

# The influence of transnational corporations on the economy of developing countries (Contemplating the example of how the Coca - Cola Company influences the economy of Ukraine)

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**Annotation.** *Transnational corporations' manufacturing and commercial activities are connected to national and regional markets. Taking this fact into account, the authors identify the main causes of the active development of transnational corporations around the world and determine five levels of economic growth of developing countries. The authors also consider directions of transnational corporations' influence on developing countries and inquire institutional means and methods of regulating the influence of transnational corporations in Ukraine. Attractive sectors of the Ukrainian economy for transnational corporations' activities are proposed, the Coca-Cola Company's activities performed in Ukraine are analyzed, and conditions for further development of transnational corporations in Ukraine are named in the paper.*

**KEYWORDS:** *ECONOMIC DEVELOPMENT, INTERNATIONAL MARKET, TRANSNATIONAL CORPORATIONS, MECHANISM OF INFLUENCE.*

## 1. Introduction

In the context of globalization, there has been an enhancement of the interdependence and interconnectedness between countries. Advantages of such processes mostly pertain to developed countries from which transnational corporations originate as the main actors operating in international markets. Transnational corporations' activities have a huge impact on the development of global society and developing countries in particular.

The economic growth of developing countries is primarily reflected by such national indicators as Gross Domestic Product (GDP), GDP per capita, income levels, employment rates, and so on. These components of the national economy are directly influenced by transnational corporations' activities in the country. Transnational corporations actually connect their national and regional markets to their manufacturing and commercial activities, which in turn ensures the integrity of the world economy. It should be noted that, on the one hand, they stimulate their economic growth by contributing to the GDP of the country, raise tax revenues and employment rates, and on the other hand, they establish their own conditions regarding the development of their countries, and consequently bring on a certain dependence on their activities.

The main causes for the active development of transnational corporations are as follows [1]:

1. Imperfection of the market mechanism in the implementation of ownership on technology and manufacturing experience. Within a transnational corporation, such assets become mobile and capable of being transferred to other countries, and the external effects of using these assets do not extend beyond a transnational corporation.

2. Additional opportunities to increase efficiency and competitiveness through access to cheap or more skilled labor, raw materials, research potential, manufacturing capabilities and financial resources of the host country.

3. Proximity to consumers of products provided by a foreign branch of the company and the ability to obtain information about the prospects of markets and the competitive potential of companies of the host country.

4. Possibility of using state policies, including tax policies, differences in exchange rates, etc. for their own benefits in different countries.

5. Ability to continue the life cycle of their technologies and products.

6. By means of foreign direct investment, the company may be able to avoid barriers to enter the market of a certain country.

## 2. Features of the economic development of countries

When researching the nature of transnational corporations' influence on the economic growth of the countries, the theory of Investment Development Path (IDP) proposed by Henry Dunning [2] is of particular importance. This theory argues that the level of economic development of countries is related to the degree of maturity of its companies and enterprises, the volume of participation in the international capital movement. In his theory, there are five levels of economic development of countries. Each of them has the following specific features:

1. At the first level, the economies of the countries are underdeveloped, which means that there are not any conditions for the accumulation and export of investments, as well as the import of investments, except for those countries that have significant reserves of natural resources.

2. At the second level, the economy of the countries is characterized by a trend of growing GDP up to 2.5 thousand dollars per capita. Due to this, domestic demand in the consumer market is expanding. Through the involvement of foreign transnational corporations, imports of Foreign Direct Investment (FDI) increase. However, the level of development of national enterprises is still low, which does not facilitate the export of investments, and if this kind of export takes place, it is aimed mainly at regional markets or countries with similar economic levels of development.

3. At the third level, up to 10 thousand dollars of GDP per capita is provided in the countries. Imports of investments are slowing, amid increasing exports. However, as before, the amount of accumulated investments due to imports is greater than their export volume.

4. At the fourth level, GDP per capita is equal to 10-36 thousand dollars. The country is showing a particular development of national transnational corporations, and exports exceed FDI imports.

5. At the fifth level, according to a number of economists, the economy of the United States of America is situated with the largest number of transnational corporations and FDI imports and exports actually balanced.

Thus, this theory argues that the number of transnational corporations established in the country is a kind of indicator that displays the level of excess investment in a particular area of production, and in general the degree of economic development. By increasing FDI imports, the effect of "investment demand swelling" in various economic sectors is created, which stimulates some processes related to the growth of national investment exports. Under these conditions, transnational corporations have the highest interest in going beyond national borders and expanding their

activities abroad. Such interest in expanding the market is associated with a number of factors, including access to resources, cheap labor, and lower levels of taxation.

### 3. The influence of transnational corporations on developing countries

The influence of transnational corporations operating in the recipient country on its development and security is ambiguous. On the one hand, they are a structural part of the economy, a leading force in the development of the country and enhancement of the efficiency of its production. On the other hand, they act as a generator of a number of negative processes connected with the motives of their activities.

In the emerging consumer markets, there is a saturation of consumer goods and services, stimulation of manufacturers' activities, aggravation of struggle for the consumer, sources of raw materials and conditions of sale. However, the common vector and direction of evolution is that transnational corporations determine stable economic links between different subsystems and states, and thus bring together individual national economies into a single world economy. The global development trend is characterized by increased concentration of production and capital, both at the micro-level of enterprises and at the mega-scale of transnational corporations.

Therefore, the positive aspects for the host country of transnational corporations are the acquisition of foreign investments, job creation, use of technology, best business organization experience and more. Yet, there are negative ones: firstly, they are capable of destroying the competition of national manufacturers in certain sectors of the economy, and secondly, they have a significant impact on the economic policy of the country. Nevertheless, to implement independent policies, effective engagement policies concerning transnational corporations need to be developed. The main task is to align the interests of transnational corporations with the strategic interests of the country's economy. China is a good example. Thanks to attracting foreign investments of transnational corporations, this country has received a huge stimulus for economic development. The policy of attracting foreign investments in China is still in place, and at the beginning of its successfulness, there were more than 500 largest corporations in the world. China has succeeded in combining transnational corporations' interests with the national interests [3].

### 4. Institutional means and methods of regulating the influence of transnational corporations in Ukraine

The adaptation of Ukraine's consumer market as a developing country to international institutional requirements has led to the need to review the regulating instruments and methods. At present, Ukraine's foreign economic policy is based on a fundamentally new regulatory framework developed in accordance with the conditions of a market economy and integration into the world economic space. To develop and implement this regulatory framework and to attain some progress for the consumer market, the relevant governing entities are established and functioning. A number of laws regulating foreign trade activities have been adopted. Having signed a number of international agreements, including the agreements with the European Union, Ukraine sets the most important goal for its foreign trade activities, in particular to provide conditions for equal trade and economic cooperation with developed countries and use opportunities deriving from international economic organizations for the interests of promoting economic reforms in the country.

Implementing its foreign trade policy, Ukraine is forced to apply elements of protectionism and free trade, to develop its own concept in foreign trade, directions and tools of implementation, and a set of economic and administrative methods.

Economic methods are related to the use of customs tariffs and direct financial stimulation of participants in international trade (see Table 1) [4].

By the beginning of 2019, there were more than 30 world transnational corporations operating in Ukraine, including Apple, British Petroleum, Coca-Cola, Danone, Hewlett Packard, Huawei, McDonalds Corporation, Metro Cash & Carry, Microsoft, Nestle, PepsiCo, Procter & Gamble, Samsung, Shell, Toyota, Unilever and more. However, the biggest influence is carried out by transnational corporations engaged in manufacturing of products in the territory of Ukraine [5].

The most attractive sectors of the economy for foreign transnational corporations are food and mining, agriculture, insurance, financial and trade sectors (see Table 2). One of the conditions for the attractiveness and activity of transnational corporations is the presence of important factors for the growth of production: natural resources, cheap and high-quality labor, developed regional transport infrastructure and so on.

**Table 1:** Institutional Methods for Regulation of Transnational Corporations' Activities

Methods		Trade policy tools		Scope of regulation	
Tariff		Impost			Import
		Tariff quotas			Import
Non-tariff	Quantitative	Quotas			Import
		Licensing		Export	Import
		Voluntary restrictions		Export	
		Customs procedures			Import
	Hidden	Public procurement			Import
		Requirements about including local components		Export	
		Technical and sanitary barriers			Import
		Taxes and fees		Export	Import
		Subsidies		Export	Import
		Credit		Export	
		Dumping		Export	
		Currency restrictions		Export	
		Discount lending		Export	
	Export promotion	Discount insurance		Export	
		Government orders		Export	

## 5. The Coca-Cola Company's activities performed in Ukraine

One of the largest multinational corporations in the world, whose production also takes part in the Ukrainian market, is the Coca-Cola Company. The company's profile sector is consumer goods, the industry is food, and the market niche is carbonated drinks. This consumer market giant is the world leader in soft drink

production. The main brand of the manufacturer is the Coca-Cola carbonated drink of the same name. The company's share in the carbonated beverage profile segment exceeds 40%, with its products presented worldwide. The company is also a sponsor of numerous international non-profit organizations, such as FIFA, IIHF, as well as the World Olympic Games [6].

**Table 2** Attractiveness of Ukrainian Economy Sectors for Transnational Corporations' Activities

Attractiveness		Long-term attractiveness	
		High	Between low and medium
High		Prospective areas that need investment for modernization of domestic manufacturing facilities	High maturity areas that generate significant resources for economic development and national investment
Relative competitive advantage	High	Metallurgy, agricultural processing, mechanical engineering	Extractive industry (oil, gas, minerals)
		Investment strategy: achievement of leading positions in the developing markets	Investment strategy: implementation of modern technologies with long-term investments ensured
	Between low and medium	Prospective areas that are available under the stable competition of other large markets	Low competition areas that require constant subsidies to obtain some profits
		Finance, agricultural sector, food industry, transport, logistics, electric power industry	Tourism, pharmacy, medicine, nanotechnologies, microelectronics, information technologies, telecommunications
		Investment strategy: reduction of dependence on alternative imports	Investment strategy: providing government support and modernization

The company is one of the largest in the USA, its shares are admitted to trading on the NYSE market and included in the DLA and S&P 500 indexes [7]. The corporation sells concentrates, syrups and beverages in 193 countries to companies that directly manufacture beverages. It owns 5 of the 6 largest global non-alcoholic beverage brands, namely Coca-Cola, Diet Coke, Fanta, Schweppes and Sprite.

The Coca-Cola Ukraine Limited is responsible for the development of consumer marketing and brands. The company is engaged in market analysis, market research and the creation of marketing strategies to promote the products and brands of the parent company, which the Coca-Cola Company is. It also supplies ingredients and concentrates, beverage basics and beverage syrups. As a result of the development in 2018, the Coca-Cola Company showed a 7% growth in production in Ukraine. It would be appropriate to add that significant contributions have been made to the economy, industry and society (see Table 3). The company's products are widely represented in Ukraine and Moldova and exported to Belarus and Armenia.

**Table 3**

Key Performance Indicators of Coca-Cola in Ukraine, 2018

Contribution	Performance indicators
Business	7% increase in production volumes
	90 thousand customers
	a 26.2% increase in the share of non-calorie drinks
Agricultural sector	a 26.2% increase in the share of non-calorie drinks
	12% of the value of Ukrainian exports of soft drinks, juices, and water
Society	157 million Ukrainian hryvnias (UAH) of added value to agriculture due to Coca-Cola purchases
	Investing in separate waste collection under the principle of manufacturer's extended liability as part of a pilot project in the town of Vyshgorod
	80,000 participants in more than 50 communities have been involved in training on packaging waste treatment
	1200 graduates from 15 boarding schools have been employed
	1500 Ukrainian women have participated in women's empowerment programs

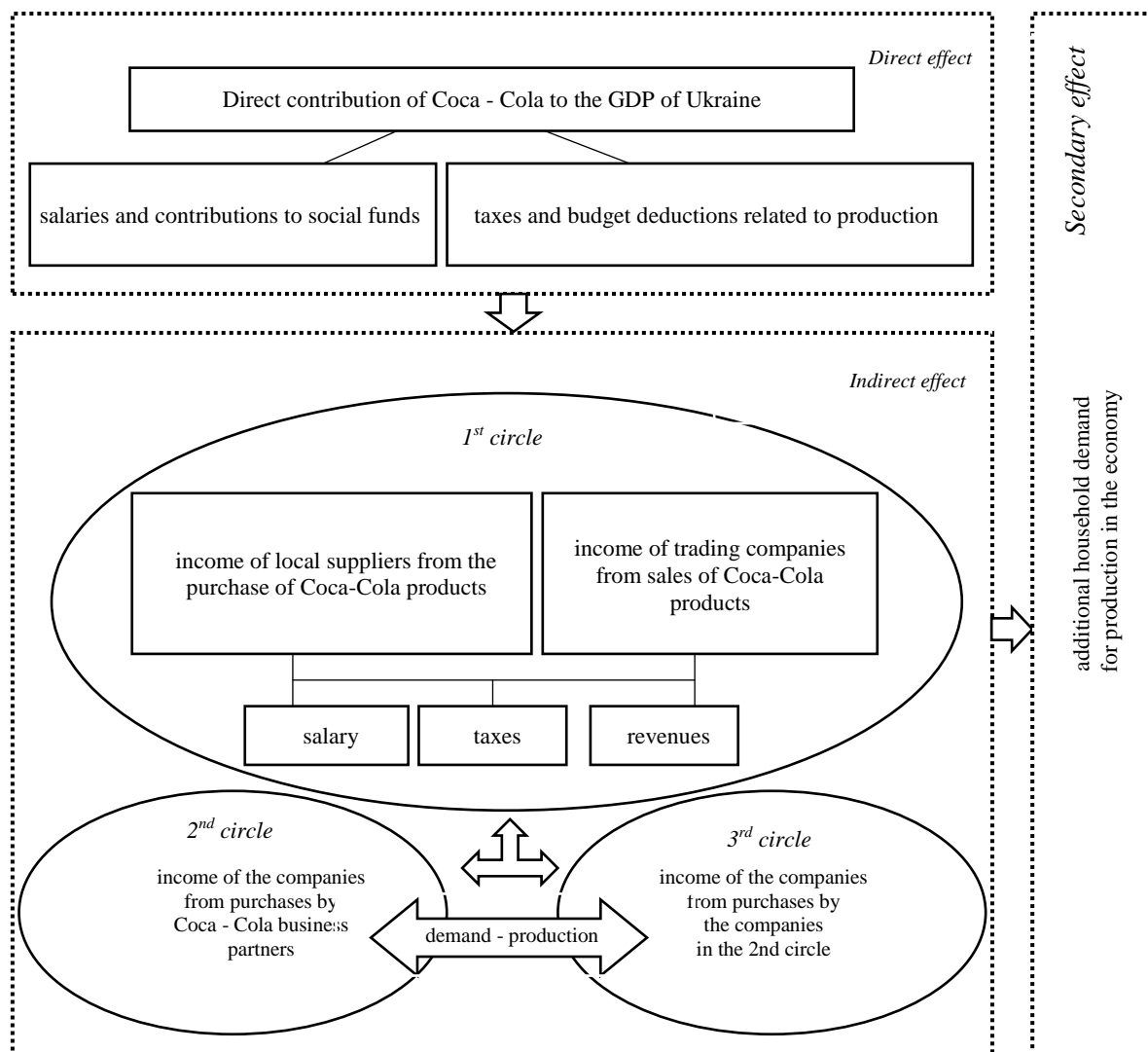
The first plant in Ukraine was opened in Lviv in 1994. And in 1998, the newly built plant of the Coca-Cola Beverages Ukraine Company near the town of Brovary, in the Kyiv region [8], got fully operational. To effectively interact with the outer world, outside the ordinary business processes, the Coca-Cola Company in Ukraine takes an active position, sharing principles and commitments within the following external initiatives: International Labor Organization Declaration on Fundamental Principles and Rights at Work; The International Commission for the Protection of the Danube River (ICPDR); Union of European Beverages Associations (UNESDA); The UN Global Compact; UN Sustainable Development Goals, etc.

The economic impact of Coca-Cola occurs as a result of its activities performed in the Ukrainian market through a mechanism containing all entities that are directly or indirectly related to the production of Coca-Cola (see Figure 1).

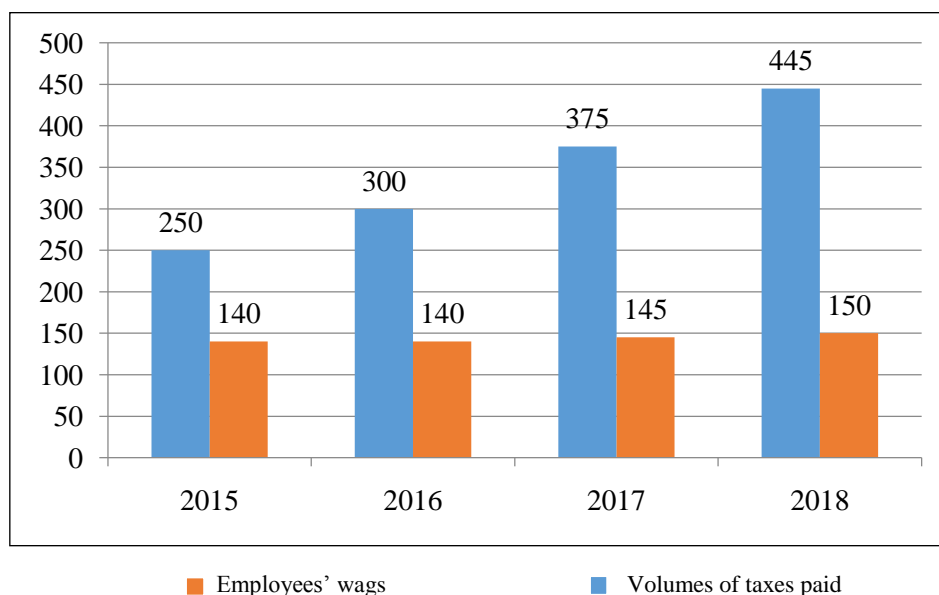
This approach involves the estimation of direct, indirect (first, second and third circles) and secondary economic effects. The economic impact calculation is based on Coca-Cola's data in Ukraine pertaining to labor costs, taxes, purchases of goods and services from local suppliers, and estimation of the margin of trading companies from the sale of Coca-Cola products in Ukraine.

The direct effect of Coca-Cola's activities performed in Ukraine is its direct employees' wages, product taxes (VAT), other taxes, and production-related budgetary deductions (see Figure 2). The amount of taxes and deductions paid to social funds was equal to 300 million UAH in 2018, with deductions to social funds – almost 70 million UAH, which in turn is equal to the level of pension payments for 26 thousand people. The amount of tax on personal income of employees equaled 67 million UAH.

The Coca-Cola Company maintains 24 900 jobs in the economy. This is a cumulative indicator of the number of jobs, which includes directly employed ones in the branches of transnational corporations in Ukraine (1,326 jobs), the companies with the indirect effect in the first circle (14,860 jobs), second and third circles (6,940 jobs), and the companies with the secondary effect (3,100 jobs). Coca-Cola's investments in the local production have contributed to the development of the food industry in Ukraine and the development of the following positive trends over the last 15 years:



**Fig. 1** Mechanism of influence carried out by Coca-Cola on the Ukrainian economy



**Fig. 2** Direct effects of Coca-Cola's activities performed in Ukraine, million UAH

1. Decline in imports of consumer goods.  
 2. Development of industries related to the food industry, in particular agriculture, wholesale and retail trade, transport, and production of packaging materials.

3. Promoting standards for safe, environmentally friendly and resource efficient production in the food industry.  
 4. Creating legal and secure jobs.

At the end of 2018, the Coca-Cola Company launched a 'World Without Waste' campaign. The goal of the initiative is as follows: by 2030 to ensure that, the same amount of packaging which the company releases is collected and processed. This requires a complete change in focus on the packaging life cycle: from how the packaging is designed and manufactured to how it is collected, reused or recycled [9]. In the same year, Coca-Cola announced its commitments to sustainable development by 2025. These commitments include the following components: emission reductions; reduction of water use; improving nutrition; special measures for individuals and the whole community.

## 6. Conclusions

At the beginning of 2019, there were over 30 transnational corporations operating in Ukraine. The most attractive sectors of the economy for foreign transnational corporations were the food and extractive industries; agriculture; insurance, financial and trade sectors. Transnational corporations' activities are directly related to Foreign Direct Investment (FDI), which was 8% higher in 2018 in comparison with 2017.

The research has revealed a positive economic influence of Coca - Cola's activities on the Ukrainian market, namely: providing 0.18% of Ukraine's GDP (6.2 billion UAH) and 1% of total investment in Ukraine (490 million dollars). Each hryvnia of Coca -Cola's added value contributes 9.5 UAH to the GDP of Ukraine, and 19 jobs in related industries are maintained by one job of the company.

Further development of the Coca-Cola Company in Ukraine is going to directly depend on the economic situation in the country. The rapid and steady growth of the Ukrainian economy can be achieved only through simultaneous efforts in the three following directions:

- 1) maintaining macroeconomic stability;
- 2) uprising productivity through attracting investments, greater efficiency in the use of natural resources, development of infrastructure and improvement of the business climate;
- 3) increasing the quantity and quality of human capital.

Further economic growth in Ukraine requires immediate implementation of reforms and concrete actions aimed at stabilizing the economic situation; development of major sectors of industry and optimization of specific manufactures; control over the quality of products and their orientation to the domestic consumer, as well as stimulating the development of domestic production.

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