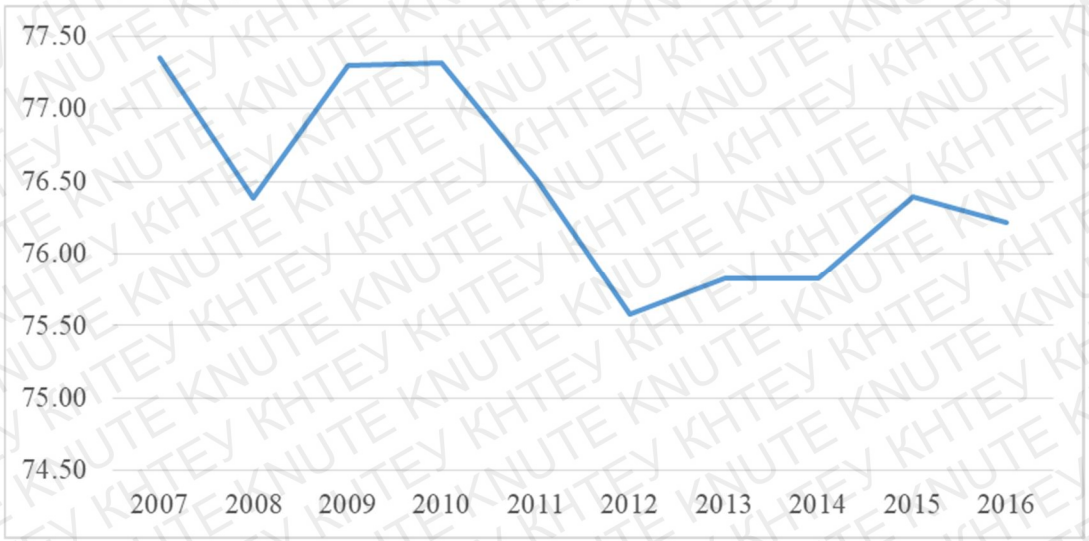

Figure 1.4 Carlsberg Group TNI index dynamics

Source: Carlsberg Group financial statements [13], [14] author's calculation

MTC Group

MTS ("Mobile TeleSystems") is one of the largest mobile operator in Russia and CIS. Having started in the Moscow license zone in 1994, MTS in 1997 received licenses for further areas and began expansion, later entering other countries of the CIS. Calculations of MTS Group TNI are shown in the Table 1.5:

Table 1.5

MTS Group TNI index

	Total assets, mil USD		Employees		Sales, mil USD		
	Total	Foreign	Total	Foreign	Total	Foreign	TNI index
2008	14717.18	9421.94	25302	16625	11900.90	7385.70	63.93
2009	15780.75	10210.14	29247	18077	9823.50	6176.03	63.13
2010	14478.04	8941.64	45897	27937	11293.24	6786.11	60.91
2011	15318.23	10033.44	40492	25048	12318.69	8020.70	64.16
2012	7910.10	5167.67	40254	24981	6575.96	4216.51	63.84
2013	8441.17	5326.38	38989	24512	6927.20	4562.26	63.94
2014	10419.31	6390.16	36412	21879	1863.78	1204.19	62.01
2015	11359.42	7323.42	29247	19042	1970.23	1295.62	65.11
2016	9465.98	5814.01	33806	21676	1938.54	1238.92	63.15

Source: MTS Group financial statements [15-19], author's calculation

For better understanding of data, the yearly dynamics of calculated TNI has been represented as a graph and is shown on Fig. 1.5 below:

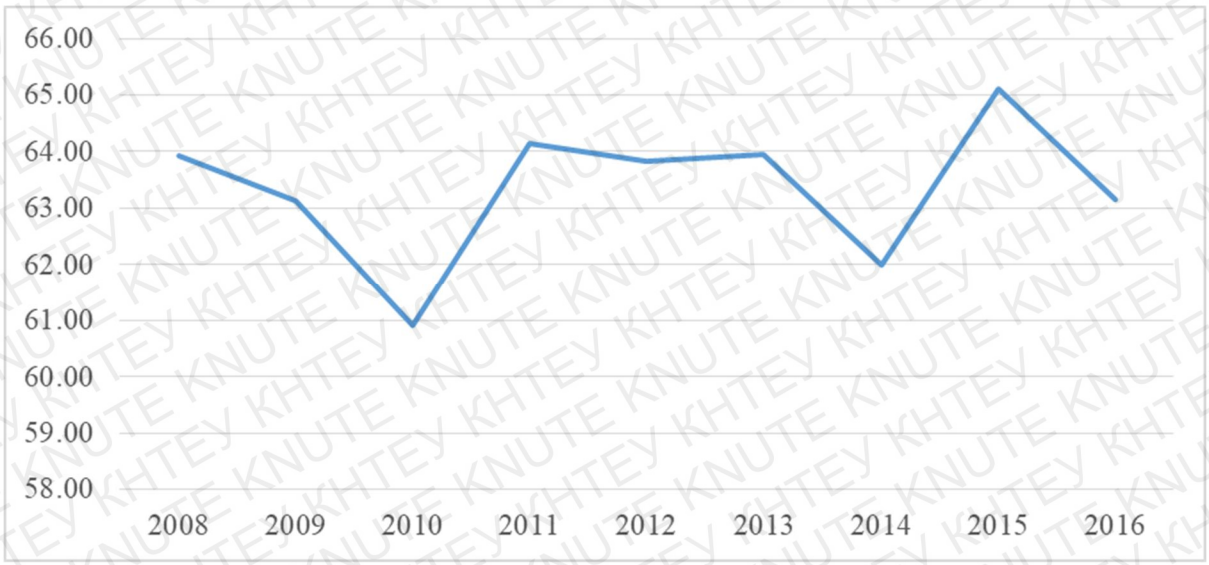

Figure 1.5 MTS Group TNI index dynamics

Source: MTS Group financial statements [15-19], author's calculation

VEON (VimpelCom Ltd)

VEON (formerly VimpelCom Ltd.) is a multinational telecommunication services company headquartered in Amsterdam, Netherlands. It predominantly operates services in the regions of Asia, Africa and Europe. VEON's brands include Beeline, Kyivstar, Djezzy, Jazz Pakistan, Banglalink and others. Calculations of VEON TNI are shown in the Table 1.6:

Table 1.6

VEON TNI index

	Total assets, mil USD		Employees		Sales, mil USD		
	Total	Foreign	Total	Foreign	Total	Foreign	TNI index
2008	14.72	12.59	36813	23173	7.95	6.80	77.97
2009	14.62	12.02	36357	23493	8.81	7.40	76.96
2010	19.51	16.45	42025	27526	10.52	8.74	77.63
2011	54.04	44.64	65950	42452	20.26	17.30	77.45
2012	55.36	44.32	58184	35009	23.06	18.85	73.99
2013	49.87	40.63	57842	36793	22.55	19.31	76.90
2014	41.04	33.17	56024	36611	13.49	11.12	76.21
2015	33.85	28.64	52321	32522	9.61	8.14	77.18
2016	21.19	17.49	41994	27594	8.89	7.16	76.25

Source: VEON financial statements [20-28], author's calculation

The yearly dynamics of calculated TNI is shown on Fig. 1.6 below:

Figure 1.6 VEON TNI index dynamics

Source: VEON financial statements [20-28], author's calculation

The TNCs reviewed display similar patterns in their TNI – one might assume, due to similar factors influencing their global characteristics – despite them belonging to different sectors of economy (namely, telecommunications, beverages and tobacco industry).

The compiled dynamics of TNI index fluctuations are displayed in the Table 1.7:

Table 1.7

Yearly dynamics of top 5 TNCs present in Ukraine

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Philip Morris International (PMI)	80.51	80.40	80.31	79.71	79.87	80.17	80.14	79.96	80.59
Δ, %	-	99.86	99.89	99.25	100.21	100.37	99.96	99.78	100.79
MTC Group	63.93	63.13	60.91	64.16	63.84	63.94	62.01	65.11	63.15
Δ, %	-	98.74	96.48	105.34	99.50	100.17	96.98	105.01	96.98
VEON (VimpelCom Ltd)	77.97	76.96	77.63	77.45	73.99	76.90	76.21	77.18	76.25
Δ, %	-	98.71	100.87	99.77	95.53	103.94	99.10	101.27	98.79
Carlsberg Group	76.38	77.30	77.32	76.51	75.58	75.83	75.83	76.39	76.21
Δ, %	-	101.20	100.03	98.96	98.78	100.33	100.00	100.75	99.76
Japan Tobacco International (JTI)	74.03	73.25	73.56	74.12	73.34	73.43	71.43	74.62	72.99
Δ, %	-	98.94	100.42	100.76	98.95	100.13	97.27	104.46	97.82

Source: author's calculations

The TNCs reviewed display similar trends in fluctuations of their TNI – which may be considered a proof of general tendency to increase the degree of transnationalisation of business and movement towards greater degree of decentralization of business – a trend which is also applicable to Ukraine, a trend our economy cannot ignore or forego, but has to adapt to instead.

1.3 Methodological approaches to assessment of the impact of TNCs on the country's economic development

In the previous paragraphs we have ascertained the main features of TNCs and their activity, but to assess their impact on Ukrainian economy one should also analyze their motive of activity and expansion to the specific country. Various researchers over recent years have dedicated their efforts to understanding TNCs activity: : inter alia, J. Johanson and J. Vahlne explain a sustainable multinational process; A. Aspelud have described model associated with innovation; H. Wai and C. Yeung propose the term "transnational entrepreneurs" and how their approach affect the TNCs activity; Y. Luo and R. Tung describe the concept of Springboard Approach; E. Rasmussen and T. Madsen distinguish four types of early launch and the Born Global theory.

Author suggests classifying abovementioned theories into three categories in accordance with motives of external expansion (see Figure 1.7).

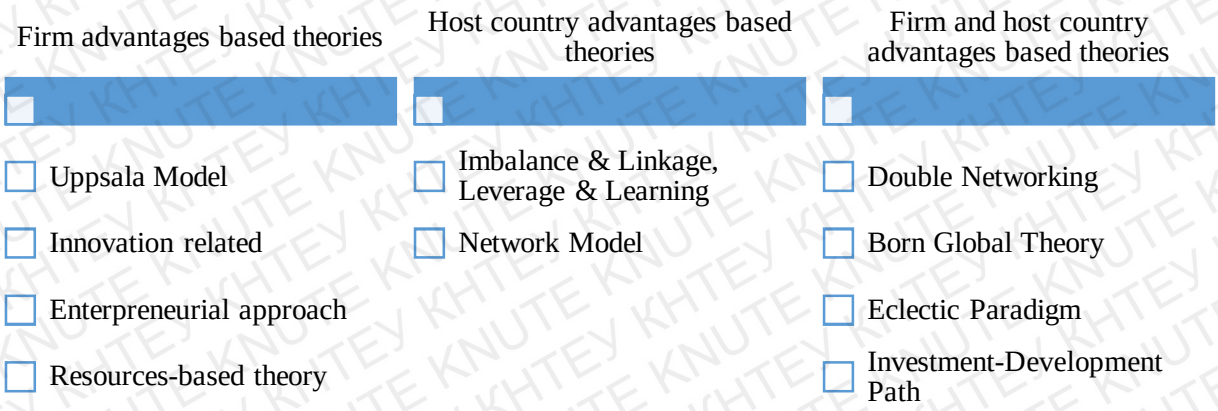

Figure 1.7 Classification of TNC theories

Source: compiled by author, based on [28-49]

The first category of theories focuses on the competitive advantages acquired by firms that are starting to participate in a multinational process, and in the second category they pay attention to the advantages prevailing in countries where TNCs operate. The latter category refers to both sets of motives for ensuring consistent perception.

The first category: theories based on the advantages of firms. In this category, the main motivation for external expansion is the company's competitive advantages with respect to other firms operating in the target foreign market. Andreff & Balcet [28] point out that competitive advantages or what they call the advantages of a particular firm can be divided into two subgroups. The first group includes the advantages of ownership, including patents and trademarks, and the second group includes non-property advantages, such as know-how of the production process, management structure and network of business relations. Given the diversity of the firm's competitive advantages, various theories have been developed to explain the evolution of new multinational corporations, including, among other things, the Uppsala model, the innovation model, the entrepreneurial approach and the resource theory.

A) Uppsala model (Stages Model) Johanson & Vahlne [29] promote its model “Knowledge Development and Increasing Foreign Market Commitments” to explain a sustainable multinational process, commonly known as the Uppsala model. The main

idea is that firms are gradually increasing their obligations in the external market (i.e., the amount of resources that they take over or control economic activity abroad) as they develop and acquire new business knowledge. Subsequently, the firm's knowledge base significantly influences the pace and nature of its multinationality or the process of expansion abroad. In addition, a lack of knowledge about the market can prevent firms from expanding their economic activities beyond the national economy. Market knowledge is related to the opportunities and problems existing in external markets, current and future demand and supply, rules and norms of investment and sales channels. All this information is considered crucial for making decisions about adherence to the external market and assessing the opportunities for foreign investment. According to this structure, training in practice is the only mechanism for acquiring knowledge about the market. Thus, firms must work in the domestic market for a certain period of time until they acquire the necessary knowledge. After that, they can move to work in international markets. Nevertheless, Johanson & Vahlne [30] recognize that some firms may experience a rapid multinational process and do not necessarily follow the process described above. Large firms can experience a leap in the process of multinationalisation because of the huge resources and knowledge of the market. On the other hand, knowledge of the market can explain the firm's preferences regarding the choice of markets and penetration regimes. At the beginning of their global orientation, firms may prefer to work in neighboring markets because of psychological proximity factors. This is due to the smaller differences in culture, language, traditions and political systems. Having gained more knowledge about the market, firms can start investing in distant markets. Regarding the modes of penetration, it is assumed that firms begin their external activities through modes of low market adherence (for example, random, and then regular export orders) because of insufficient knowledge of the market. Later, companies will allocate more resources for their activities abroad (e.g. through joint ventures) as soon as they acquire an increasingly higher level of empirical knowledge.

B) Model associated with innovation (I-model). The model associated with innovation sees the multinational process as an innovation for a firm that is very similar

to the adoption of new products. Changing the orientation of the company, focusing only on the domestic market, as a unique appointment for the role of an international actor, creates many problems for the company's management. A new orientation may require a change in sales channels, administrative structures, opportunities and competencies to cope with the business environment, and competition prevailing in the foreign markets [30]. The transnationalization process consists of several stages, which can vary from one firm to another. Nevertheless, Laghzaoui [31] proposes to classify the process in three stages, namely the phase of the preliminary interaction, the initial phase and the advanced phase. At the stage of preliminary interaction, firms are interested in either the local market or are planning to export. At the initial stage, the companies plan to expand their activities abroad. Firms start participating in international markets in the advanced phase. It is important to emphasize the relative similarity of the Uppsala model and the I-model. Both models have two basic principles: firstly, global orientation is a slow and gradual process because of the firm's need to acquire market knowledge or to adapt to the opportunities and risks associated with investing abroad. The second principle is the recognition of psychological distance. Therefore, firms prefer to work in markets that are culturally and linguistically similar to their domestic market. However, the influence of psychological distance decreases, as firms acquire more experience.

C) Entrepreneurial approach. This approach emphasizes the role of the top management of a firm or an entrepreneur in the multinational process. Top management can play an effective role in this regard by adopting globally oriented strategies, strengthening interaction with international business, studying and using foreign investment opportunities and managing foreign investors. In this regard, Wai and Yeung propose the term "transnational entrepreneurs"[32] to describe a group of top managers who can engage in entrepreneurial activities across borders. This business requires some qualifications to help overcome investment barriers in the host countries and better cope with their cultural and social context. Wai and Yeung define a transnational entrepreneur as "a social subject that can bear the risks and take strategic initiatives to create, integrate and support foreign operations."[32] Therefore, a

transnational entrepreneur has three interrelated functions that must be fulfilled simultaneously. The first function is to control economic activity in different markets. The second function is related to the strategic management of resources across borders through creative and innovative deployment of the firm's investments. Finally, the entrepreneur should be able to explore and use the opportunities of foreign investment. Foreign markets are chosen based on the ability to build business and social networks necessary for the successful management of company resources. It is assumed that transnational entrepreneurship is a gradual process based on experience and knowledge gained as a result of practical participation in foreign economic activity. This implies that, like Uppsala and the I-model, it is assumed that the transnational process will be slow and gradual.

D) Resource-based theory. According to this theory, firms tend to invest abroad only if they own or control "strategic resources". This type of resources allows firms to have certain competitive advantages necessary to increase the efficiency of their business and, in turn, their profits. Since the acquisition of strategic resources is a laborious process, multinationality is perceived as slowly growing [33]. This structure reduces the classical assumption about the homogeneity of resources, as well as the excellent mobility of resources. Instead, resources are considered heterogeneous and immobile among firms [34]. According to Barney, the firm's resources include all of its assets, capabilities, organizational processes, brand attributes, information and knowledge [33]. These resources can be divided into three subgroups: physical resources (production technology, raw materials and equipment), human resources (experience) and organizational resources (managerial and institutional structure). To be classified as strategic, the firm's resources must have the following four attributes. They should be valuable (they should allow the firm to implement efficiency strategies), rare (resources do not belong to a large number of firms), difficult to imitate (for example, if resources are dependent upon unique historical conditions, the link between the resources and the competitive advantage is causally ambiguous and the resources are socially complex) and there should not exist strategically equivalent substitutes for these resources.

In the same context, Watjatraku distinguishes between strategic resources (which can be redistributed or transferred to other companies without significant cost reduction) and the specific resources adopted by the transaction cost theory (resources that cannot be redeployed or transferred to other firms without a significant reduction in value) [34]. In accordance with this distinction, Watjatrakul identifies four types of resources, which is reflected in Table 1.8:

Table 1.8

Different Types of resources

	Strategicness	
	Non-strategic	Strategic
Specificity Low High	High-specificity, non-strategic resource (HSNR)	High-specificity, strategic resource (HSSR)
	Low-specificity, non-strategic resource (LSNR)	Low-specificity, strategic resource (LSSR)

Source: constructed based on [34]

The second category is the host country advantages based theories. Unlike the first category, this category of theories underplays the role of the firm's competitive advantages in initiating the multinationalisation process, since emerging multinational corporations often lack such advantages. Rather, it presumes that the host country advantages are the key trigger to attracting foreign firms to operate in these markets [28]. In this context, various theories have been developed to explain the evolution of EMNCs, the most significant of which are the Imbalance and Springboard Approach, the Linkage, Leverage and Learning Theory, and the Network Model.

A) The Imbalance and Springboard Approach. TNCs coming from emerging markets. OFDI is very important for a company that does not have a competitive advantage, and serves as the launch pad or the springboard. This allows firms to have strategic assets, highly developed technologies, know-how, trademarks and competencies [35]. In this connection, Moon and Roehl state that firms can invest abroad not only to search for additional assets, but also to improve the profitability of specific assets of the company [36]. Therefore, the ownership disadvantages are as

crucial as ownership advantages in deriving overseas investment. This is why the core idea of the Imbalance and Springboard Approach is to look at both advantages and disadvantages or imbalances. Balcet and Bruschieri define the term "disadvantages" as a lack of resources, such as knowledge or know-how and managerial knowledge [37]. Accordingly, competitive advantages can be an outcome of the involvement in the multinationality process, rather than being a prerequisite. Luo and Tung argue that the process of multiinstitutionalization of developing companies is growing faster than the experience of their counterparts in industrialized countries[35]. Subsequently, the multinationality of firms with an emerging market is likely to be achieved by leap, rather than gradual growth. In addition, Deng notes that the rapid growth of emerging markets has prompted firms to study foreign markets and acquire mass acquisitions [38], especially in developed countries.

B) The Linkage, Leverage and Learning Theory. Mathews explains the expansion of emerging transnational corporations or what he calls "dragon enterprises" using three factors: Links, Leverage and Learning [39]. Linkage is conceived by new TNCs as the main tool for mitigating risks and uncertainty in international markets and for acquiring resources that are not available in the domestic market. Firms can build different types of relationships with existing firms operating in targeted foreign markets. These links can be established in various forms, such as strategic alliances, joint ventures and participation in global value chains. Leverage reflects the availability of external resources as a result of establishing links between foreign companies and their foreign partners. Generally, firms are expected to target the most easily imitated and transferable foreign resources. Learning is the end result of the repetition of the application of the binding process and levers. According to the structure proposed by Mathews [39], it is expected that multinational evolution will develop at an accelerated pace.

C) The Network Model. Firms, as a rule, compensate for the inaccessibility of resources by creating advanced and backward networks with foreign companies that have tangible experience in the target foreign markets. The network is simply defined as a set of interorganizational relations, as a result of which the firm becomes dependent

on its partner. It should be kept in mind that many efforts and time are required to build such relationships or networks, which makes it difficult for the firm to easily change its counterparts [40]. Obviously, both the network model, and Linkage, Leverage and Learning use the same view on the utility of creating business networks. Networks help firms access resources or assets required for improving the firm's competitive advantages. Nevertheless, these two theories differ significantly in terms of the timing of the global transition. It is expected that multinationalization will be achieved earlier in Linkage, Leverage and Learning Theory than in the network model, as the latter perceives multinationalization as a cumulative and time-consuming process.

The third category: firm and host country advantages based theories. This group of theories is considered more consistent and comprehensive than the above-mentioned theories. It combines the motives of the advantages of the firm and the host country. As a result, the global orientation is most likely to be caused by the need to either use the firm's resources (investments in the operation of assets), or to gain access to inaccessible resources (investments seeking assets), or both. Subsequently, theories that support this perspective will be discussed.

A) The Double Networking Model. Developing transnational corporations are characterized by several levels of relationships that can be divided into two main categories: internal and external networks. The internal network describes the interdependence between internal divisionns (i.e., affiliates and headquarters) of TNCs that spread across borders. This network is responsible for the dissemination of resources, knowledge and technology within the TNCs. Subsequently, the internal network can reflect the purpose of using the company's assets. At the same time, TNC affiliates usually create external networks with other firms and institutions outside the parent company to gain access to additional resources and knowledge. It seems that the Double Networking model takes a broader definition of external networks than what is supposed to be a network model, and Linkage, Leverage and Learning Theory. According to the Double Networking model, the external network includes not only firms and business institutions, but also includes other institutions, such as research institutes, universities, think tanks, etc. In this context, external networks are the targets

of investments in asset search. It should be noted that internal and external networks are not isolated from each other, since it is expected that the characteristics of internal networks will have a tangible impact on the attributes of external networks [41]. Balcet and Bruschieri argue that the concept of "alliances" can be considered more accurate and precise for the capture of the external network and its global expansion [37]. Similarly, the term "acquisitions" may better reflect the internal network between headquarters and foreign subsidiaries. Both alliances and acquisitions form the trajectories of the multinational evolution of firms with a developing economy. Alliances and acquisitions can be located with the domestic economy at the first stage, and abroad - at the second stage of the multinationalization process. Consequently, multinationality can develop slowly.

B) Born Global Theory. Rasmussen and Madsen note that many researchers recognize the early start of the international activity of the firm [42]. A broad range of terms is used to describe this phenomenon, including international new enterprises, global start-ups, children's multinational corporations and firms engaged in horse racing. In this regard, they distinguish four types of early launch of multinational firms, depending on the number of markets and activities in which the firm participates. These types are: *the beginning of export / import* (participation in a small number of markets and activities), *a multinational trader* (participating in a small number of events, but in many markets), *geographically oriented start* (participating in a large number of events, but in several markets) and *global launch* (participation in a large number of markets and activities). In addition to the previous perspective, Kandasaami defines a born international company or Born Global as one that deals with foreign investment in foreign economic activity in more than five countries and sells more than 40 percent of its products abroad [43]. In addition, in order to be classified as Born Global, the firm must start international sales during the first two years of its creation. Taking into account another opinion, Wictor regards the company as Born Global, as if it sold at least 25 percent of its total output within three years after its creation and sought to gain a competitive advantage from using its resources in several markets [44]. Early global orientation can be directed at three main groups of factors. Brand characteristics

comprise unique firm advantages, including, inter alia, products, technology, managerial skills and consumer orientations. Environmental characteristics are related to the advantages of the external market, such as favorable government regulations, the availability of information on the external market, competition in the market, export incentive programs and the possibility of earning a profit abroad. The main characteristics of the decision-maker reflect the global orientation of the firm's top management, which is perceived as one of the main factors of early multinationality.

C) The Eclectic Paradigm Model. Dunning first introduced in 1976 her model, also known as the Ownership, Location and Internalization (OLI) model [45]. The advantages of property are considered the main engine of participation in foreign activities with added value. Thus, a firm must have certain advantages in order to compete in the international arena. Accordingly, the firm must work first in its domestic market, and then move to world markets. In the original form of the eclectic paradigm, Dunning identifies three advantages: a) those that are the result of owning specific assets that generate revenue; b) foreign branches in relation to the headquarters; and (c) the effects of geographical dispersion. Advantages of a location are connected with a choice of the market or the decision in which the firm is going to find foreign activity. This group of advantages includes, in particular, the size of the market and the availability of cheap production factors. The advantages of internalization reflect various ways (modes of penetration) through which firms can organize the creation and use of their core competencies based on the advantages of placing in different markets. Such conditions vary from share agreements (such as exports and imports) with the acquisition of foreign firms. Given the conceptual basis of the eclectic paradigm, the choice of the correct way of penetration depends on the type of benefits that the firm has. OFDI can be preferred if the firm has all three advantages (i.e. ownership, location and internalization). If there are no advantages to the location, exports may be more appropriate. Finally, licenses or franchises would be ideal if the firm did not have the advantages of a place and the advantages of internalization. This proves that having the advantages of ownership is a prerequisite

for participation in a multinational process, and the availability of both or one of the other two benefits determines the best input mode [46].

D) The Investment-Development Path. The Investment-Development Path (IDP) is one of the widely used structures for interpreting the multi-institutionalization process. In particular, IDP explains which countries will participate in OFDI, and how the dynamics of this activity dynamically changes in accordance with the pace of the country's economic development. Dunning introduced the IDP in 1981 as a dynamic approach within the framework of the model of the eclectic paradigm [47]. The main idea of IDPs is the dynamic interaction of FDI flows (from outside and within the country) and the pace of economic development. In addition, IDPs recognize the impact of their country's public policies on both FDI flows. As a result, the net inflow of FDI (from the negative side inward) develops at a rate that reflects a dynamic relationship with economic development. Thus, Dunning recognizes five stages of development, beginning with the stage when the country is a net FDI recipient, and ending with a maturity stage in which the country can significantly increase FDI flows [48]. Based on the IDP structure, Narula and Dunning argue that there are two groups of factors affecting FDI, namely asset management and asset growth [48].

The factors of the use of assets include resources, the market and the search for efficiency. The main purpose of these factors is to maximize the economic rent received from existing assets. The second group (i.e., the search for strategic assets) is related to the firm's desire to increase its assets. Resources that require OFDI are often directed to countries that have an absolute advantage in limited natural resources. Primary IDP countries, as a rule, do not have any advantages with respect to their location, except for an abundance of natural resources. This motive is very important for firms working in extractive industries. According to Kraemer and Tulder, a firm can access raw materials with one of two alternatives: spot purchase of long-term contracts or internalization of production [49].

As the country develops and progresses through IDPs, the value of the resource search motifs decreases, as marginal extraction costs usually increase with time. Subsequently, new motives arise, such as the search for a market and efficiency, while

economic development is improving. A market seeking OFDI is important where the local market offers tangible opportunities for achieving economies of scale. This is likely to happen in countries that exist in the last part of phase 1 and the beginning of the second phase of IDPs. The definition of foreign direct investment aimed at increasing efficiency is likely to take place in the second part of phase 2 and the beginning of phase 3. Strategic assets aimed at attracting foreign direct foreign investments allow firms to acquire certain resources, such as patents and trademarks. This type of OFDI is expected to occur at the end of stage 3 and in the subsequent stages. Efficiency and the search for strategic assets for outflow of FDI are similar to the fact that they require a certain threshold of accommodation advantages, and both are usually inspired by the process of globalization [48]. Table 1.9 shows the main characteristics of various stages of the path of investment development:

Table 1.9

Investment-development path (IDP) stages

Stage	Outward FDI	Inward FDI	Net FDI flow	Economic development conditions	Motives for OFDI
Stage 1	Negligible	Negligible	Zero	Lacks both ownership and location advantages	Resources seeking investment
Stage 2	Remains very limited	Grows significantly	Negative	Relative improvement in location advantages; weak ownership advantages	Resources seeking investment
Stage 3	Grows significantl	Lower growth rate	Remains negative as	Relative improvement in both location and	Market seeking and efficiency seeking
Stage 4	Continued growth	Lower growth rate	Turn positive	Significant improvement in both location and ownership advantages	Efficiency seeking, Market seeking and seeking to augment assets
Stage 5	High stock of outward FDI	High stock of inward FDI	Revolves around Zero	Leading developed countries	Efficiency seeking, Market seeking and seeking to augment assets

Source: compiled by author based on [38]

After discussing the leading theories explaining the activity of multinational corporations, it remains important to consider the different types of TNC as an integral part of the conceptual framework of transnational corporations' impact on host economy.

CONCLUSIONS TO PART 1

Nowadays TNCs are the most powerful actors of globalization and integration processes, while realizing not only their economic role, but also exerting a great influence on the policies of many states. Consequently, TNCs are the most powerful part of corporate business, which operates on an international scale, and play a leading role in strengthening global economic ties.

The main features of TNCs are as follows: international both within the sphere of operation and in the sphere of capital application; have enormous material and financial potential; have the opportunity to finance large-scale research and development (R & D); have close links with national banking companies, banking systems and are part of financial groups; often multidimensional firms with a high level of diversification of activities; relative independence of the movement of capital.

At the heart of the economic mechanism of TNCs there are four interrelated components:

1. Tax conditions for TNCs that determine the incentives and opportunities for cross-border transfer of production and sales.

2. International positioning of TNC assets or transboundary relocation of TNC assets in order to reduce risks and tax liabilities.

3. Transfer prices for transactions between TNC affiliates in different countries.

4. Management of financial flows of TNCs

After review of the leading theories explaining the activity of multinational corporations, it remains important to consider the different types of TNC as an integral part of the conceptual framework of transnational corporations' impact on host economy.

In order to profoundly analyze the impact TNCs activity has on Ukrainian economy I suggest beginning with assessment of Ukrainian business environment as well as peculiarities of doing business here. Since host country advantages are one of the main factors TNCs consider when looking for a new market it is crucial to understand why exactly one may choose Ukraine over any other country to do business.

Hence, for a prognosis, an analysis of possible changes of Ukraine's advantages as a country should be made. Though the peculiarities of business in Ukraine as well as local traditions should also be considered by TNC, this research will not be focused on them since these are too subtle to be considered in analysis of such scale. Afterwards to get a grasp of scale of TNCs activity I will retrospectively analyze TNCs activity indicators - both from geographical and industrial perspective. As was mentioned in paragraph 1, one of the most evident indicators of TNC activity is FDI, which I consider the primary candidate for analysis. Afterwards I suggest correlation analysis between the factors deemed relevant and main changes in Ukrainian economy in the past years.

PART 2

STUDY OF TNCS INFLUENCE ON ECONOMIC DEVELOPMENT OF UKRAINE

2.1 Monitoring of the TNCs activity in Ukraine

Today there is no significant process in the world economy that would take place without the participation of TNCs. They accept both direct and indirect participation in world economic processes. Since TNCs are a global phenomenon, he did not let go of Ukraine as a participant in globalization and integration processes. This begets analysis of the activities of leading TNCs in Ukraine. An analysis of the activities of TNCs in Ukraine makes it possible to identify a number of positive and negative factors affecting the country's economy. To do that the review of current state of Ukrainian economic environment is necessary.

Ukrainian businesses currently need to face several complications in process of both establishing and maintaining business activity. This is especially important to consider for foreign investors seeking allocating their assets in Ukraine. These issues are:

- Cultural barriers to conducting business activity and local traditions of negotiating, establishing external relations and view of competitors as threatening enemies rather than purely economic rivals. Though countered by increasing adaptation of foreign business traditions (namely European and American ones), largely through interaction with companies already present on Ukrainian market, it still sometimes presents foreign representatives with complications, especially when interacting with new partner.
- Issues in innovation sphere. Although it can no longer be considered stagnant, it still presents foreign investors with necessity to consider large investment in development of local production process. Local producers only relatively recently started to show initiative in technological advancements so that investor may start in any way to rely on local suppliers, infrastructure or distribution.

- Legislation issues and barriers of doing business. Until very recently Ukraine was one of the lowest countries in the World Bank's rating of ease of doing business – lots of legislative procedures to get the building permits, purchase of land, enormous amount of different kinds of taxes, complicated utilities connection, etc. Though recent reforms are aimed to ameliorate the situation, the surely is a room for improvement.
- Widespread affinity to use informal practices and corruption mechanisms.

Each of these issues will be covered further.

Innovation is one of the most important issues to be resolved for Ukraine to be considered an attractive direction of TNC's capital allocation. Although Ukraine has an enormous education potential – primary education is mandatory and higher one is provided by a vast variety of universities and colleges; while state institutes offer budget-funded education programs and scholarships, private ones also provide education services at competitive prices and quality. Vast variety of well-regarded Ukrainian universities, some of which have a rich historical and scientific legacy provide qualified specialists in all spheres of activity and fields of science. Though the level of life still urges the most competent specialists to emigrate abroad to seek more paying jobs, lately Ukrainians, especially young – most creative and initiative part of society - display a rise in patriotic feelings and desire to work towards improvement of their country and tend to stay here. This results in development of small business, competition and hence – innovations. Also state policy of support of innovation is worth reviewing – aside from local technological and environmental initiatives, state also cooperates with international organizations to support national innovation sphere. As a part of its research and development cooperation with the EU, Ukraine participates in the Horizon 2020 programme. It is the biggest European research fund with around ˆ79 billion for the period of 2014-2020. Upon Ukraine's accession to the Horizon 2020 in March 2015, a number of national research companies raised European funding to develop their technological breakthroughs [50].

A vivid example could be Ukrainian electron beam melting company Chervona Hvilya – which is among the Horizon success stories. In 2017, the company won the Horizon grant of ˆ50000 to develop its technology of metal 3D printing - xBeam. It

allows producing metal parts of unique shape complexity and optimal thinness with both high productivity and accuracy. The solution dramatically reduces production costs, compared to the existing 3D metal printers. Innovations of such kind will undoubtedly attract investors and create demand for new technological and cheaper product, therefore either improving local producers effectiveness, which could act as contractors for TNCs or TNCs themselves could attempt to seize the opportunity and make use of new technological advances.

In Ukraine, the EU assists companies with (1) funding, (2) training, and (3) export support to new markets through the EU4Business initiative. Since 2009 till Nov 2017, 5.6 billion UAH (ˆ178 million) has been provided in total for 2,500 Ukrainian companies.

EU support is available for Ukrainian businesses:

1. More access to finance:

- Supporting loans in local currency
- Finance for export-related investments
- Finance for buying or upgrading equipment
- Micro credits for setting up or developing a small business

2. Stronger business skills:

- Tailored advisory services and technical support to companies – human resources, IT, management structures, business models, etc.
- Training programmes to improve skills of entrepreneurs in key areas
- Tailored training and mentoring for women entrepreneurs

3. Better access to new markets:

- Business advice and training for export-oriented companies
- Help for companies to adapt and trade with the EU
- Support to agricultural and food industries to take advantage of EU markets

[50], [51]

Despite such impressive cases of Ukrainian H2020 participants, experts say Ukraine is not using its potential. Since joining the Horizon in 2015, only 6 Ukrainian companies won grants under the SME Instrument.

In 2015 and 2016, on average 5 companies from Ukraine applied for the instrument per quarter. Now the situation has improved somewhat: on average 25 companies have applied in the first and second quarters this year; and 40 companies in the third quarter [52].

The Mayors for Economic Growth initiative (M4EG). The aim of the EU call is to support those Ukrainian municipal authorities that want to improve their local business environment and stimulate business development. Small cities and communities will be developing their capacities and technical skills while working together with business sector and civil society.

M4EG is a new initiative promoted by the EU not only in Ukraine but throughout the Eastern Partnership countries (i.e. also in Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova). The Call targets those cities that already have a Local Economic Development Plan, which is consistent with the principles outlined in the Mayors for Economic Growth Concept. The indicated total amount made available under this call for proposals for Ukraine is EUR 4.5 million. Requested grants should be between EUR 0.5-1 million, while the grant will cover 50-80% of the total eligible costs of the action. Duration of the project is 18-48 months [51], [53].

So all in all Ukrainian innovation and development sphere shows great promise for potential investors to consider, and with the TNCs potential to inject financial resources to the desired fields of scientific advances this should be an argument enough to mark Ukraine as potential market.

Next is ease of doing business. While most part of this paragraph is dedicated to review of Ukraine's economic environment for purposes of TNCs activity, the index of ease of doing business is worth a closer look.

The ease of doing business index is an index created by Bulgarian economist Simeon Djankov at the World Bank Group. The academic research for the report was done jointly with professors Oliver Hart (economist) and Andrei Shleifer. Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights. Empirical research funded by the World Bank to justify their work show that the economic growth impact of

improving these regulations is strong. Index is an aggregate of several parameters some of which I will review closely below.

Getting a loan

Obtaining a loan is currently one of the easiest steps to building a business in Ukraine, compared to other tasks. The country ranks 29th in the world and has a relatively developed financial system.

Investor protection

Ukraine is taking steps to improve the image of the country abroad and provide investors with more protection. According to the World Bank, this place is ranked 81st in the world (recent improvement from 117th), but the government adopts active information strategies, consistently improves the legal environment and works with existing foreign investors.

Enforcement of contracts

Upon receipt of a loan, execution of contracts is one of the simplest processes in Ukraine. It takes 378 days compared to the 489.9-day Europe average, although the costs associated with it are quite steep.

Additional attention should be paid to the way of enforcing contracts. Whine there can be no denial that that issue of racketeering hereditary to the period after the collapse of USSR is still partially present, it will be somewhat lesser concern for large TNCs; currently judiciary enforcement of contracts is effective enough (although again one should consider corruption mechanisms in place, but it will be covered later). In June 2016, following the experience of France, Italy, Hungary, Poland, Czech Republic, Slovakia, Romania, Latvia, Lithuania and Estonia Ukraine adopted law “On Private executors” (changed in Dec 2016) which regulates activity of private bailiffs. According to Serhiy Shklyar, Deputy Minister of Justice of Ukraine on Executive Service, there are 44 private executors registered. At the same time, they are currently subject to a number of restrictions: private government executors can not execute documents of more than 6 million UAH during the first year of activity and 20 million UAH during the second year, as well as decisions regarding state bodies and

companies. He also noted that there is a mechanism in place that prevents private enforcement from engaging in raids and other criminal schemes [54], [55].

There is a significant difference between private government executives and collectors: in contrast to the latter, bailiffs operate in a strictly defined legal field.

Tax Payments

Paying taxes is by far the most laborious process, requiring 5 payments (recently improved from 28!) per year, with average of 16.5 payments for Europe and Central Asia and 327.5 (with average of 218.4 for Europe) hours. Unified social contribution and corporate income tax take a considerable amount of time compared to OECD counterparts.

Construction permits

Ukraine ranks 35th (a drastic improvement from 62nd place) in the world for ease of dealing with construction permits, and businesses have to contend with 10 procedures with time and costs associated being much lower than those for Europe: 76 to 168 days and 3.1 to 4.0 % of building value for Ukraine and Europe average accordingly.

Connection to electrical grid is rather complicated – Ukraine ranks 128th for it can take up to 281 days to receive power, costing 525.2 % of income per capita. However, some of these issues may have a solution in TNCs participating in industrial parks: due to the nature of the park itself it is considered as one entity, permits are to be gained only once during the initial creation of the park – the distribution of electricity among consumers in park is none of electric company's business and is likely to be streamlined for new participants as a way of attracting the latter [56].

Finally, perhaps the most controversial issue – the Ukrainian affinity to corruption. There could be no denial that years of product deficit, planned economy, state control over economy and other features of communism led to development of generation's traditions of informal practices, corruption, abuses of powers of office and other issues impeding competitive economic growth.

In the Harvard University's questionnaires [57], researchers asked CEOs and managers about the informal practices used within or beyond the company to get things

done, such as whether companies tend to pay salaries to their staff in cash, or if managers receive any benefits from job candidates, or if they use company funds or employees for their personal needs. Researchers also asked about any informal practices that occur in dealing with suppliers and buyers.

Issues discussed were interactions with local and state authorities, with different control agencies, and with tax inspection and the courts. All of these actions are informal practices on the part of the practitioners, but according to Transparency International, they are all forms of corruption. Table 2.1 shows differentiation between informal practices and corruption forms:

Table 2.1

Informal Practices vs. Corruption

	INFORMAL PRACTICE AS KNOWN TO PRACTITIONERS	FORMS OF CORRUPTION AS KNOWN TO TI PRACTITIONERS
INTERNAL INFORMAL PRACTICES	Paying bonuses and salaries to staff in cash	FRAUD
	Receiving commissions or other material benefits from job candidates	GIFT CONFLICT OF INTEREST
	Using company funds, facilities or staff for personal gain	ABUSE OF POWER OF OFFICE
EXTERNAL INFORMAL PRACTICES	Receving kickbacks or other informal rewards (e.g. expensive gifts) from vedors, suppliers, buyers	GIFT CONFLICT OF INTEREST
	Selecting counterparties for business based on informal relationships of agreements	CRONYISM NEPOTISM LOBBYING
	Usin informal tools, like blackmail or ties with law enforcement against competitors	INFLUENCE PEDDLING

Source: [57]

During questionnaire results shown that paying salaries and bonuses to staff in cash without paying taxes or social fees—the average response increased from 2.2 to 3.4 on a scale from 1 to 5; and selecting vendors, contractors or the winners of open tenders on the basis of informal relationships and agreements—the average response increased from 2.3 to 3.3 on a scale from 1 to 5

Paying Salaries and Bonuses to Staff in Cash without Paying Taxes or Social Fees

Small and medium-sized companies would not be able to survive without paying salaries and bonuses to staff in cash and tax-free. In Ukraine, taxes and social fees are very high for a small or medium-sized company. Even many large businesses try to evade high taxes by employing people as independent contractors, which reduces the tax burden considerably. Respondents indicated that, if they were to pay all the required taxes and fees, about half of their employees' salaries would be taken away as a result. That demotivates employees and reduces their productivity and morale, so employers try to increase salaries by paying social benefits directly to their staff. Also, having no formal relations with employees reduces the time needed for managing taxes. Hence, tax evasion is seen as a factor in increasing productivity and a socially accepted way of increasing the benefits of employees.

Selecting Vendors, Contractors or the Winners of Open Tenders on the Basis of Informal Relationships and Agreements

Respondents indicate that the practice of using informal relations to select tender winners reduces the time and resources necessary for formal tender arrangements. Several respondents referred to business as a zero-sum game, mentioning that if one does not use informal connections, then one's competitors would do that to win. They indicate a mixed picture of corruption practices in the private sector.

While corruption remains a major mechanism by which companies evade taxes, resolve complicated bureaucratic procedures and obtain market access under favorable or even monopolistic conditions, many big companies strive for transparency in order to get access to the international capital market. At the same time, small and medium-

sized enterprises strive for a decrease in negative, “blat”-related relationships in order to have equal access to corruption mechanisms on the market [57].

On the one hand, businesses are still using or even increasing their usage of certain corrupt practices; on the other hand, they indicate a significantly more negative attitude to corruption as the usual way of doing business in Ukraine. This brings hope that continuing systemic changes in Ukraine, the reformation of the Ukrainian economy and constant anti-corruption measures will push the Ukrainian business community from their current corruption-favoring long-term equilibrium of rent-seeking behavior to a better corruption-free equilibrium of a win-win business game.

2.2 Geographical and sectoral structure of investment flows of TNCs in Ukraine

Foreign investment plays an important role in the development of the national economy of any country in the world, and Ukraine is no exception. With the development of transnational corporations, society is increasingly focusing on their attracting and development in the modern economy. It is totally justified, because their size, expediency of branch and territorial placement are increasingly affecting the increase of economic activity of the population, the creation of new jobs, and sometimes the entire production sectors of the national economy, which ultimately determines the structure of the state's economy and shapes its policy. The attraction of funds from foreign investors promotes the investment process, the introduction of new technologies, the use of advanced foreign experience, the development of small and medium-sized businesses, the growth of investment potential, etc.

The attraction of foreign investment enables the recipient country to obtain a number of benefits, the main of which is the improvement of the balance of payments; transfer of the latest technologies and know-how; complex use of resources; development of export potential and reduction of dependence on imports; achievement of socio-economic effect (increase of employment level, development of social infrastructure, etc.). At the same time, the use of foreign investments for the country is a potential source of threats, such as exploitation of raw materials and pollution of the

environment, increasing the country's dependence on foreign capital, reducing the competitiveness of domestic commodity producers, and transferring capital abroad.

For the purposes of this research, FDI is considered one of the most evident indicators of TNC's activity – by mergers and acquisitions the latter are able to allocate their assets wherever they deem economically viable. Through analysis of FDI donor, industrial and regional structure I expect to follow up the research of TNCs impact on Ukrainian economy.

The analysis of foreign investment involves studying the dynamics of indicators in determining their origin, industrial and regional structure. Therefore, first the analysis of the major foreign capital donor countries analysis is necessary. For the purposes of this research, the data provided by Ukrainian State Service of Statistics (under the Ministry of Economic Development and Trade) is used [58-69].

The following table lists the countries that have made the largest investment in the Ukrainian economy presented in order of diminishing of volumes of their FDI contribution in the year 2016.

Table 2.2

Top FDI donors in Ukrainian economy, by donor country, mil USD

	2006	2007	2008	2009	2010	2011
Cyprus	3011,70	5941,80	7682,90	7890,20	9914,60	12645,50
United Kingdom	1557,20	1968,80	2273,50	2248,60	2298,80	2508,20
Netherlands	1493,00	2511,20	3180,80	3378,60	4707,80	4822,80
Austria	1600,80	2075,20	2445,60	2448,60	2658,20	3423,10
Russian Federation	980,80	1462,20	1851,60	2135,50	3402,80	3594,50
British Virgin Islands	808,30	1045,70	1316,10	1348,00	1460,80	1607,00
Switzerland	504,90	583,80	715,60	779,90	859,40	960,30
USA	1418,00	1436,80	1471,50	1400,30	1192,40	1043,10
Others	9811,30	12463,90	14785,80	14896,90	18213,20	18757,80
Total	21186,00	29489,40	35723,40	36526,60	44708,00	49362,30

Continuation of table 2.2

	2011	2012	2013	2014	2015	2016
Cyprus	12645,50	17275,10	19035,90	13710,60	11744,90	4277,00
United Kingdom	2508,20	2556,50	2714,10	2145,50	1852,50	2692,60
Netherlands	4822,80	5168,60	5561,50	5111,50	5610,70	2550,00
Austria	3423,10	3401,40	3257,50	2526,40	2402,40	2499,00
Russian Federation	3594,50	3785,80	4287,40	2724,30	3392,10	2384,00
British Virgin Islands	1607,00	1884,90	2493,50	1997,70	1798,90	1402,00
Switzerland	960,30	1106,20	1325,40	1390,60	1364,20	1086,00
USA	1043,10	936,70	991,10	862,30	698,90	852,00
Others	18757,80	18347,20	18490,50	15447,10	14506,80	9651,00
Total	49362,30	54462,40	58156,90	45916,00	43371,40	27393,60

Sources: constructed based on [58-69]

* data is presented in nominal prices at the time of report

Total amount of foreign direct investments has seen a steady increase until the year 2013, when the amount if investments started to decrease and the latest available 2016 data shows that current volume of FDI is lesser than 10 years ago, in 2007 (see Fig 2.1).

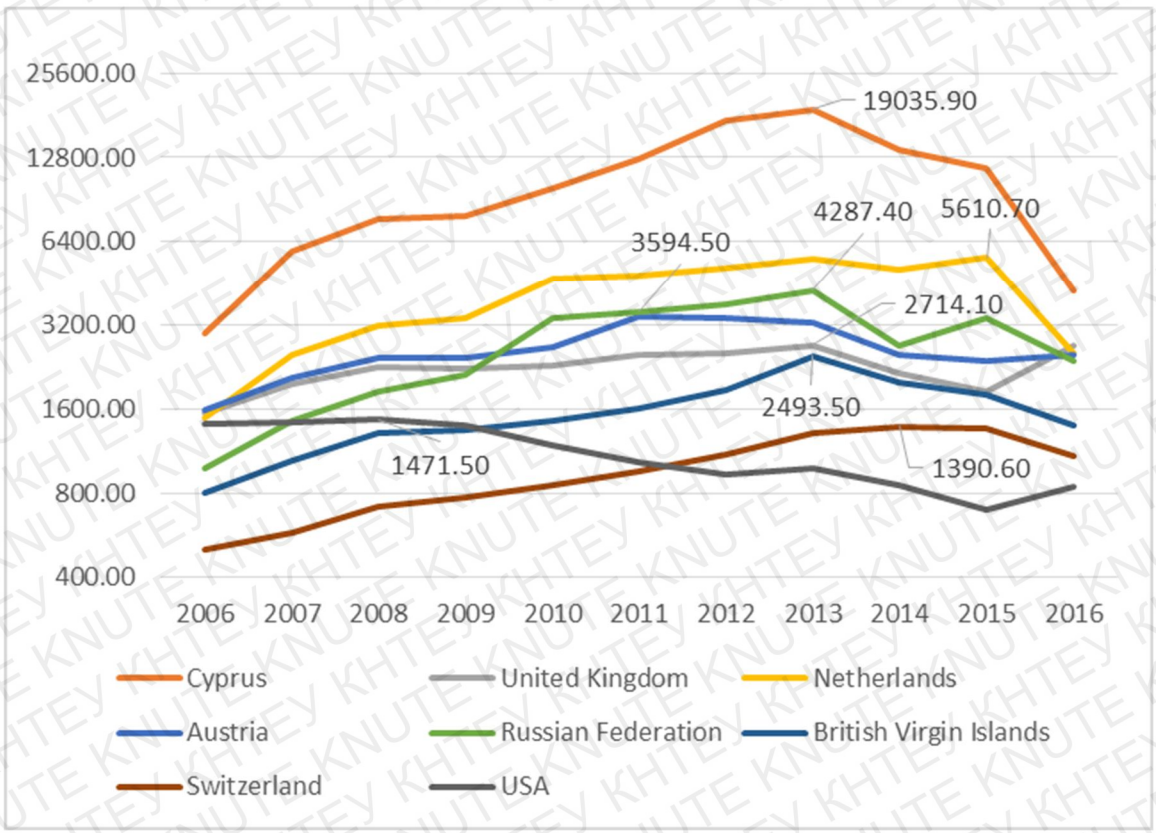

Figure 2.1 Dynamics of FDI inflow to Ukraine by donor country, mil USD
Sources: constructed based on [58-69]

Cyprus Throughout the years Cyprus has been maintaining leading position among the capital donors. In 2007 Cyprus's share increased by 41,74% to the point of 20,15% of total FDI that year; in 2008 Cyprus's share increased by 6,74% to the point of 21,51% of total FDI that year; in 2009 Cyprus's share increased by 0,44% to the point of 21,60% of total FDI that year; in 2010 Cyprus's share increased by 2,66% to the point of 22,18% of total FDI that year;

In 2011 Cyprus's share increased by 15,52% to the point of 25,62% of total FDI that year, in 2012 Cyprus's share increased by 23,82% to the point of 31,72% of total FDI that year, in 2013 Cyprus's share increased by 3,19% to the point of 32,73% of total FDI that year, in 2014 Cyprus's share decreased by -8,77% to the point of 29,86% of total FDI that year; in 2015 Cyprus's share decreased by -9,31% to the point of 27,08% of total FDI that year; in 2016 Cyprus's share decreased by -42,34% to the point of 15,61% of total FDI that year.

Netherlands is next biggest capital donor of Ukraine, and though it lost its position in 2016 to the United Kingdom, it has been second only to Cyprus in terms of FDI inflow to Ukraine. In 2007 Netherlands's share increased by 20,84% to the point of 8,52% of total FDI that year; in 2008 Netherlands's share increased by 4,56% to the point of 8,90% of total FDI that year; in 2009 Netherlands's share increased by 3,88% to the point of 9,25% of total FDI that year; in 2010 Netherlands's share increased by 13,84% to the point of 10,53% of total FDI that year.

In 2011 Netherlands's share decreased by -7,22% to the point of 9,77% of total FDI that year; in 2012 Netherlands's share decreased by -2,87% to the point of 9,49% of total FDI that year; in 2013 Netherlands's share increased by 0,77% to the point of 9,56% of total FDI that year; in 2014 Netherlands's share increased by 16,41% to the point of 11,13% of total FDI that year; in 2015 Netherlands's share increased by 16,21% to the point of 12,94% of total FDI that year and in 2016 Netherlands's share decreased by -28,04% to the point of 9,31% of total FDI that year.

Russian Federation is the third biggest source of foreign investments to Ukraine, and though due to obvious reasons – annexation of Crimea and support of hostilities in the eastern parts of Ukraine it still remains one of the biggest capital

donors. In 2007 Russian Federation's share increased by 7,10% to the point of 4,96% of total FDI that year; in 2008 Russian Federation's share increased by 4,53% to the point of 5,18% of total FDI that year; in 2009 Russian Federation's share increased by 12,80% to the point of 5,85% of total FDI that year; in 2010 Russian Federation's share increased by 30,18% to the point of 7,61% of total FDI that year; in 2011 Russian Federation's share decreased by -4,33% to the point of 7,28% of total FDI that year.

In 2012 Russian Federation's share decreased by -4,54% to the point of 6,95% of total FDI that year; in 2013 Russian Federation's share increased by 6,06% to the point of 7,37% of total FDI that year; in 2014 Russian Federation's share decreased by -19,52% to the point of 5,93% of total FDI that year; in 2015 Russian Federation's share increased by 31,82% to the point of 7,82% of total FDI that year; in 2016 Russian Federation's share increased by 11,27% to the point of 8,70% of total FDI that year.

Table 2.3 and graph 2 show the dynamics of shares of top 8 capital donors by amount of FDI in year 2016.

Table 2.3

Share in total inward FDI, by top 10 donor countries, %

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Cyprus, %	14.22	20.15	21.51	21.60	22.18	25.62	31.72	32.73	29.86	27.08	15.61
United Kingdom, %	7.35	6.68	6.36	6.16	5.14	5.08	4.69	4.67	4.67	4.27	9.83
Netherlands, %	7.05	8.52	8.90	9.25	10.53	9.77	9.49	9.56	11.13	12.94	9.31
Austria, %	7.56	7.04	6.85	6.70	5.95	6.93	6.25	5.60	5.50	5.54	9.12
Russian Federation, %	4.63	4.96	5.18	5.85	7.61	7.28	6.95	7.37	5.93	7.82	8.70
British Virgin Islands, %	3.82	3.55	3.68	3.69	3.27	3.26	3.46	4.29	4.35	4.15	5.12
Switzerland, %	2.38	1.98	2.00	2.14	1.92	1.95	2.03	2.28	3.03	3.15	3.96
USA, %	6.69	4.87	4.12	3.83	2.67	2.11	1.72	1.70	1.88	1.61	3.11
Others, %	46.31	42.27	41.39	40.78	40.74	38.00	33.69	31.79	33.64	33.45	35.23
Total, %	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Sources: constructed based on [58-69]

Calculated dynamics are represented as a graph on a Figure 2.2:

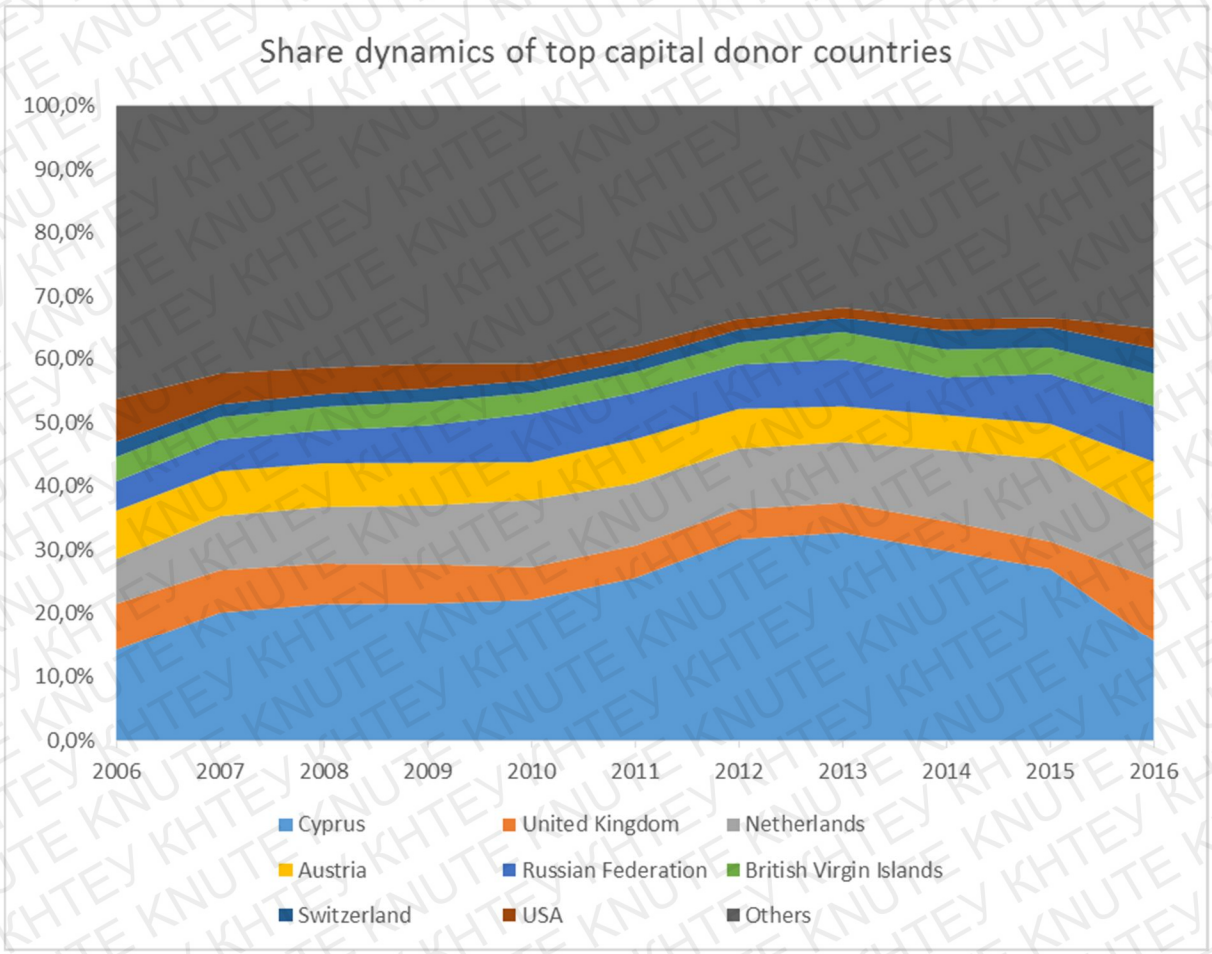

Figure 2.2 Share in total inward FDI, by top 10 donor countries, %
Sources: constructed based on [58-69]

Sources of FDI inflow in Ukraine are certainly worth a closer look. While at first glance it may seem that large part of the foreign capital originates in European and developed countries, the main portion of it still comes from an offshore. Undoubtedly, there are purely economic reasons to establish investment companies and holding HQ in offshores or countries with favorable, if not outright preferential economic regime. But a close inspection of some of the TNC investors in Ukrainian economy will reveal that through intermediaries, they themselves are frequently owned by Ukrainian capital [70].

Interestingly, most of the offshore investments in Ukraine are Ukrainian or Russian capital, whose owners use companies in Cyprus and other offshore countries to optimize taxation and obtain a specific legal status, etc. In particular, according to a study mentioned in the OECD Investment Policy Review, the real volume of Russian capital in Ukraine at the end of 2014 was at least three times higher than the officially

announced (about $ 9.9 billion, not $ 2.7 billion). At first glance, investments from developed countries such as Germany and the Netherlands are notorious. However, the magnitude and absence of investment growth from Germany is due to the fact that it is through the German company, the Indian Arcelor Mittal (with HQ in Luxembourg, though), which controls Kryvorizhstal.

The Netherlands, in turn, thanks to favorable tax and other conditions, also acts as an offshore company and is only one of the largest sources of investment in the world only formally. For example, part of the $ 1.8 billion investment in the telecommunication sector of Ukraine is due to the fact that Kyivstar Company is owned by VEON (until recently named VimpelCom) registered in the Netherlands. The largest owner of VEON (through intermediaries) is the Russian Alfa Group. Actual investments from the Netherlands are insignificant and presented, for example, by Unilever [71].

The growth of investment from the Netherlands and Switzerland is mainly Ukrainian and Russian capital. For example, in February 2016, Rinat Akhmetov's ДТЕК subsidiary DTEK Oil & Gas B.V., registered in the Netherlands, accounted for 55% of its share capital in Naftogazvydobuvannya (Нафтогазвидобування). And among the co-owners of the Swiss company Risoil, which in 2014-2016 has invested about $ 70 million in the construction of a grain terminal in Ilichevsk port, there are businessmen from Ukraine.

Also, according to OECD statistics, about $ 558 million in investments in Ukraine are investments by companies that are actually operating in the Netherlands, while the rest are capital of special purpose companies (SPEs). According to these data, aggregate investments in Ukraine from the Netherlands are higher than according to Ukrainian statistics ($ 11.42 billion versus $ 6.4 billion) [72].

2.3 Assessment of the impact of TNCs on Ukraine's economic development

All in all, new foreign direct investment in the country showed a sharp decline after the war began – naturally, despite some improvement of the business environment in Ukraine, political and security threats prevent investment restoration. However, it is important to understand that a significant part of pre-war FDI came to Ukraine through offshore companies and in fact had a Ukrainian or Russian origin. Of course, uncertainty surrounding the military conflict with Russia will hold back investment in Ukraine. In order to increase the likelihood of attraction of genuine foreign capital, significant obstacles to FDI that existed long before the conflict began to be eliminated.

Upon examining the list of major investor countries in the Ukrainian economy, next the recipient industry structure is to be reviewed. To do this, the volume of foreign direct investment in accordance with the main sectors of the national economy of Ukraine will be calculated, as well as their share and dynamics. Consider the results obtained in the Table 2.4:

Table 2.4

Capital investment amounts by types of economic activity for 2010-2016, mil USD

Year/Amount of recipient capital, mil USD	Total	Industry	Agriculture, Forestry and Fisheries	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles
2010	6913,30	2120,38	423,53	1139,62	710,20
2011	9237,60	3014,00	630,40	1224,76	921,44
2012	10461,56	3506,83	722,96	1560,50	939,19
2013	9566,36	3735,61	711,62	1561,88	849,55
2014	8400,46	3301,76	719,59	1380,42	793,10
2015	10456,22	3355,90	1154,47	1664,00	791,08
2016	13752,53	4508,18	1932,77	1701,53	1146,89

Sources: constructed by author based on [73]

*data was sorted by biggest amount in 2016

**here and further for all calculations regarding conversion of amounts in UAH to USD the exchange rate of 13.09.17 was used.

Calculations pertaining to the distribution of capital between types of economic activity are presented in Table 2.5:

Table 2.5

Capital investment distribution by types of economic activity for 2010-2016, % of total

Year/share of recipient capital	Total	Industry	Agriculture, Forestry and Fisheries	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles
2010	100,00%	30,67%	6,13%	16,48%	10,27%
2011	100,00%	32,63%	6,82%	13,26%	9,97%
2012	100,00%	33,52%	6,91%	14,92%	8,98%
2013	100,00%	39,05%	7,44%	16,33%	8,88%
2014	100,00%	39,30%	8,57%	16,43%	9,44%
2015	100,00%	32,09%	11,04%	15,91%	7,57%
2016	100,00%	32,78%	14,05%	12,37%	8,34%

Sources: constructed by author based on [73]

At first glance, distribution of investment capital is typical for industrially developed countries, especially ones with transitional economy – industry is the leading recipient of foreign capital.

Industry In 2010 year Ukrainian industry received 2120,38 million USD, a 30,67% of total amount of investments received. In 2011 year Ukrainian industry received 3014,00 million USD, a 32,63% of total amount of investments received. It is an increase of its previous year share by 6%. In 2012 year Ukrainian industry received 3506,83 million USD, a 33,52% of total amount of investments received. It is an increase of its previous year share by 3%. In 2013 year Ukrainian industry received 3735,61 million USD, a 39,05% of total amount of investments received. It is an increase of its previous year share by 16%. In 2014 year Ukrainian industry received 3301,76 million USD, a 39,30% of total amount of investments received. It is an increase of its previous year share by 1%. In 2015 year Ukrainian industry received 3355,90 million USD, a 32,09% of total amount of investments received. It is a decrease of its previous year share by -18%. In recent 2016 year Ukrainian industry received 4508,18 million USD, a 32,78% of total amount of investments received. It is an increase of its previous year share by 2%.

Agriculture and fisheries. In 2010 year Ukrainian agricutlture received 423,53 million USD, a 6,13% of total amount of investments received. In 2011 year Ukrainian agricutlture received 630,40 million USD, a 6,82% of total amount of investments received. an increase of its previous year share by 11%. In 2012 year Ukrainian agricutlture received 722,96 million USD, a 6,91% of total amount of investments received. It is an increase of its previous year share by 1%. In 2013 year Ukrainian agricutlture received 711,62 million USD, a 7,44% of total amount of investments received. It is an increase of its previous year share by 8%. In 2014 year Ukrainian agricutlture received 719,59 million USD, a 8,57% of total amount of investments received. It is an increase of its previous year share by 15%. In 2015 year Ukrainian agricutlture received 1154,47 million USD, a 11,04% of total amount of investments received. It is an increase of its previous year share by 29%. In 2016 year Ukrainian agricutlture received 1932,77 million USD, a 14,05% of total amount of investments received. It is an increase of its previous year share by 27%.

Construction In 2010 year Ukrainian construction received 1139,62 million USD, a 16,48% of total amount of investments received. In 2011 year Ukrainian construction received 1224,76 million USD, a 13,26% of total amount of investments received. It is a decrease of its previous year share by -20%. In 2012 year Ukrainian construction received 1560,50 million USD, a 14,92% of total amount of investments received. It is an increase of its previous year share by 13%. In 2013 year Ukrainian construction received 1561,88 million USD, a 16,33% of total amount of investments received. It is an increase of its previous year share by 9%. In 2014 year Ukrainian construction received 1380,42 million USD, a 16,43% of total amount of investments received. It is an increase of its previous year share by 1%. In 2015 year Ukrainian construction received 1664,00 million USD, a 15,91% of total amount of investments received. It is a decrease of its previous year share by -3%. In recent 2016 year Ukrainian construction received 1701,53 million USD, a 12,37% of total amount of investments received. It is a decrease of its previous year share by -22%.

Wholesale & retail trade, vehicle repair In 2010 year Ukrainian wholesale and retail trade received 710,20 million USD, a 10,27% of total amount of investments

received. In 2011 year Ukrainian trade received 921,44 million USD, a 9,97% of total amount of investments received. It is a decrease of its previous year share by -3%. In 2012 year Ukrainian trade received 939,19 million USD, a 8,98% of total amount of investments received. It is a decrease of its previous year share by -10%. In 2013 year Ukrainian trade received 849,55 million USD, a 8,88% of total amount of investments received. It is a decrease of its previous year share by -1%. In 2014 year Ukrainian trade received 793,10 million USD, a 9,44% of total amount of investments received. It is an increase of its previous year share by 6%. In 2015 year Ukrainian trade received 791,08 million USD, a 7,57% of total amount of investments received. It is a decrease of its previous year share by -20%. In 2016 year Ukrainian trade received 1146,89 million USD, a 8,34% of total amount of investments received. It is an increase of its previous year share by 10%.

The data for amounts and shares of biggest economic activities-recipients of investments are represented in Figure 2.3 and Figure 2.4 respectively

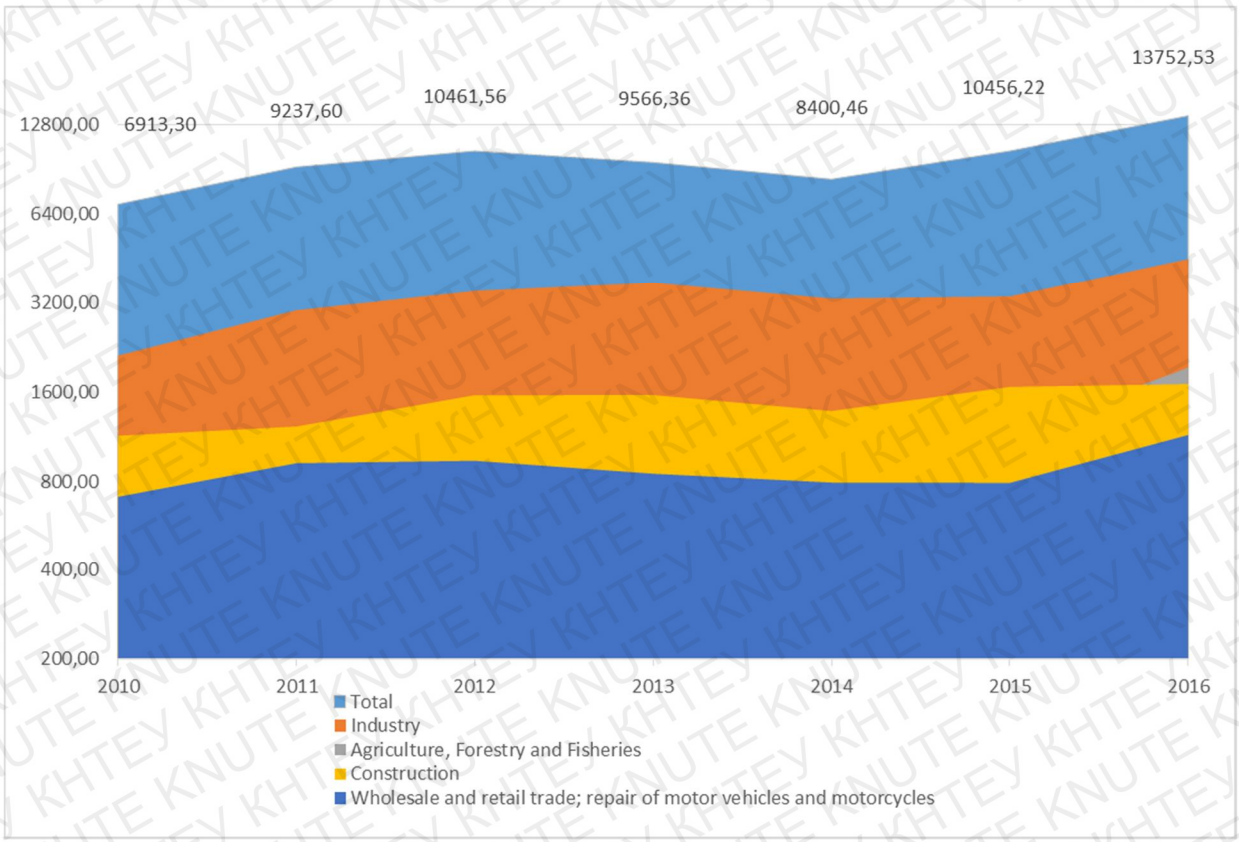

Figure 2.3 Capital investment amounts by types of economic activity for 2010-2016, mil USD

Sources: constructed by author based on [73]

The data on economic activities and industries receiving the lion share of capital investments in Ukraine has been represented as a diagram with included subsector of industry types, for better understanding of distribution of capital (see Fig. 2.4):

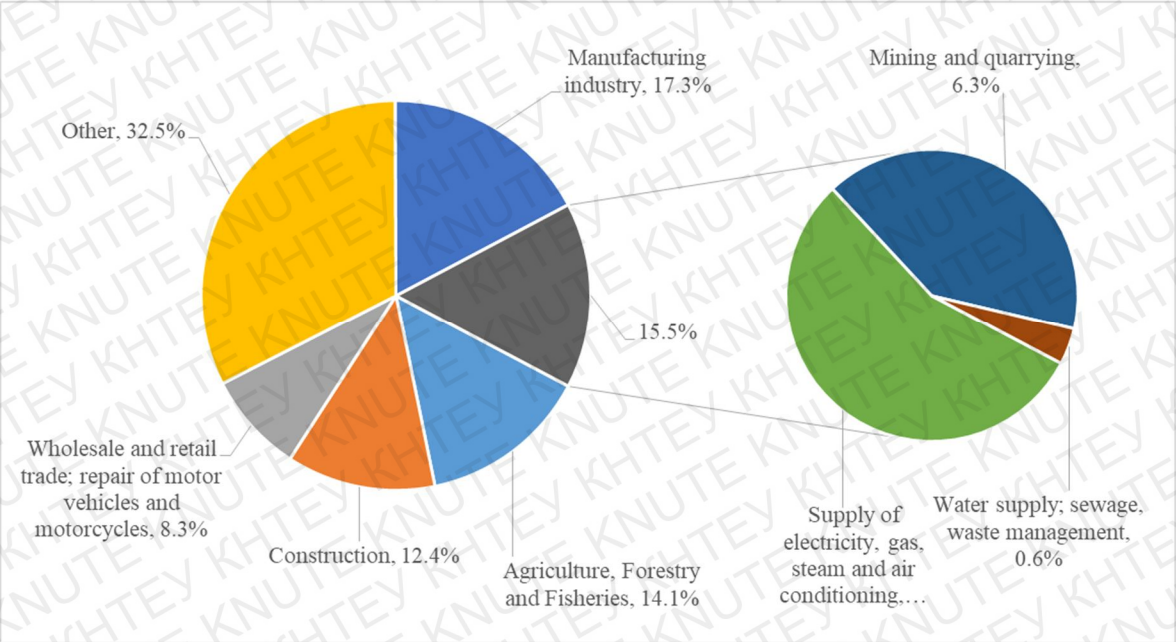

Figure 2.4 Capital investment shares by types of economic activity and industry, % of total

Sources: constructed by author based on [73]

Among all economic activities, industry keeps the leading place by the amount of capital investments received. Indeed, as a transitional economy, Ukraine relies heavily on its industrial potential, and a substantial amount of GDP is generated by various branches of industrial complex of Ukraine. To learn which industries receive most of the FDI further exploration of inward FDI flow is necessary – this time among various branches. Table 2.6 represents data of biggest industries-recipients of FDI.

Table 2.6

Capital investment amounts by types of industrial activity for 2010-2016, mil USD

	2010	2011	2012	2013	2014	2015	2016
Industry total	2120,38	3014,00	3506,83	3735,61	3301,76	3355,90	4508,18
Manufacturing industry	1154,36	1614,14	1618,56	1712,02	1626,13	1769,49	2382,21
-Manufacture of food products, drinks and tobacco products	325,81	461,77	508,41	572,03	516,34	518,70	815,12
-Metallurgy, manufacture of finished metal products, except machinery and equipment	256,33	374,69	353,28	416,35	453,05	477,41	561,36
-Manufacture of rubber and plastic products, other non-metallic mineral products	145,55	162,38	145,10	162,01	152,72	146,16	239,48
Supply of electricity, gas, steam and air conditioning	355,28	515,89	971,74	1122,11	876,53	817,27	1176,63
Mining and quarrying	584,27	846,01	853,50	827,90	766,10	706,98	863,15
Water supply; sewage, waste management	26,47	37,97	63,03	73,58	33,00	62,15	86,19

Sources: constructed by author based on [74]

Calculations of branches' shares in total industrial capital investments are shown in the Table 2.7 below:

Table 2.7

Capital investment shares by types of industrial activity for 2010-2016, mil USD

	2010	2011	2012	2013	2014	2015	2016
Industry total	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%
Manufacturing industry	54,44%	53,55%	46,15%	45,83%	49,25%	52,73%	52,84%
Supply of electricity, gas, steam and air conditioning	16,76%	17,12%	27,71%	30,04%	26,55%	24,35%	26,10%
Mining and quarrying	27,55%	28,07%	24,34%	22,16%	23,20%	21,07%	19,15%
Water supply; sewage, waste management	1,25%	1,26%	1,80%	1,97%	1,00%	1,85%	1,91%

Sources: constructed by author based on [74]

As expected by Ukrainian GDP generation dispersion, FDI also tends to go towards manufacturing industry.

Manufacturing industry In 2010 year Ukrainian manufacturing industry received 1154,36 million USD, a 54,44% of total amount of industrial investments received. In 2011 year Ukrainian manufacturing industry received 1614,14 million

USD, a 53,55% of total amount of industrial investments received. It is a decrease of its previous year share by -1,63%. In 2012 year Ukrainian manufacturing industry received 1618,56 million USD, a 46,15% of total amount of industrial investments received. It is a decrease of its previous year share by -13,82%. In 2013 year Ukrainian manufacturing industry received 1712,02 million USD, a 45,83% of total amount of industrial investments received. It is a decrease of its previous year share by -0,70%. In 2014 year Ukrainian manufacturing industry received 1626,13 million USD, a 49,25% of total amount of industrial investments received. It is an increase of its previous year share by 7,46%. In 2015 year Ukrainian manufacturing industry received 1769,49 million USD, a 52,73% of total amount of industrial investments received. It is an increase of its previous year share by 7,06%. In 2016 year Ukrainian manufacturing industry received 2382,21 million USD, a 52,84% of total amount of industrial investments received. It is an increase of its previous year share by 0,22%.

Supply of electricity, gas, steam and air conditioning In 2010 year Ukrainian energy industry received 355,28 million USD, a 16,76% of total amount of industrial investments received. In 2011 year Ukrainian energy industry received 515,89 million USD, a 17,12% of total amount of industrial investments received. It is an increase of its previous year share by 2,15%. In 2012 year Ukrainian energy industry received 971,74 million USD, a 27,71% of total amount of industrial investments received. It is an increase of its previous year share by 61,89%. In 2013 year Ukrainian energy industry received 1122,11 million USD, a 30,04% of total amount of industrial investments received. It is an increase of its previous year share by 8,40%. In 2014 year Ukrainian energy industry received 876,53 million USD, a 26,55% of total amount of industrial investments received. It is a decrease of its previous year share by -11,62%. In 2015 year Ukrainian energy industry received 817,27 million USD, a 24,35% of total amount of industrial investments received. It is a decrease of its previous year share by -8,26%. In 2016 year Ukrainian energy industry received 1176,63 million USD, a 26,10% of total amount of industrial investments received. It is an increase of its previous year share by 7,17%.

Mining and quarrying In 2010 year Ukrainian mining and quarrying industry received 584,27 million USD, a 27,55% of total amount of industrial investments received. In 2011 year Ukrainian mining industry received 846,01 million USD, a 28,07% of total amount of industrial investments received. It is an increase of its previous year share by 1,87%. In 2012 year Ukrainian mining industry received 853,50 million USD, a 24,34% of total amount of industrial investments received. It is a decrease of its previous year share by -13,29%. In 2013 year Ukrainian mining industry received 827,90 million USD, a 22,16% of total amount of industrial investments received. It is a decrease of its previous year share by -8,94%. In 2014 year Ukrainian mining industry received 766,10 million USD, a 23,20% of total amount of industrial investments received. It is an increase of its previous year share by 4,69%. In 2015 year Ukrainian mining industry received 706,98 million USD, a 21,07% of total amount of industrial investments received. It is a decrease of its previous year share by -9,21%. In 2016 year Ukrainian mining industry received 863,15 million USD, a 19,15% of total amount of industrial investments received. It is a decrease of its previous year share by -9,12%.

Water, sewage and waste disposal In 2010 year Ukrainian water, sewage and waste disposal industry received 26,47 million USD, a 1,25% of total amount of industrial investments received. In 2011 year Ukrainian water industry received 37,97 million USD, a 1,26% of total amount of industrial investments received. It is an increase of its previous year share by 0,89%. In 2012 year Ukrainian water industry received 63,03 million USD, a 1,80% of total amount of industrial investments received. It is an increase of its previous year share by 42,68%. In 2013 year Ukrainian water industry received 73,58 million USD, a 1,97% of total amount of industrial investments received. It is an increase of its previous year share by 9,59%. In 2014 year Ukrainian water industry received 33,00 million USD, a 1,00% of total amount of industrial investments received. It is a decrease of its previous year share by -49,26%. In 2015 year Ukrainian water industry received 62,15 million USD, a 1,85% of total amount of industrial investments received. It is an increase of its previous year share by 85,29%. In 2016 year Ukrainian water industry received 86,19 million USD, a

1,91% of total amount of industrial investments received. It is an increase of its previous year share by 3,23%.

The graphs representing shifts in investment structure in branches of Ukrainian industry are seen below; Figure 2.5 representing changes in amounts of capital investment:

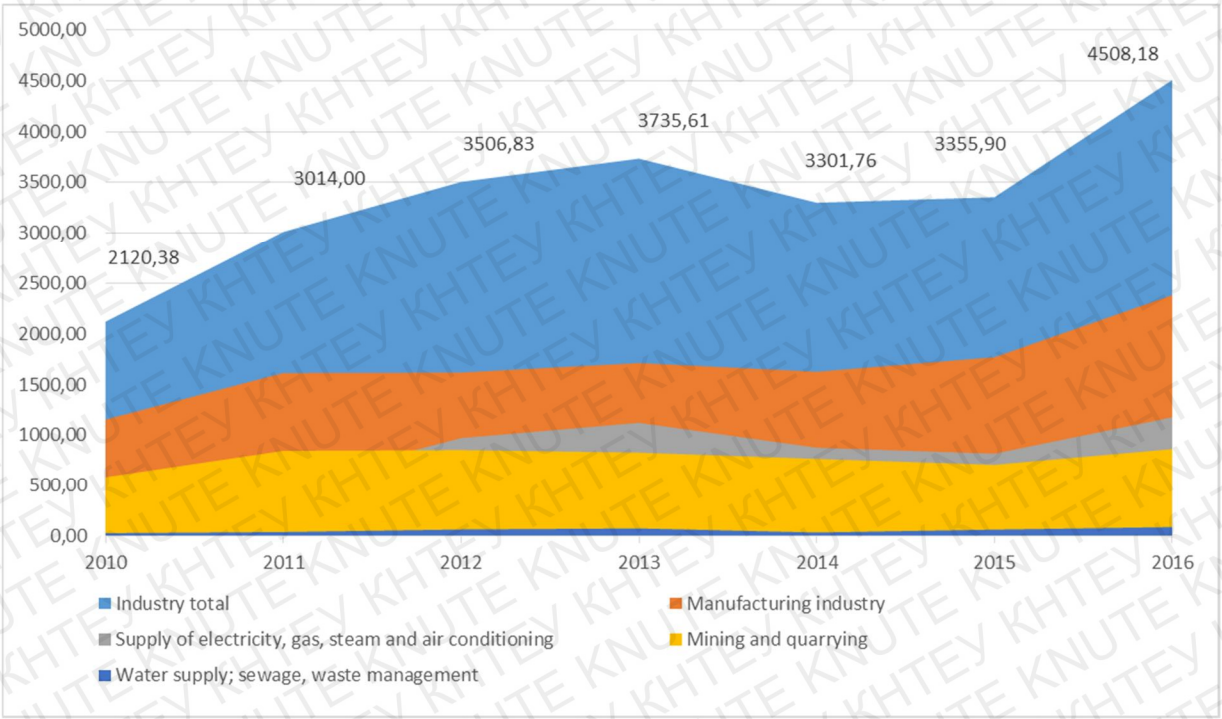

Figure 2.5 Capital investment amounts by industry for 2010-2016, mil USD
Sources: constructed by author based on [74]

And Figure 2.6 showing changes in distribution of capital investment by shares of total:

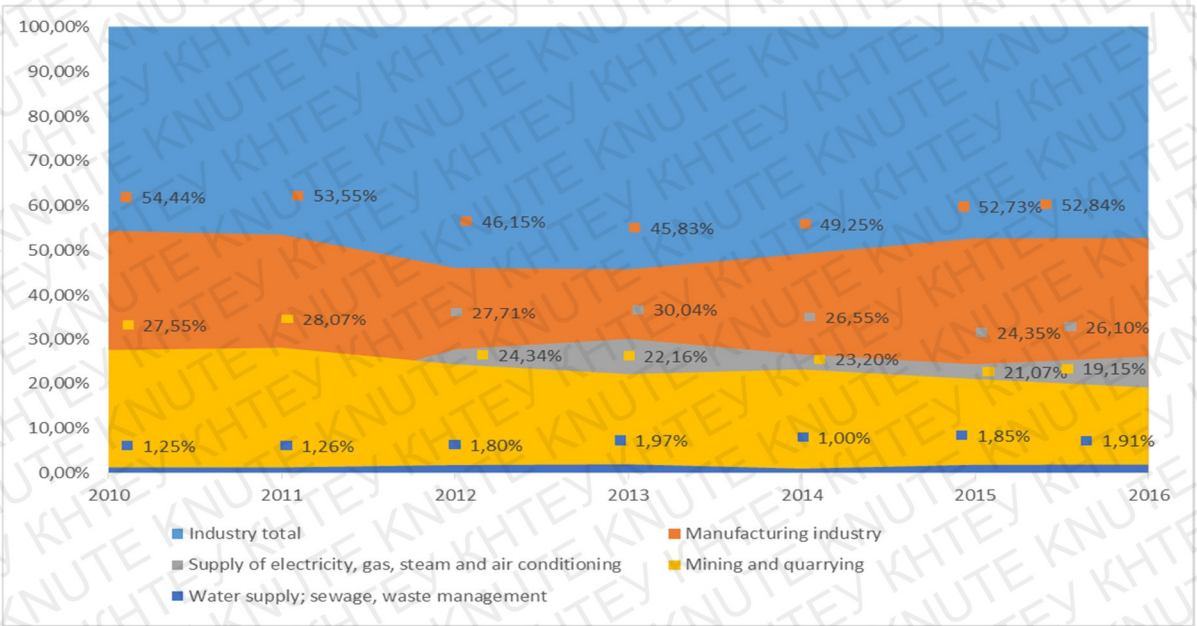

Figure 2.6 Capital investment distribution by industry for 2010-2016, % of total
Sources: constructed by author based on [74]

As it is seen from the graphs, manufacturing industry steadily maintains the leading role in receiving capital investments both domestic and from abroad. Other branches of industry seem prone to sudden, at first glance, shifts in amounts of investments and hence, the shares of total industry FDI inflow. These non-consistent changes are explained largely by changes in economic environment and economic market expectations – this is especially important for energy and water resource industries; uncertainty of supply chains of fuel for energy industry and new approaches to nature-friendly sustainable development for both energy and water supply branches make their mark on investment structure. Those in these two fields Ukrainian state companies maintain monopoly positions, new, alternative directions are developing – alternative power generation, waste recycling and eco initiatives in new Ukrainian industrial parks pave way for private companies, TNCs included, to fill the opening gap in the market.

Next feature of FDI flows to be reviewed is its regional dispersion.

It is important not only to realize the industrial and source structure of FDI flows, but also its geographical cross-section. The following Table 2.8 contains regional capital investment dispersion data.

Table 2.8

Capital investments amounts received by region for 2010-2016, mil USD

	Ukraine total	Kyiv city	Kyiv region	Dnipro region	Lviv region
2010	6734,37	2003,65	422,59	597,33	329,31
2011	8998,51	2653,18	659,09	824,79	451,78
2012	10190,80	2969,13	759,56	839,46	416,70
2013	9318,77	2622,53	771,86	793,99	366,10
2014	8183,03	2529,75	732,96	759,17	356,34
2015	10185,59	3287,04	908,45	966,66	499,24
2016	13396,59	3964,18	1246,04	1237,00	693,86

Sources: constructed by author based on [75]

*data provided excludes annexed Crimea and Sevastopol city

And Table 2.9 contains calculated shares of capital distributed between recipients:

Table 2.9

Capital investment received shares by region for 2010-2016, % of total

	Ukraine total	Kyiv city	Kyiv region	Dnipro region	Lviv region
2010	100,00%	29,75%	6,28%	8,87%	4,89%
2011	100,00%	29,48%	7,32%	9,17%	5,02%
2012	100,00%	29,14%	7,45%	8,24%	4,09%
2013	100,00%	28,14%	8,28%	8,52%	3,93%
2014	100,00%	30,91%	8,96%	9,28%	4,35%
2015	100,00%	32,27%	8,92%	9,49%	4,90%
2016	100,00%	29,59%	9,30%	9,23%	5,18%

Sources: constructed by author based on [75]

Based on the calculated absolute and relative indicators of the volume of direct foreign investment placed in the regions of our state - we see that the undisputed leader among them is Kiev, which economic subjects account for biggest amount of received investments throughout all Ukraine's sovereign existence.

In 2010 Kyiv city companies received total of 2003,65 million USD of investments, or 29,75% of foreign equity capital allocated in Ukraine. Next year, 2011 Kyiv economic entities received total of 2653,18 million USD of investments, or 29,48% of foreign investment amount, a decrease of its share by -0,90%. The following 2012 year, capital companies received total of 2969,13 million USD of investments, or 29,14% of foreign equity capital allocated in Ukraine, a decrease of its share by -1,18%. In 2013 Kyiv economic entities received total of 2622,53 million USD of investments, or 28,14% of foreign investment amount, a decrease of its share by -3,41%. Next year, 2014 Kyiv companies received total of 2529,75 million USD of investments, or 30,91% of foreign equity capital allocated in Ukraine, an increase of its share by 9,85%. The following 2015 year, capital economic entities received total of 3287,04 million USD of investments, or 32,27% of foreign investment amount, an increase of its share by 4,39%. In the recent 2016 Kyiv companies received total of 3964,18 million USD of investments, or 29,59% of foreign equity capital allocated in Ukraine, a decrease of its share by -8,31%.

Next is Kyiv region , with total amount of 422,59 million USD of investments received in 2010 year. Its companies received 6,28%. Kyiv oblast got 659,09 million

USD of investments in 2011 year. Its economic entities received 7,32% an increase of its share by 16,72%. Kyiv region got 759,56 million USD of investments in 2012 year. Its companies received 7,45% an increase of its share by 1,76%. Kyiv oblast got 771,86 million USD of investments in 2013 year. Its economic entities received 8,28% an increase of its share by 11,13%. Kyiv region got 732,96 million USD of investments in 2014 year. Its companies received 8,96% an increase of its share by 8,14%. Kyiv oblast got 908,45 million USD of investments in 2015 year. Its economic entities received 8,92% a decrease of its share by -0,43%. Kyiv region got 1246,04 million USD of investments in 2016 year. Its companies received 9,30% an increase of its share by 4,29%.

In 2010 Dnipro region companies received total of 597,33 million USD of investments, or 8,87% of foreign equity capital allocated in Ukraine. Next year, 2011 Dnipro region economic entities received total of 824,79 million USD of investments, or 9,17% of foreign investment amount, an increase of its share by 3,34%. The following 2012 Dnipro region companies received total of 839,46 million USD of investments, or 8,24% of foreign equity capital allocated in Ukraine, a decrease of its share by -10,13%. In 2013 Dnipro region economic entities received total of 793,99 million USD of investments, or 8,52% of foreign investment amount, an increase of its share by 3,43%. Next year, 2014 Dnipro region companies received total of 759,17 million USD of investments, or 9,28% of foreign equity capital allocated in Ukraine, an increase of its share by 8,89%. The following 2015 Dnipro region economic entities received total of 966,66 million USD of investments, or 9,49% of foreign investment amount, an increase of its share by 2,30%. In the recent 2016 Dnipro region companies received total of 1237,00 million USD of investments, or 9,23% of foreign equity capital allocated in Ukraine, a decrease of its share by -2,70%.

In 2010 companies received total of 329,31 million USD of investments, or 4,89% of foreign equity capital allocated in Ukraine. Next year, 2011 economic entities received total of 0,07 million USD of investments, or 5,02% of foreign investment amount, an increase of its share by 2,67%. The following 2012 companies received total of 0,07 million USD of investments, or 4,09% of foreign equity capital allocated

in Ukraine, a decrease of its share by -18,56%. In 2013 economic entities received total of 0,08 million USD of investments, or 3,93% of foreign investment amount, a decrease of its share by -3,92%. Next year, 2014 companies received total of 0,09 million USD of investments, or 4,35% of foreign equity capital allocated in Ukraine, an increase of its share by 10,84%. The following 2015 economic entities received total of 0,09 million USD of investments, or 4,90% of foreign investment amount, an increase of its share by 12,55%. In the recent 2016 companies received total of 0,09 million USD of investments, or 5,18% of foreign equity capital allocated in Ukraine, an increase of its share by 5,67%.

The following Fig. 2.7 illustrates the shifts in dispersion of received investment capital by regions.

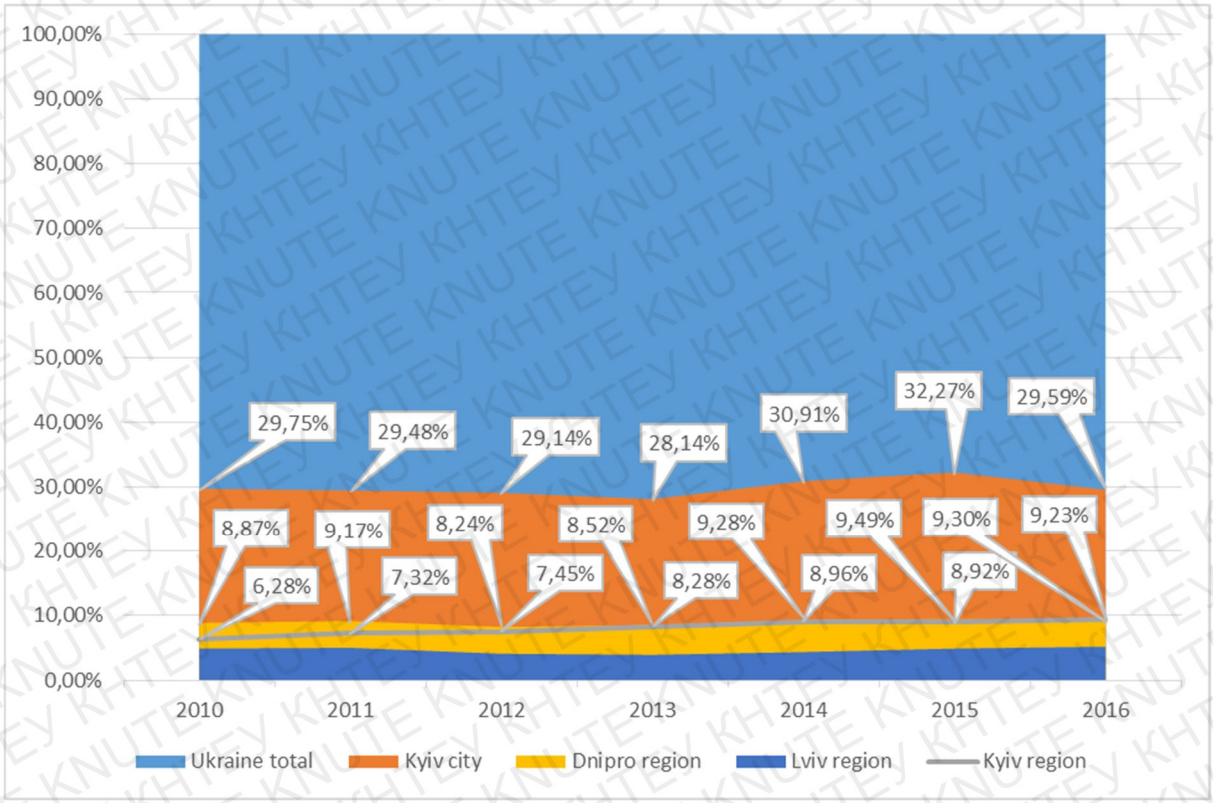

Figure 2.7 Received share capital distribution dynamics by region for 2010-2016, % of total

Sources: constructed by author based on [75]

This chart shows that foreign capital is unlikely to be interested in isolated production facilities, but instead is rapidly expanding its influence on Ukrainian companies that are only registered in Kyiv, and their production facilities are located, in the vast majority, outside the capital. It is author's opinion, that the obvious

disproportion in the geography of the placement of foreign equity capital negatively affects the development of the inter-industrial production cycle in the regions of our state, because the lack of direct inflows of funds directly to peripheral enterprises (that are usually parts of a medium-sized business), usually makes it impossible for healthy competition, job creation and incomes to local budgets. It is clear that a large company pursuing increasing business activity registers its headquarters in the capital, and the concentration of capital in this type of economic entities to large extent deprives such promising areas as Vinnitsa, Khmelnytsky, Ternopil and Chernivtsi regions of attention from foreign investors. In general, I consider that in such a disproportionate form, FDI distort one of their most important purposes - the achievement of positive economic and social impact of the local communities.

CONCLUSIONS TO PART 2

Summing up the analysis of placement of foreign direct investment (equity), it is worth noting the following:

- The share capital originating in offshore continues to crowd out the capital of the developed countries of the world from the Ukrainian economy and provides general indicators of the growth of share capital transfer to Ukraine;
- In the structure of the national economy branches, foreign investment itself is best felt in the industry, in particular in the field of manufacturing, production and distribution of electricity, gas and water, remains significant in agricultural and construction sectors. The enormous economic potential of other industries such as financial activities and real estate operations, telecommunications, leasing and engineering is surely noticed by foreign investors, the intensity of investment activity is lower.
- The territorial structure of the placement of foreign capital, which tends to the capital (pun unintended), obviously does not contribute to the development of new production facilities on the periphery, although attracting new investors sooner or later will place more geographically distant regions in the investment spotlight.

All in all, new foreign direct investment in the country showed a sharp decline after the war began – naturally, despite some improvement of the business environment in Ukraine, political and security threats prevent investment restoration. However, it is important to understand that a significant part of pre-war FDI came to Ukraine through offshore companies and in fact had a Ukrainian or Russian origin. Of course, uncertainty surrounding the military conflict with Russia will hold back investment in Ukraine. In order to increase the likelihood of attraction of genuine foreign capital, significant obstacles to FDI that existed long before the conflict have to be eliminated as well.

PART 3

PROSPECTS OF ECONOMIC DEVELOPMENT OF UKRAINE UNDER THE INFLUENCE OF TRANSNATIONALIZATION

3.1 Substantiation of participation of Ukrainian enterprises in production networks of TNCs

World economic relations are now one of the important factors of economic growth, structural shifts and increasing the efficiency of national production, while also catalyzing the differentiation of countries, the unevenness of their development. The revolutionary leap in scientific knowledge, accompanied by qualitative shifts in technology, production, as well as radical socio-political changes in the second half of the XX century substantially modified the international division of labor and continue to actively influence the nature and trends of its development today.

The most significant change in the global division of labor is the transition from the previously existing global model of labor division between industrialized and developing countries to the new model. The preceding system has been characterized by the predominance of the general division of labor, that is, the division of labor between agriculture and industry, mining and manufacturing sectors of the industry. The general division of labor was later supplemented by a partial division of labor between different branches of the manufacturing industry, as well as enterprises within the industry, that is, a general division of labor based on subject specialization.

This type of division of labor has also undergone certain evolutionary changes. Initially, it was associated with the organization of work within the production unit, but later went beyond the boundaries of an individual enterprise and conditioned the development of industrial cooperation between enterprises of not only one country but also different states. International industrial cooperation, based on the unit division of labor, reflects the present stage of global socialization of production, its qualitatively new level, in which the direct production links between cooperative enterprises become permanent and acquire complete autonomy in relation to commodity exchange operations in the world market.

This led to the formation of world industrial complexes, which include multi-national economic units, and led to accelerated growth of foreign economic relations between developed countries with market economies and similar industrial structures. It is no coincidence that 3/4 of foreign trade turnover of these countries falls on the mutual exchange of goods, a significant proportion of which are intracorporate deliveries. The leading export industries of the industrially developed countries are also import sectors, which indicates an even greater loss of versatility of the national economies of individual countries. Their integration into the world economy takes place in conditions of increasing social division of labor both within the country and internationally.

Therefore, on the one hand, the character and level of development of in-state specialization directly influence the definition of the international profile of the country's economy, which determines the degree of its participation in the specialization of production on a global scale. This applies to countries that produce not only raw materials, but also modern complicated in technical terms products.

On the other hand, the entry into the system of close world economic relations substantially modifies the process of reproduction in the country, increases the total volume of production and its resource potential, provides opportunities to participate in the latest achievements of world science and technology. A characteristic feature of the current stage of development of general civilizational processes is the transition in the 80 years of developed countries of the West to the formation of a qualitatively new model of world development. According to scientists, it is characterized by overcoming the formation of forming signs of society and subordination of its functions of the implementation of universal values.

As for the economic features (attributes) of such a system, they are manifested primarily in the formation of a fundamentally new technological method of production, qualitative transformation of its material and material factors. It is carried out on the basis of the introduction in all sectors of public production of high information and intellectual technology, based on electronic automation, information and biotechnology, other types of material, resource and labor-saving types of production.

Along with this, the properties and characteristics of goods entering the international market are significantly changing. International competition leads to a constant search for methods and ways for further qualitative improvement of products, increasing the knowledge intensity of a growing number of goods.

At the same time, the scientific progress introduces new requirements to the workforce in terms of its qualifications, the general level, since the "human factor" is a central element of the new model of "post-industrial" development. Ukraine is no exclusion from this trend – the path to its economic and hence, general development lies through integration in the process of globalization of world economy.

Ukraine, like other states formed after the collapse of the USSR, puts great hopes of development of its sovereign economy on integration into the system of world economic relations, an active and growing participation not only in the regional, but also in the international division of labor, the effective use of its advantages. All current and projected government and alternative programs of anti-crisis measures and the market transformation of the Ukrainian economy emphasize the need for the early transformation of the former inter-republican ties into the category of foreign economic expansion. The latter should take form of economic interaction with the main centers of the world economy and international financial and economic institutions, the deployment of large-scale business cooperation on mutually beneficial grounds.

The weak inclusion of Ukraine in the international division of labor not only does not correspond, but also contradicts its national interests, because it leaves the country's economy development out of reach of the world's productive forces, the leading directions of the modern scientific and technological revolution, which leads to pushing it to the “roadside” of world economic progress. This is evidenced, in particular, by the fact that the share of exports in the total volume of Ukraine's production before the declaration of its independence did not exceed 4-5%, while the average world index was 17%. In the years that passed there was a trend of focusing of out country’s productive and export capabilities on raw materials, food and machinery – products, for which infrastructure and industrial base was already in place.

In order to establish civilized stable and mutually beneficial links with the artificially bifurcated European community, it is necessary to overcome the asymmetry in the division of labor between Western and Eastern Europe, which would give a homogeneous material foundation for pan-European integration.

Ukraine is not yet ready with its unrefined economic mechanism to interact with leaders of the world economy on parity principles. In light of it, not only opportunities are opened to now, but new problems and difficulties arise.

On the way of forming international production on the basis of international specialization and co-operation, only the first steps were taken, which were first of all due to the creation of several hundred joint enterprises with foreign capital in the territory of Ukraine, as well as the signing of a small number of contracts with foreign firms for the supply of components to Ukrainian enterprises etc. Later on, these economic ties developed into full-fledged participation in foreign economic entities' supply chains, mergers & acquisitions, etc.

DLP – Domestic Labour Product

For the further assessment of Ukraine's capability to compete for foreign investment capital, and vice versa – evaluation of TNC's effect on Ukrainian economy, certain interrelations between indicators of investment performance and state of economy should be calculated.

In attempt to establish the correct factor for assessment in connection to TNCs activity - a certain indicator of the state of Ukrainian economy, which would correctly represent the effect TNCs have. As it has been already established earlier, both TNCs themselves and their impact are very complex issues to assess. First, the criteria of indicator choice should be established – hereby author suggests that the potential indices should be

a) Relevant to the impact of interest in conjecture with the topic and purpose of this research
b) Relevant to the most important effects the TNCs have on host economy
c) Be the most reliable parameter for assessment – considering both the nature of economic processes in general and the peculiarities of doing business in Ukraine

Taking all of the above into consideration, the parameter to which the FDI will be correlated to should be an aggregate of several indicators of economy. At this point, it's necessary to define the indicators themselves and the exact type of aggregation. Since it has been established in the Part 1 of this paper – the framework study part – that TNCs have a very multi-directional influence on host economy.

Factors like the GDP, GDP per capita and % of its growth are way too broad to discern the TNCs impact from the array of factors influencing it. The amount of tax payments made by foreign TNCs into the state budget of Ukraine is too narrow of a factor – since the tax influx, due to the peculiarities of Ukrainian economy and politics, can no longer be a reliable source for forecasts of prosperity of Ukraine, ergo, it cannot be used on its own as well. The amount of workplaces created or the amount of economically active population are not quite representative of the effect TNCs have as well – since the factors influencing the changes are not limited to TNCs impact.

Therefore, a certain aggregate parameter should be introduced to incorporate both the dynamics and changes in GDP and in the working part of population of Ukraine. The most obvious choice here has been derived from already existing parameter of GDP per capita – but since GDP per capita incorporates also the part of population that does not directly participate in formation of GDP, author suggests adjusting this indicator to consider only the economically active part of the population. All the while the benefits of TNCs presence affect all population, the most direct effect on economy is achieved through creation of workplaces which, in turn, impact the GDP.

The indicator proposed does not yet exist, as far as the author's own analysis of current and available studies go – so far no mention of specific name for this particular index has been found. For the purposes of this study, and in hopes of future utilization of the proposed indicator, we suggest to name the following indicator the "Domestic Labour Product" with the abbreviation of "DLP", which is calculated as follows (see Fig. 3.1):

$$DLP = \frac{GDP}{EAP} : 1000;$$

where:
DLP - Domestic Labour Product, thousands USD per one economically active person;
GDP - Gross Domestic Product, mil USD;
EAP - Economically Active Population, mil people;

Figure 3.1 The DLP suggested Formula
Source: introduced by author

Thus, in essence, the DLP shows just how much of the GDP one economically active person produces on average.

Having determined the parameter which will represent the effect on Ukrainian economy, it is necessary to determine the parameter which will be assessed to determine the degree of TNCs presence and activity in Ukraine. Regarding this, the fact that structure and forms of TNCs presence vary very much, no homogenous dataset can be discerned to assess a reliable parameter. The potential candidates for this purpose were the TNCs turnover (which has been rejected due to not incorporating the data relevant to involvement of local workforce), the amount of sales/revenue (discarded due to the similar reasons), the number of employees – which has been a potential candidate, but still rejected due to not incorporating the scale of investments of parent company and not considering all the secondary workplace creation in related business entities and counterparties. The final choice fell on the simplest, most obvious – yet the most relevant to the scope of the study parameter, - the FDI. Only inward FDI is considered, since common economic sense suggests that outward investment of Ukrainian entities to the foreign entities would affect the DLP less than direct influx of foreign capital inward. It is also necessary to underline that FDI will be assessed per capita, considering the entire population – both EAP and non-EAP – because not working population can be potentially engaged in economic activity due to this very

FDI influx, so withdrawing this part of the population would negatively affect assessment.

Ergo, the tasks ahead are slightly amended to adjust for several steps necessary for evaluation of interconnection of factors.

First, the correlation between working population and GDP has to be assessed. While the degree of connection is expected to be high – due to the very nature of indicators, - it still has to be calculated as part of proper scientific approach.

Second, the correlation between the aggregated parameter – the DLP, and the indicator of TNCs activity (presence) – the FDI has to be assessed to determine the degree of connection between the two and make a conclusion whether TNCs really influence Ukraine economy as much as the theoretical studies suggest.

GDP – EAP correlation.

The sources for the data used are quarterly reports on the amount of employed/unemployed population, according to the State Employment Agency of Ukraine [76] and UNCTAD [77]; all data related to GDP has been obtained from UNCTAD statistical database [77].

The data obtained has been aggregated and dynamics parameters has been calculated – see Table 3.1

Table 3.1

Economic activity of the population aged 15-70

	Economically active population	The level of economic activity, (% population)	Economically occupied population (thousands)	Employment rate, (%)	Unemployed population (by ILO methodology), thousands	Unemployment rate (by ILO method	Economically inactive population, thousands
2010	20894.1	63.6%	19180.2	58.4%	1713.9	8.2%	11945.0
2011	20893.0	64.2%	19231.1	59.1%	1661.9	8.0%	11657.4
2012	20851.2	64.5%	19261.4	59.6%	1589.8	7.6%	11456.9
2013	20824.6	64.9%	19314.2	60.2%	1510.4	7.3%	11270.1
2014	19920.9	62.4%	18073.3	56.6%	1847.6	9.3%	12023.0
2015	18097.9	62.4%	16443.2	56.7%	1654.7	9.1%	10925.5
2016	17955.1	62.2%	16276.9	56.3%	1678.2	9.3%	10934.1

Source: State Employment Agency of Ukraine [76]

The following Table 3.2 shows the dynamics of workforce in Ukraine and World (for comparison), according to UNCTAD

Table 3.2

Total labour force, annual, thousands

	2009	2010	2011	2012	2013	2014	2015	2016
Ukraine, thousands	23042.65	22998.79	22946.16	22902.52	22854.97	22788.27	22697.53	22594.2
Δ	-0.00149	-0.0019	-0.00229	-0.0019	-0.00208	-0.00292	-0.00398	-0.00455
World, thousands	3197888	3236325	3282415	3328256	3373445	3417573	3460456	3500972
Δ	0.011347	0.012019	0.014241	0.013966	0.013577	0.013081	0.012548	0.011708

Source: UNCTADstat [77]

As we can see, UNCTAD tends to overstate the data on employed populace, but for the purposes of the study, the data of UNCTAD will be used as the primary source to maintain comparability to FDI statistics – which has also been obtained from UNCTAD.

The following data on GDP dynamics has been aggregated to assess the interconnection between GDP and EAP

Table 3.3

GDP Total current prices, annual, mil USD

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Ukraine	188110.40	121552.10	141209.20	169333.80	182591.70	190498.80	133503.90	90615.03	88940.31
Δ	1.26	0.65	1.16	1.20	1.08	1.04	0.70	0.68	0.98
World	63547008.00	60239462.00	65911732.00	73271695.00	74796675.00	76830809.00	78612132.00	74176854.00	76349410.00
Δ	1.10	0.95	1.09	1.11	1.02	1.03	1.02	0.94	1.03

Source: UNCTADstat [77]

The correlation analysis shows the coefficient of 0.586 for Ukraine and 0.771 for World, which is deemed high for the purposes of this study and considering the nature of parameters.

Next step is calculation of DLP according to the formula in Figure 3.1 – the results are represented in Table 3.4:

Table 3.4

Domestic Labour Product (DLP), annual, thousands USD

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Ukraine	8.15	5.28	6.14	7.38	7.97	8.34	5.86	3.99	3.94
Δ,%	26.60	-35.29	16.39	20.19	8.03	4.55	-29.71	-31.85	-1.40
World	20.10	18.84	20.37	22.32	22.47	22.78	23.00	21.44	21.81
Δ,%	8.25	-6.27	8.12	9.61	0.68	1.34	1.00	-6.81	1.74

Source: author's calculation, based on [77]

Since GDP is a numerator in a formula for calculation of DLP, there is no practical use in correlation analysis – but to maintain scientific approach it has been calculated nonetheless - coefficient amounts to 0.999, as expected.

Next step is calculation correlation between DLP and FDI per capita, as suggested earlier: the coefficient amounts to 0.6631, which is considered to be a sufficient interconnection.

3.2 Strategic directions of integration of Ukrainian enterprises in the network of TNCs

Modern competitive economies have the driving factors in boosting productivity growth, mainly driven by the productive activity of competitive transnational corporations. They are characterized by the ability to defend as much as possible the realization of national interests for the sake of economic security and high living standards of the population. Ukraine at the moment corresponds to the stage at which economic growth depends on

- economic efficiency and requires the introduction of more efficient production processes, improving the quality of products at constant prices;
- on the quality of higher education and training of personnel,
- on the efficiency of the market of goods and services functioning at the proper level of the labor market,
- the development of the financial market,
- the application of available technology,
- the volume of internal and external markets and
- the factor of transnationalization.

In order to accelerate the process of Ukraine's entry into world economic structures, the following circumstances must be taken into account:

- firstly, the main benchmarks of Ukrainian producers should be: technological factor, world standards and market capacity. Proceeding from the capacity of the market, its requirements, the size, structure and performance of the industrial enterprise are determined. Economic potential of the country in such cases practically does not

play any role, because the decisive factor takes on a purely technological factor. The quality of the product, its range, fashion matching, and the level of costs - all unified, regardless of the size of the country, its specific capabilities. The enterprise is "embedded" in the niche of the global economic structure and carries out the role assigned to it;

- secondly, the characteristic feature of modern effective production is its selectivity. The decisive condition for the economic rationality of an industrial enterprise, that is, its ability to "keep pace" with scientific and technological progress, was the approximation of its capacities, technical equipment and mass-production to world criteria of optimality. Of course, not every enterprise can achieve this. Firstly, the export-oriented sector of the economy, designed to become a bridge connecting the national economy with the world, is guided by world criteria in its activity;

- thirdly, the important regularity of the internationalization of the modern world productive forces is that the economic feasibility of creating a multi-branch economy in individual countries, including enterprises with a full technological cycle, gradually reduces and even disappears, because the desire of each country to self-sufficiency of all goods requires high costs. A much more promising way is the development of international specialization and the active participation of a growing number of countries with a clear profile in international economic cooperation and exchange. This is a general condition of economic and scientific and technological progress. For Ukraine, the main areas of international specialization, based on the accumulated experience and its export potential, could be the mining and metallurgical industry, separate sub-sectors of mechanical engineering, agricultural production and tourism. The practical realization of this goal is a difficult and capital-intensive task that requires a profound structural and technological reorganization of the national economy;

- fourth, the search for a place in the world economic structure requires knowledge of the specifics of the modern world market, which also undergoes significant changes: not only its limits are expanded, but also increasing needs, their structure changes, as well as the composition of those producers who satisfy the main share world demand for products.

The pace of updating of the product range presented to the world market today is much faster than before, and given that this process is virtually endless – I even dare to assume it is exponential, - it may include new states that have either created a new product or have advantages in terms of production costs. In addition, no country, under current conditions, can remain a monopolist in the production of advanced technology long; eventually the scientific advances, including the most progressive discoveries, are becoming a success for many;

- fifthly, the technological revolution added to the traditional factors of the global division of labor new objective incentives, which become gradually determinative. The role of natural resources, geographical location, production experience begins to decline sharply, but instead advanced technology, scientific developments, highly skilled labor, banks, developed industrial infrastructure, which primarily affect the definition of the profile of the economy of a country, its position on the world market. This tendency needs to be taken into account when developing a strategy for Ukraine's exit on the international market, and from the outset to focus on the current factors of the international division of labor.

Ways of including national economies into the world system of division of labor may be different: they are conditioned by the objective needs of the country's internal development, the interests of transnational capital, when economic, and sometimes non-economic, coercion prevails. But the greatest economic effect is achieved when countries voluntarily engage in international cooperation and establish equal partnership between them on mutually beneficial principles, taking into account their specialization and activities. The current level of development of productive forces in the world strongly suggests the removal of any obstacles to deepen the global division of labor and the benefits of international economic communication.

In the context of the intensification of global competition, transnationalization is one of the main trends in the development of the world economy and represents an objective process of strengthening global integration as a result of the deployment of international operations of TNCs. Its most important modern features are:

- sectoral oligopoly and monopoly of TNCs;

- the insuperable pursuit of global domination and the growth of geopolitical influence;
- discrediting competitive market mechanisms;
- targeting the destruction of not only their own competitors, but also competition as such;
- infrastructure geo-economic significance;
- hyper-scale activity;
- global geographic, resource, types and production diversification;
- flexible organizational design of business;
- global unification of operations;
- stock market dispersion and investment expansion.

The positive effect of transnationalization of the national economy is possible not only due to the existence of a complex of global, industrial, corporate, country socio-economic backgrounds (inter alia, favorable investment climate, availability of investment prospects, sufficient domestic potential), but also an adequate motivation for the investment activity of both domestic and foreign TNCs; the prevalence of strategically oriented motives and the minimization and neutralization of pragmatically aggressive ones. Despite the rather weak preconditions and unfavorable investment climate in Ukraine, TNCs hold their positions in the domestic market, which is primarily due to pragmatic and aggressive motives.

The evolution of the transnationalization of the domestic economy shows that under the influence of TNCs, the major changes in the Ukrainian economy were experienced by the oil and gas industry, agricultural and financial-banking sectors, insurance and retail trade markets, the food industry and, to a lesser extent, the pharmaceutical industry. Obviously, the largest share of presence if experienced by manufacturing industries in general, but prospects of other sectors of Ukrainian economy are soon to be explored, too. A significant group of companies have been formed in Ukraine that have a sufficient internal potential for transnationalization: the Industrial Union of Donbass (ISD Corporation), System Capital Management (SCM), Privat Group, DCH Holding (governed by classical-style investment DCH IM (DCH

Investment Management)), NPK Interpipe, Ukrnafta, UkrAVTO, Roshen and others – companies which, according to the actual signs, can be classified as multinational corporations. Ukrainian Khortytsia, Soyuz-Victan, Bogdan Corp also should be considered potential transnationals as their TNI shows a trend of growth.
[78], [79]

Priority areas for attracting foreign transnational capital are due to the presence of components for the development of investment potential: resource, infrastructure; industrial and scientific research; institutional and regulatory factors (including fiscal simplification and weakening) and the factor of corporate culture.

The successful interaction of transnationalization of the domestic economy and the state competition policy of Ukraine is defined as the specific characteristics of the internal competitive environment, the motivation of potential TNCs, their influence on sectoral and macroeconomic proportions, and effective mechanisms for coordinating the interests of the state and TNCs on the basis of motivated transnationalization of domestic corporations, promoting the inflow of FDI on a selective basis in accordance with the strategic economic priorities and criteria of national security and social corporate responsibility. The current slowdown in economic development and narrowing the scale of business, the investment selectivity of TNCs, the transformation of Ukraine into the object of geopolitical claims of global players, the strengthening of offshore in the foreign economic sphere – all this threatens the domestic economy with the total expansion of TNCs, structural degradation, loss of economic sovereignty. In the long run, depending on the effectiveness of state competition policy, it is possible to move from shadow to legalized transnationalization, from local to systemic regulation of the efficiency of TNCs, from capital flight to its reinvestment into the Ukrainian economy which, on the one hand, will justify the entry of TNCs into the market and will satisfy their business requests, and on the other hand, it will provide new opportunities for the competitive development of the national economy.

The directions of further development of TNCs in Ukraine can be divided into current and future ones. In this division, the current directions envisage the

development of the direct activities of TNCs, and the prospective ones - define the vision of TNCs in Ukraine in the long-term. Current directions include:

1. Legislative and legal support of the activities of TNCs in Ukraine - primarily, expansion of the sphere of state regulation of investment activity;

2. Use of TNCs experience in developing effective internal corporate and external relations, attracting subjects of various forms of ownership and management to the active investment activity for the expansion of national production and market infrastructure;

3. The adequacy of the organization of accounting and reporting of TNCs and Ukrainian enterprises and the use of the methodology of economic analysis of TNCs by economic entities of Ukraine, which will help to widen the practice of indicative planning.

Perspective directions include:

1) Systematic integration of Ukraine into international economic and political relations. Given the versatility and variety of ways of such integration, the role of attracting foreign capital and activities of TNCs in Ukraine is very important both for the foreign economic and foreign policy factors. In this direction, it is important to use both the reliable positioning of the state in the world and the fulfillment of requirements for specific integration processes. In particular, it is a question of realizing the directions of the European choice of Ukraine, determining the realities of relations with the CIS countries and participation in the EU;

2) The effectiveness of economic reforms at the micro level and the overall improvement of the economic climate in the state. At the level of foreign capital activity there is a logical shift in emphasis on priorities and forms of investment. It is necessary to optimize the structure of the country's economy, reduce the share of metallurgical, heavy and military industries that consume large amounts of natural resources, have dire environmental impact, and their products are largely exported beyond the borders of Ukraine and do not affect the living standards of the population. In turn, it is necessary to promote the increase of the share of science-intensive

industries with ecologically clean technologies, light and food industry, processing, agriculture, services, etc.;

3) the creation of powerful national structures (associations of countries on the rights of associate members) that would be able to compete with TNCs. Proceeding from the possibilities of developing national powerful structures, a logical combination of such development with the direct strategy of TNCs;

4) providing a legislative framework with updated regulations and laws that would correspond to the current situation in the world.

The development of innovative methods should be based on the study of foreign experience and its adaptation to the Ukrainian environment with the addition of certain elements. The transformation of domestic companies into international should become a conscious goal of the state policy, which seeks to strengthen its influence on an international scale. It is advisable to stimulate Ukrainian producers with preferential loans, shift the emphasis from trading and financial institutions to the sphere of material production.

To protect the domestic economy, the national legal framework should be clearly regulated and controlled:

- the procedure for the TNCs entry into the local market, taking into account the rules of the preferences of the local investor;
- forms of TNC presence in the country;
- provision of employment of local labor resources;
- rules for the transfer and adaptation to local conditions of technology and R&D;
- examination and monitoring of FDI projects for compliance with environmental and sanitary requirements; farmers' incomes; use of local purchases, infrastructure development; product distribution; sales conditions; protection of competition, etc.

Taking into account the tendency towards the rapid development of TNCs in the Ukrainian economy, it should be noted that this will likely become an improvement for the Ukrainian economic environment, as it will lead to such positive changes as:

- strengthening the country's resource and production base;
- expansion of export opportunities of the country;
- constraining the restructuring of the economy;
- dissemination of advanced technologies;
- intensification of internationalization processes in Ukraine.

Thus, the trends of market and entrepreneurial activity show that Ukraine not only attracts foreign TNCs, but also strives to create such companies, which is an extremely important factor for its economy. On the one hand, TNCs acting in competitive environment tend to have advanced technologies, management experience, etc. On the other hand, there is a large number of dangers for host countries in their activities. To avoid many problems related to the activities of TNCs, it is necessary to move in the first place towards the development of modern investment legislation. The path of Ukrainian development is difficult and thorny, but institutional, structural, legislative changes will allow it to consolidate itself in the world market on a qualitatively new basis, which, in turn, will provide a number of advantages, among which, in addition to the abovementioned, are support of a national producer, lobbying for their own interests and the dictates of conditions, greater possibilities for finding new ways and directions of development.

3.3 Estimation of investment flows of TNCs in Ukraine

As it has been determined previously, presence of large TNCs in Ukraine is one of the most important factors of success of Ukrainian economy. The most common measure of presence of foreign capital in a country if the amount of inward FDI. FDI sources and structure have been closely reviewed in previous paragraphs, but in order to assess the future impact of TNCs on Ukrainian economy the prognosis of FDI inflows will be made in attempts of projecting future intensity if TNC investment and therefore, their presence in Ukrainian economy. The following table represents quarterly with data points sufficient to make a forecast.

The data used has been acquired from Ukrstat – the State Statistics Service of Ukraine, - and then aggregated by year and adjusted for inflation rate (with the year 2010 as the base year – due to it being the starting data point of forecast model).

Each year's cumulative FDI inflow delta has been aggregated by each year, with quarterly cumulative cut-offs acting as data points for the model. From the year 2010 to the moment of estimation (Dec '17), there has been 31 individual calendar quarters, which, in turn, amounts to 31 individual data points for the creation of the model. The data points were assembled in Table 3.6:

Table 3.6

FDI inflow, quarterly, mil USD

2010				2011			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
943,26	1242,66	1537,14	2155,09	1219,58	1642,40	2068,54	2958,99
2012				2013			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1661,70	2183,49	2338,46	2924,08	1663,12	1824,20	2258,45	2881,17
2014				2015			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1521,96	1717,39	1813,11	2557,80	1668,59	2013,24	2312,15	3372,56
2016				2017			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1924,06	2545,35	3155,34	4539,18	2414,95	3368,79	3895,72	-

Source: UKRSTAT data on inward FDI, quarterly data [80]

For the purposes of the model, each individual quarter has been assigned a number from 1 to 31 to represent their order – thus, 1st quarter of year 2010 has been assigned #1, 4th quarter of the year 2012 - #12, and so on to the 3rd quarter of the year 2017 (the most current data at the moment) - #31.

According to this data, graph has been built to visualize the data points and to attempt to assess trend to allow for analysis and choice of regression model for final forecast – the graph is shown on Figure 3.1:

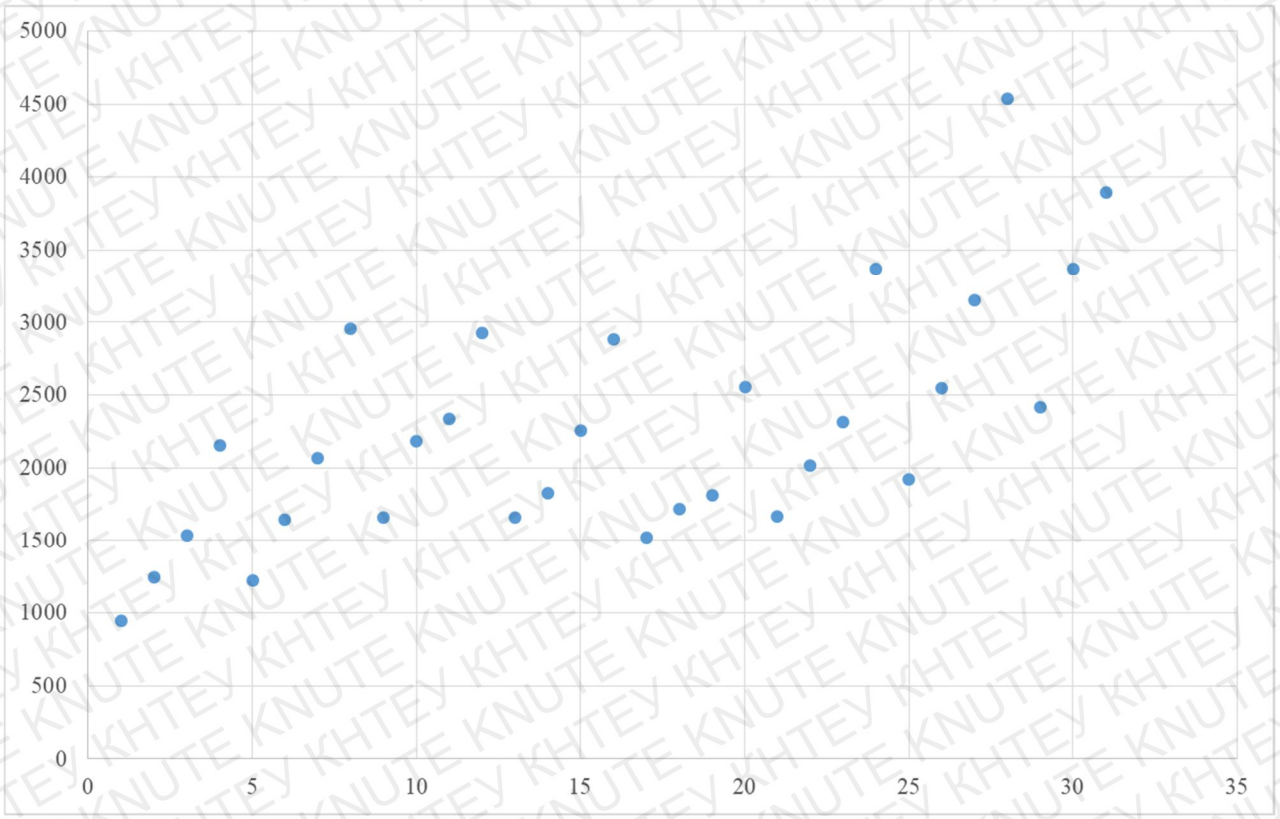

Figure 3.2 Inward FDI data points

Source: [80]

Next the regression model generation has been done using the specialized mathematical engine software – MathCad 15, Curve Expert and Maple 14.

After several iteration of model, the one using polynominal approximation has been chosen. The amount of parameters chosen for polynominal equation to represent the model has been set to 4.

The final formula for the model generated is

$$= -0{,}0187 + 1{,}6825 - 46{,}612 + 493{,}66 + 412{,}9 \quad (1)$$

With reliability of approximation value R?= 0,5698, highest possible due to the nature of FDI flows

The forecast graph is shown on Fig. 3.2:

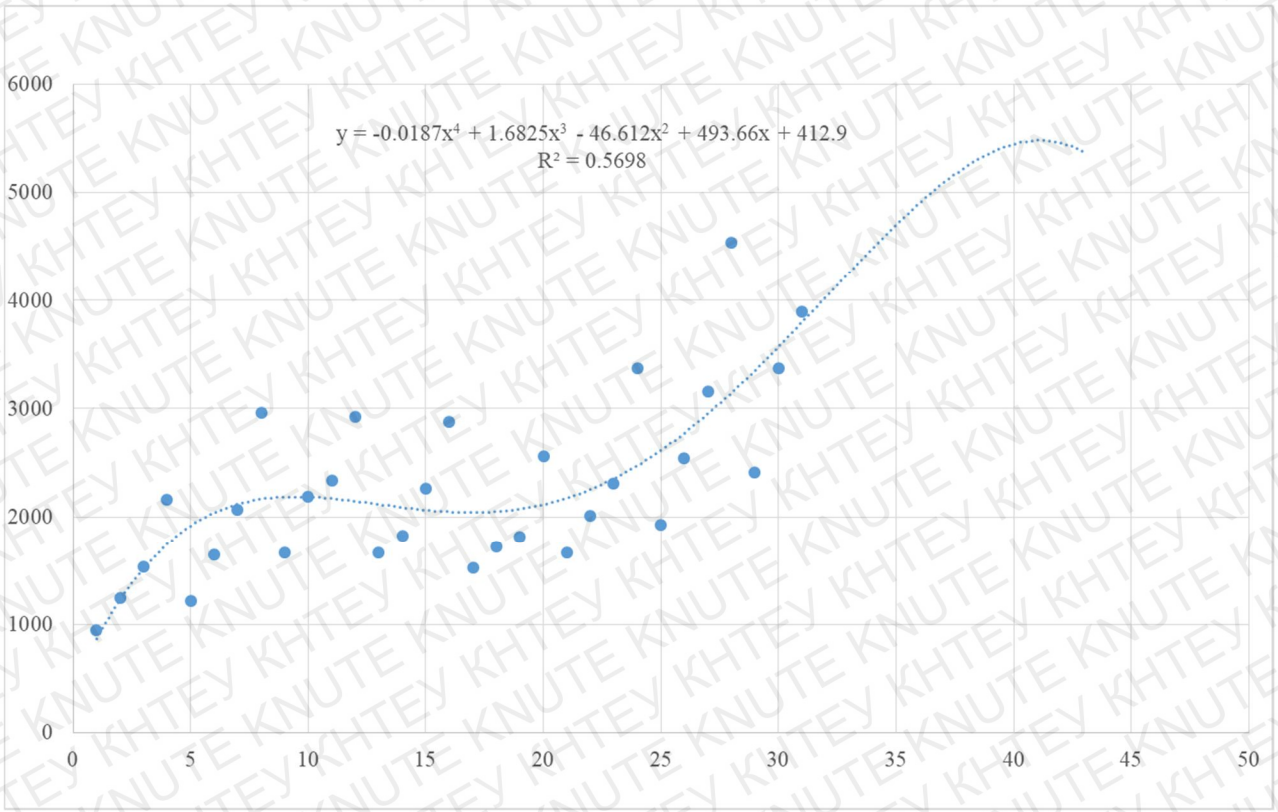

Figure 3.2 Inward FDI forecast

Source: author's calculations

The prognosis for the next 3 year is presented in Table 3.7 below:

Table 3.7

Progection of FDI inflows, mil USD

Q1 '17	Q2 '17	Q3 '17	Q4 '17
2414,947	3368,788	3895,722	3775,743
Q1 '18	Q2 '18	Q3 '18	Q4 '18
4003,121	4230,492	4453,365	4666,8
Q1 '19	Q2 '19	Q3 '19	Q4 '19
4865,409	5043,354	5194,349	5194,349
Q1 '20	Q2 '20	Q3 '20	Q4 '20
5194,349	5194,349	5194,349	5194,349

Source: author's calculations based on [80]

Second iteration

Since the creation of first iteration of FDI forecast in January 2018, new statistical data has been reviewed and analyzed to further correct and improve the proposed model. However, the source reviewed - the Ukrstat - proved to be

contradictive both to own earlier records, news of investment events and to common economic sense.

During the follow-up analysis the data of State Statistics Service of Ukraine - the same source used to retrieve data for initial forecast - displayed inexplicable drop in the gross amount of FDI present in Ukrainian economy during the 4th quarter of 2017: the last recorded total of stock capital owned by foreign entities at 01.10.2017 was 39719.8 mil USD [80], while the same source states that at 01.01.2018 the total of foreign-owned stock capital in Ukrainian economy amounted to 31599.8 mil USD [81] - north of 8 billion decrease in TOTAL FDI - which effectively means a withdrawal of 8 billion USD from Ukrainian economy. Despite the fact that such a drop could not have gone unnoticed by Ukrainian economy and media, it has not been covered in any news piece neither at the supposed time (the period between October '17 and December '18), nor at the time of the follow-up analysis (as of October '18). Furthermore, the statistical data about state of total FDI present at 01.01.2018 displayed in the Ukrstat report for Q1 '18 [81] differs from Q2 '18 report [82] as well. This internal data contradiction, in conjunction with no backing for the data presented, leads to the conclusion that current available at Ukrstat data accuracy is questionable - at the very least.

This is further proven by an attempt of applying the data provided to the model and its adjustment - the polynomial trend (of orders of 3 and more) displays a steep drop not only of FDI inflow, but potential steep FDI outflow - which is quite unrealistic from both economical and common sense viewpoints (especially since it implies withdrawal of foreign capital in amounts that simply were not invested in the first place).

Nevertheless, the aforementioned data has been used for adjustment of FDI forecast for the purpose of displaying this unlikely trend, which gave the following changes to the model (see Fig. 3.8):

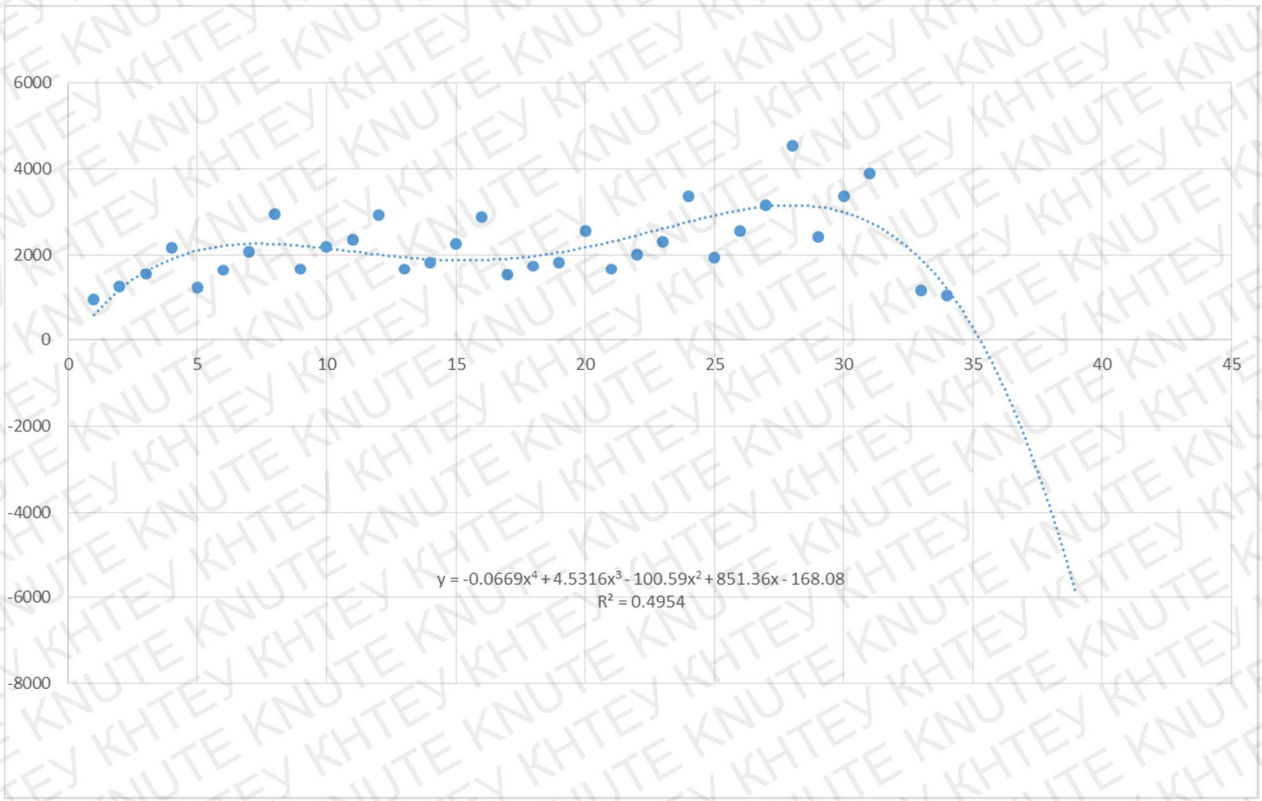

Figure 3.8 Model (1) adjusted to the new data
Source: author's calculations based on [81], [82]

As is seen, the model predicts highly unlikely acute decline and then negative amounts of FDI inflows (i.e. outflows of capital that a higher than the inflow amount) in no more than 3 periods (quarters) from now – which is unrealistic. Thus, the characteristics of statistical data has begotten the change in the approach to the model concept – instead of analysis of quarterly pattern aggregated by each year, the data set has been disaggregated and instead straight-line cumulative values has been assessed. The new quarterly data set is shown in the Table 3.9:

Table 3.9

Cumulative FDI in Ukrainian economy

2010				2011			
Q1 '10	Q2 '10	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11	Q4 '11
943.264	1242.66	1537.144	2155.09	3374.665	3797.489	4223.625	5114.081
2012				2013			
Q1 '12	Q2 '12	Q3 '12	Q4 '12	Q1 '13	Q2 '13	Q3 '13	Q4 '13
6775.78	7297.57	7452.542	8038.157	9701.277	9862.357	10296.6	10919.32
2014				2015			
Q1 '14	Q2 '14	Q3 '14	Q4 '14	Q1 '15	Q2 '15	Q3 '15	Q4 '15
12441.29	12636.71	12732.44	13477.12	15145.72	15490.36	15789.27	16849.68
2016				2017			
Q1 '16	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17
18773.74	19395.03	20005.02	21388.86	23803.81	24757.65	25284.58	-

Source: UKRSTAT[81], [82]; author's aggregation

This new dataset is represented on the graph in the following Figure 3.4 below:

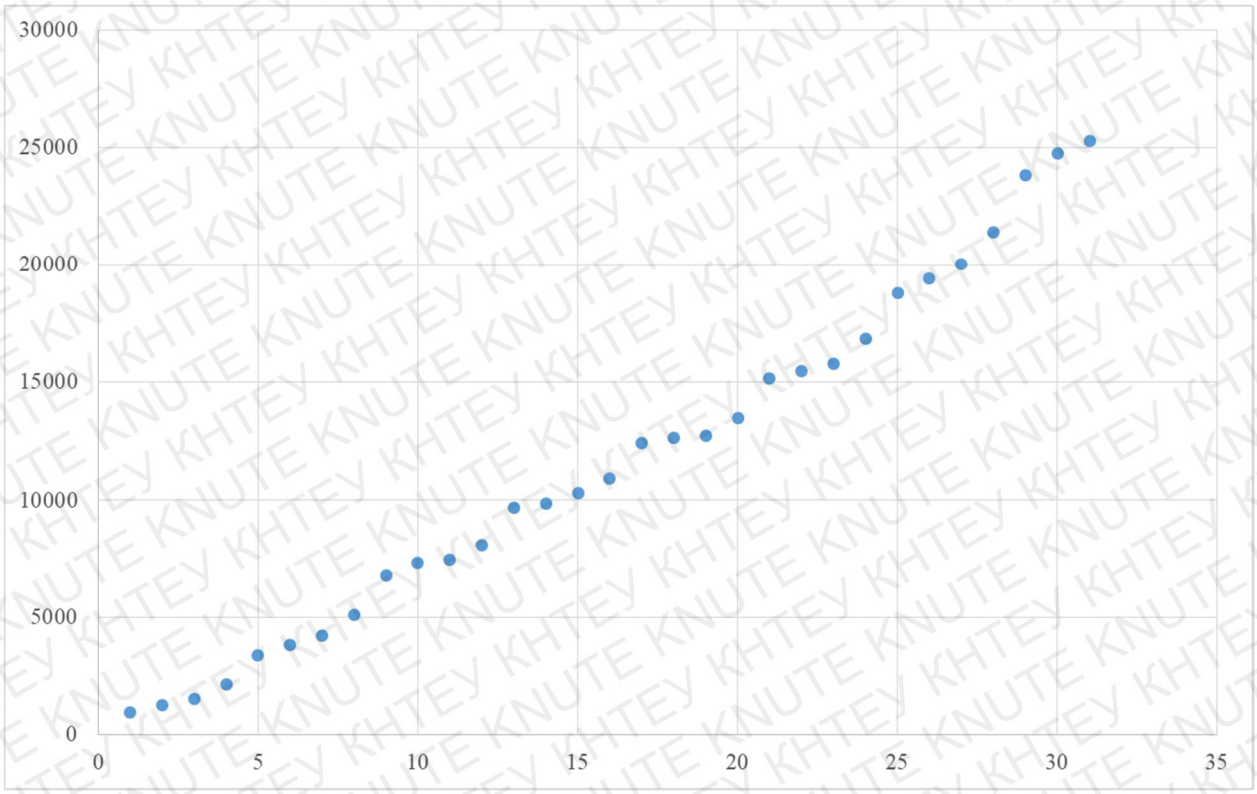

Figure 3.4 Cumulative FDI dataset

Source: UKRSTAT [81], [82]; author's aggregation

The latest data still presents an issue, so two models were created – one involving the data for the last three quarters (Q4 '17, Q1 '18 and Q2 '18, data accuracy for which has been deemed questionable), and the one disregarding the questionable data. Both models with forecasts are represented on the Figure 3.5 below:

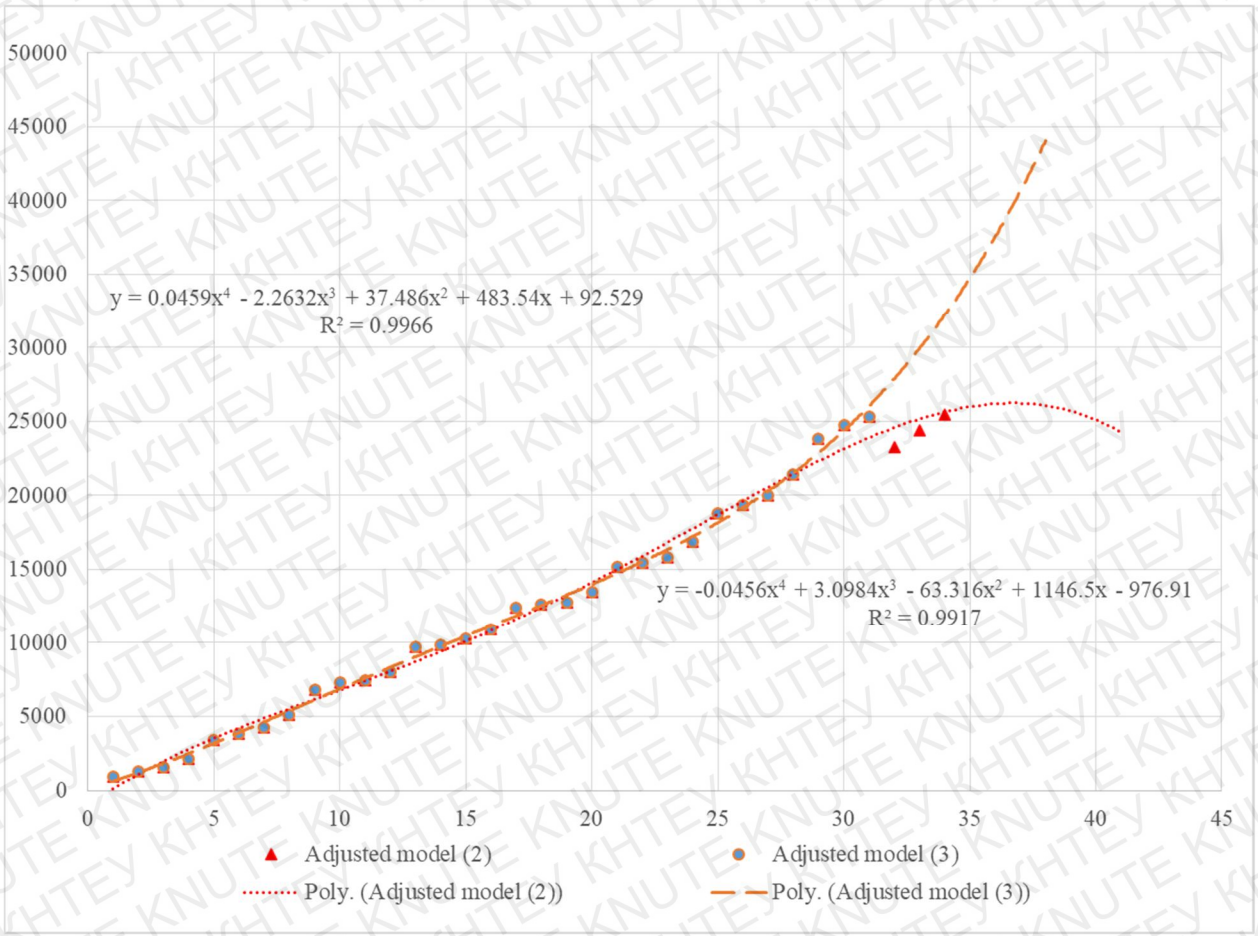

Figure 3.5 Cumulative FDI forecast models (2) and (3)
Source: UKRSTAT [80],[81],[82], author's calculations

Model 2:

$$= 0.0459 \quad - 2.2632 \quad + 37.486 \quad + 483.54 \quad + 92.529 \qquad (2)$$

with R? = 0.9966

and

Model 3:

$$y = -0.0456 \quad + 3.0984x \quad - 63.316x \quad + 1146.5x - 976.91 \qquad (3)$$

with R? = 0.9917

As can be seen, two models differ substantially to beget the need to adjust prognosis accordingly to offset both the inaccuracy of model that uses fewer data points and the inadequacy of model using questionable data. The decision has been made to assume the weighted average of two forecasts in attempt to compensate for possible inaccuracies. The assignment of factors has been done taking into account the over-optimistic characteristics of original model and the fact that Ukrstat's data still being an official report issued, however implausible. Thus, the factors assigned are 0.75 and

1.5 for the Model (2) and Model (3) respectively. The final prognosis for cumulative FDI inflow is shown on Table 3.10:

Table 3.10

Cumulative FDI inflow

	2018		
	Q3 '18	Q4 '18	
	29295.22	30189.73	
2019			
Q1 '19	Q2 '19	Q3 '19	Q4 '19
31300.36	32403.14	33493.16	34565.23
2020			
Q1 '20	Q2 '20	Q3 '20	Q4 '20
35613.81	36633.02	37616.69	38558.28

From this forecast, quarterly FDI growth has been calculated as the difference between data points (see Table 3.11).

Table 3.11

Quarterly FDI growth

	2018		
	Q3 '18	Q4 '18	
	894.51	1110.633	
2019			
Q1 '19	Q2 '19	Q3 '19	Q4 '19
1102.774	1090.028	1072.07	1048.574
2020			
Q1 '20	Q2 '20	Q3 '20	Q4 '20
1019.214	983.6641	941.599	1029.23

The average sum quarterly FDI inflow for 10 periods (i.e. quarters) to the end of 2020 are 1029.229 mil USD that constitutes an average 3.1% growth per quarter.

CONCLUSIONS TO PART 3

Ever since radical socio-political changes in the second half of the XX century modified the international division of labor substantially enough to set the pattern of its development even today, the participation of Ukrainian enterprises in international division of labor keeps being the primary issue of Ukrainian economy. The entry into the system of close world economic relations substantially modifies the process of reproduction in the country, increases the total volume of production and its resource potential, and provides opportunities to participate in the latest achievements of world science and technology. The trends of market and entrepreneurial activity show that Ukraine not only attracts foreign TNCs, but also strives to create such companies, which is an extremely important factor for its economy. On the one hand, TNCs acting in competitive environment tend to have advanced technologies, management experience, etc. On the other hand, there is a large number of dangers for host countries in their activities. To avoid many problems related to the activities of TNCs, it is necessary to move in the first place towards the development of modern investment legislation. The most common measure of presence of foreign capital in a country is the amount of inward FDI. Ergo, in order to assess the future impact of TNCs on Ukrainian economy the prognosis of FDI inflows has been performed in attempt of projecting future intensity of TNC investment and therefore, their presence in Ukrainian economy. First iteration of polynomial model has been created in Jan 2018. Since then, the new data has been acquired – even though its reliability is questionable, it had to be considered (Ukrstat being the official statistical body of Ukraine, from which every other source derives its data). Thus, the model itself had to be reconsidered – instead of quarterly data aggregated by years, cumulative quarterly data has been used instead. Still having to consider the characteristics of new data, the weighted average of both models using 31 and 34 data points predictions has been calculated. The average quarterly sum of FDI inflow for 10 periods (i.e. quarters) to the end of 2020 are 1029.229 mil USD that constitutes an average 3.1% growth per quarter.

CONCLUSIONS AND PROPOSALS

TNCs are the most powerful actors of globalization and integration processes, while realizing not only their economic role, but also exerting a great influence on the policies of many states. Consequently, TNCs are the most powerful part of corporate business, which operates on an international scale, and play a leading role in strengthening global economic ties.

The main features of TNCs are as follows: international both within the sphere of operation and in the sphere of capital application; have enormous material and financial potential; have the opportunity to finance large-scale research and development (R & D); have close links with national banking companies, banking systems and are part of financial groups; often multidimensional firms with a high level of diversification of activities; relative independence of the movement of capital.

After review of the leading theories explaining the activity of multinational corporations, it remains important to consider the different types of TNC as an integral part of the conceptual framework of transnational corporations' impact on host economy.

In order to profoundly analyze the impact TNCs activity has on Ukrainian economy I suggest beginning with assessment of Ukrainian business environment as well as peculiarities of doing business here. Since host country advantages are one of the main factors TNCs consider when looking for a new market it is crucial to understand why exactly one may choose Ukraine over any other country to do business. Hence, for a prognosis, an analysis of possible changes of Ukraine's advantages as a country should be made.

Ways of including national economies into the world system of division of labor may be different: they are conditioned by the objective needs of the country's internal development, the interests of transnational capital, when economic, and sometimes non-economic coercion prevails. However, the greatest economic effect is achieved when countries voluntarily engage in international cooperation and establish equal partnership between them on mutually beneficial principles, taking into account their

specialization and activities. The current level of development of productive forces in the world strongly suggests the removal of any obstacles to deepen the global division of labor and the benefits of international economic communication.

The current slowdown in economic development and narrowing the scale of business, the investment selectivity of TNCs, the transformation of Ukraine into the object of geopolitical claims of global players, the strengthening of offshore in the foreign economic sphere – all this threatens the domestic economy with the total expansion of TNCs, structural degradation, loss of economic sovereignty. In the long run - depending on the effectiveness of state competition policy, - it is possible to move from shadow to legalized transnationalization, from local to systemic regulation of the efficiency of TNCs, from capital flight to its reinvestment into the Ukrainian economy which, on the one hand, will justify the entry of TNCs into the market and will satisfy their business requests, and on the other hand, it will provide new opportunities for the competitive development of the national economy.

the analysis of placement of foreign direct investment (equity), it is worth noting the following:

• The share capital originating in offshore continues to crowd out the capital of the developed countries of the world from the Ukrainian economy and provides general indicators of the growth of share capital transfer to Ukraine;

• In the structure of the national economy branches, foreign investment itself is best felt in the industry, in particular in the field of manufacturing, production and distribution of electricity, gas and water, remains significant in agricultural and construction sectors. The enormous economic potential of other industries such as financial activities and real estate operations, telecommunications, leasing and engineering is surely noticed by foreign investors, the intensity of investment activity is lower.

• The territorial structure of the placement of foreign capital, which tends to the capital (pun unintended), obviously does not contribute to the development of new production facilities on the periphery, although attracting new investors sooner or later will place more geographically distant regions in the investment spotlight.

All in all, new foreign direct investment in the country showed a sharp decline after the war began – naturally, despite some improvement of the business environment in Ukraine, political and security threats prevent investment restoration. However, it is important to understand that a significant part of pre-war FDI came to Ukraine through offshore companies and in fact had a Ukrainian or Russian origin. Of course, uncertainty surrounding the military conflict with Russia will hold back investment in Ukraine. In order to increase the likelihood of attraction of genuine foreign capital, significant obstacles to FDI that existed long before the conflict have to be eliminated as well.

The most common measure of presence of foreign capital in a country is the amount of inward FDI. Ergo, in order to assess the future impact of TNCs on Ukrainian economy the prognosis of FDI inflows has been performed in attempt of projecting future intensity of TNC investment and therefore, their presence in Ukrainian economy. First iteration of polynomial model has been created in Jan 2018. Since then, the new data has been acquired – even though its reliability is questionable, it had to be considered (Ukrstat being the official statistical body of Ukraine, from which every other source derives its data). Thus, the model itself had to be reconsidered – instead of quarterly data aggregated by years, cumulative quarterly data has been used instead. Still having to consider the characteristics of new data, the weighted average of both models using 31 and 34 data points predictions has been calculated. The average quarterly sum of FDI inflow for 10 periods (i.e. quarters) to the end of 2020 are 1029.229 mil USD that constitutes an average 3.1% growth per quarter.

In the end, the model predicts more or less steady – and what's more important – plausible, - growth during the next 2 years.

As a conclusion, the measures to attract more investments are pretty much the same they are in every other country – with adjustment for Ukrainian traditions, culture, mentality and the legacy of post-Soviet corruption tendencies.

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