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EFFICIENCY OF FDI IN AGRICULTURE IN THE ERA OF GLOBALISATION

Dynamics of FDI in developed, developing economies and South-East Europe and the CIS was analysed, efficiency of foreign capital in Ukraine, SWOT analysis of transnational corporations influence upon Ukraine's agriculture was conducted in research paper.

Key words: *efficiency, foreign direct investment (FDI), agriculture, dynamics, transnational corporations, SWOT analysis*

Introduction. The states that can increase the economic potential of using foreign investment, in most cases, pay attention and prefer one of such its forms, as foreign direct investment (FDI). The entity of FDI, besides foreign aid and financial assistance in terms of food products [1, p.49] is that, accordingly to their nature they are directly involved in the production sphere of the economy, i.e. creation of new enterprises, modernisation and expansion of existing businesses [2, p.129], stimulate export activity of the host country [3, p.410]. Direct foreign capital in the country plays substantial role for its prosperity [4, p.221]. This kind of capital provides it with advanced modern technologies [5, p.3], modern management methods, promotes in economic growth and sustainable development, improves and updates infrastructure [6, p. 235], creates new working places for the population, increases the quality and range of products and services that are in demand at the domestic and foreign markets [7, p.28].

Application of such investment resources in a national economy of the country is more vital in the era of development of globalisation processes in the world.

Material and methods. To issues of researching of foreign direct investment and its impact on economic development have devoted their research papers many foreign scientists, among them: Y. Zheng, G. Ritzer, E. Hutson, R.R. Sinkovics, J. Berrill, X. Fu, C. Taylor, K. Head, J. Ries, A. Standar, G. Niewęłowska, P. Chechelski, J. Nargiello and other outstanding scientists that work in this field of research.

From the other hand the research of foreign direct investment requires more elaborations in the light of different industries of the economy and its efficiency, such as agricultural sector. So while taking into one's consideration the importance of the above mentioned issues in this scientific research the dynamics of FDI in developed, developing economies and South-East Europe and the CIS was analysed. SWOT

analysis of transnational corporations influence upon Ukraine's agriculture, efficiency of foreign capital usage in Ukraine also was investigated.

Results and discussion.

Table 1

Dynamics of FDI in the world in 2005 – 2010, (mln.USD)

Years	Developed economies		Developing economies		South-East Europe and the CIS		Total	
	FDI inflows	FDI outflows	FDI inflows	FDI outflows	FDI inflows	FDI outflows	FDI inflows	FDI outflows
2005	619134	745679	332343	122143	31116	14310	982593	882132
2006	977888	1154983	429459	226683	54516	23723	1461863	1405389
2007	1306818	1829044	573032	294177	91090	51581	1970940	2174802
2008	965113	1541232	658002	308891	120986	60386	1744101	1910509
2009	602835	850975	510578	270750	71618	48802	1185031	1170527
2010	601906	935190	573568	327564	68197	60584	1243671	1323338

Compiled by the source: [8, P.187- 190].

Foreign direct investment through creation of joint ventures involves into activities of the national investors, which promotes entrepreneurship and increase revenues to the state budget of the country. Attracting FDI to state makes it possible to improve the economic situation in a whole society, improve social welfare of the population [9, p.240], and in the final case, strengthen the authority of the state at international level.

In order to obtain such results in the host country one's should ensure effective functioning of the acting regulatory framework, coordinated activities of all state agencies and services, stable tax legislation with an optimal level of taxes, the development of national enterprises, the strategic development of international economic relations.

Accordingly to the data of table 1 the world amount of FDI inflow in 2010 totally amounted 1243671 millions of U.S. dollars, i.e. in comparison with 2005 the specified indicator increased in more than 1,2 times and consisted of 982593 millions of U.S. dollars. FDI outflow in the world in 2010 totally amounted 1323337 millions of U.S. dollars, i.e. in comparison with 2005 the specified indicator increased in more than 1,5 times and consisted of 882132 millions of U.S. dollars. As for Ukraine FDI inflow in 2010 amounted 6495 millions of U.S. dollars, and in 2005 this indicator was 7808 millions of U.S. dollars respectively and was larger in 1,2 times than in year 2010. The level of FDI outflow in Ukraine in 2010 was 736 millions of U.S. dollars, and in 2005 was 275 millions of U.S. dollars respectively. With this data one's can make a statement on FDI outflow processes in the world economy and Ukraine as well regarding financial economic crisis at global level. World experience claims that FDI is primarily invested in banking, finance, telecommunications, trade and other areas of service. The volume of foreign direct investment in the agricultural sector in relation to the total amount of FDI in the world is only 2%. It is known that agriculture is not as cost-effective and profitable

sector of the economy as finance and other spheres of the economy. On the other hand there is another reason that explains such a small amount of FDI in this sector of the economy.

Table 2

**Value of cross-border M&As, in the world by seller/purchaser in 2005 – 2011,
(mln.USD)**

Years	Developed economies		Developing economies		South-East Europe and the CIS		Total	
	Net sales	Net purchases	Net sales	Net purchases	Net sales	Net purchases	Net sales	Net purchases
2005	403731	359551	63801	68680	-5279	6188	462253	434419
2006	527152	497324	89163	114922	9005	2940	625320	615186
2007	891896	841714	100381	144830	30448	21729	1022725	1008273
2008	581394	568041	104812	105849	20337	20167	706543	694057
2009	203530	160785	39077	73975	7125	7432	249732	242192
2010	251705	215654	82813	96947	4321	9698	338839	322299
2011	189614	135369	25473	25395	9076	2352	224163	163116

Compiled by the source: [8, P. 195- 198].

Table 3

**Number of cross-border M&As, in the world by seller/purchaser in 2005 – 2011,
(concluded) (number of deals)**

Years	Developed economies		Developing economies		South-East Europe and the CIS		Total	
	Net sales	Net purchases	Net sales	Net purchases	Net sales	Net purchases	Net sales	Net purchases
2005	3805	3741	1062	765	137	51	5004	4557
2006	4326	4446	1219	839	202	62	5747	5347
2007	5187	5443	1552	1047	279	102	7018	6592
2008	4603	4732	1501	1011	321	123	6425	5866
2009	2920	2666	975	746	343	70	4238	3482
2010	3638	3644	1290	1061	477	83	5405	4788
2011	1420	1484	501	360	115	31	2036	1875

Compiled by the source: [8, P. 199- 202].

Table 4

Value of greenfield FDI projects, in the world by source/ destination in 2005 – 2011, (mln.USD)

Years	Developed economies		Developing economies		South-East Europe and the CIS		Total	
	By source	By destination	By source	By destination	By source	By destination	By source	By destination
2005	530218	225107	152844	421460	26702	63197	709764	709764
2006	598448	286272	267768	540760	17871	57056	884087	884088
2007	650301	298350	268353	559778	21446	81972	940100	940100
2008	1027741	462450	404054	883917	29988	115416	1461783	1461783
2009	685086	305231	248451	593041	18663	53928	952200	952200
2010	569081	263509	218697	491622	19190	51838	806968	806969
2011	203876	74017	87154	200740	4837	21111	295867	295868

Compiled by the source: [8, P. 206–208].

The value of greenfield FDI projects in the world by source in 2011 amounted 904267 millions of U.S. dollars and in 2005 this indicator totally amounted 754910 millions of U.S. dollars. For Ukraine's economy the value of these greenfield FDI projects in 2011 was 954 millions of U.S. dollars, and 284 millions of U.S. dollars in year 2005 respectively [10, p.189,192].

The leading foreign experience states that the most countries financing agricultural sector through its own sources of funding and existing programmes, not attracting foreign capital at all. The governments of these countries create appropriate conditions to increase the export potential of agricultural production and limit its import. With this purpose, they introduced subsidies to their agricultural producers, which contribute to a more profit than from investing outside the country. In developing countries operates many large TNCs (transnational corporations) that have a monopoly position and prevent effective development of the new foreign companies. Respectively to some research data about 80 % of FDI are directly connected with activities of TNCs [11, P.45]. Africa and Latin America are the major continents of transnational corporations. Well known in Latin America "Bunge y Born" [12] which today is one of the five largest companies in the grain market, thanks to its monopoly position affects the economic and political situation in Argentina.

Therefore, in order to prevent the negative consequences the host governments strive to restrict the activities of transnational corporations through the creation of new economic activities in the form of joint ventures (JV). Such form of cooperation satisfies not only Latin America countries but foreign investors as well. Last receive the benefits from the state and guarantees the safety of investments. On the other hand, there is no need for new enterprises to be built and the production process to be established. Under these mentioned conditions, simplify the process of recruiting of the qualified staff and adaptation to local conditions of implemented technologies.

Table 5

Number of greenfield FDI projects, in the world by source/ destination in 2005 – 2011, (quantity)

Years	Developed economies		Developing economies		South-East Europe and the CIS		Total	
	By source	By destination	By source	By destination	By source	By destination	By source	By destination
2005	9057	5145	1321	4509	182	906	10560	10560
2006	10291	6163	1779	5337	207	777	12277	12277
2007	10356	6355	1700	5110	189	780	12245	12245
2008	13474	7526	2650	7728	298	1168	16422	16422
2009	11651	6618	2297	6731	244	843	14192	14192
2010	11574	6766	2302	6470	266	906	14142	14142
2011	4022	2216	781	2379	71	279	4874	4874

Compiled by the source: [8, P.210–212].

As was reported by the State Statistics Committee of Ukraine the volume of foreign direct investment in agriculture in Ukraine as of 1st July 2012 amounted to 739 million U.S. dollars. The amount of foreign investments into the Ukrainian agricultural sphere as of 1st January of the current year was 685.3 million U.S. dollars. The share of investment into agricultural sector of our country is 1.4% of the total foreign investments in Ukraine's economy.

Accordingly to the data of the State Statistics Committee, the largest investor in Ukraine's agriculture is Cyprus – 360.7 million U.S. dollars, followed by the United Kingdom – 42.8 million U.S. dollars, the Virgin Islands – 27.3 million U.S. dollars (82% more than at the beginning of this year).

Interesting fact is that foreign investors are showing the largest interest in the Ukrainian agribusiness and manufacturing areas. Agricultural products processing and manufacturing are interesting on the first place. Several new factors have emerged recently: the expected accession of Ukraine to the FTA with the EU, and the positive dynamics in taxation (reduction of value added tax and income). Favorable economic location and cheap labour force create a unique perspective for Ukraine to become a manufacturing and processing hub, focused on the European market. Also very vital role is attracted for "One-Stop-Shop" – a system of personal support of strategic investors in the Ukrainian market, which was introduced recently. This system would promote in boosting of investment activities of all potential foreign investors [13].

The agricultural sector and the entire economy of Ukraine to some extent depend on the development of global processes. It is known that the main carriers of that kind processes are transnational corporations (TNCs) with rapid growth of FDI attraction [14, p.15] engaged in both manufacturing and sales. This is actually their activities occur significant changes in global agriculture, which is to change the existing technologies to new one, modernizing the industry. Similar changes occur also in Ukrainian agriculture. The significant economic potential of transnational corporations (compared with many other countries), their role in the world economy

will continue to grow increasingly in larger scale. It undergoes its development economic policy in many countries, including the agricultural sector. TNCs in most cases come from the richest countries in the world.

The world market for agricultural products and their processing is quite saturated at the moment, causing in its turn a strong competition. In economically highly developed countries such as the U.S. or the Member States of the EU and OPEC organisation (the dominant role of Japan) agriculture and agricultural exports are sectors protected from unfair competition and maintained by these countries.

Conducted SWOT and efficiency analysis in the research of foreign investment in the agricultural sector of Ukraine provides an opportunity to affirm the positive and negative aspects of foreign investment in this sector and their impact on the overall state of the economy in our country (Table 6 and 7).

Table 6

Efficiency of usage of foreign capital in agriculture of Ukraine*

Positive side	Negative side
Growth of investment attraction in enterprises (not only the efficiency of capital inflows from abroad, but also the possibility of a loan attraction)	High share of import, including import of the firms with part of foreign capital
Involvement of the financial resources to budget of state	Evasion from payment of taxes in Ukraine
Increasing of the qualification of Ukrainian employees through internship and traineeship programmes in abroad	Low predisposition for profits reinvestment of the companies with foreign capital
Possibility of privatization of the national enterprises by foreign investors	Frequent reduction of employment after completion of investment projects implementation
Increase of cooperation with national firms (growth of foreign investments is highly adjusted with increasing of production in the food industry)	Quite slow development of cooperation between Ukrainian and foreign partners, as evidenced by the low participation of Ukrainian components (ingredients) used in the production of foreign commodities
Dynamic export growth of the firms with foreign capital	Reduction of population in employment of "research and development" activities in foreign business bodies
Providing Ukrainian enterprises with equipment in the form of new technologies	
Competition of the firms, especially in the food industry and agricultural production sectors (increasing of competition of Ukrainian commodities taking into account copying)	Weakening or liquidation of Ukrainian enterprises by large foreign companies competitive pressing

*Notice: Developed on the basis of personal research

Table 7

SWOT analysis of influence of transnational corporations (TNC) on agriculture of Ukraine*

OPPORTUNITY	THREATS
AT MACRO LEVEL	
Acceleration of the modernization of agriculture connected with the possibility of access to new production technologies, genetic material, labour organisation and credits of TNC	Disappearance from commodity production very large number of agricultural enterprises that would lead to rise of unemployment level and severe division of rural population on layers
Growth of export of Ukrainian food and agricultural products (livestock and crop production) through TNC and processing enterprises, the global trade networks	Growth of import of food and agricultural products (in general agricultural prices on world markets are lower than Ukrainian agricultural sector offers)
Improvement of agricultural structure and infrastructure in Ukraine	Potentially great opportunity to influence demand increasing (popularity of products from another part of the world, not only from Ukraine)
Participation of Ukrainian agricultural products and processed products in the global market (chance still exists)	Achieving sustainable cost reduction of raw materials
Increase of the competition of Ukrainian agriculture, based on specialisation and concentration of production (lower prices)	Possibility of application of transfer pricing in consumer chain
Potentially great opportunities to influence the increase in demand (popularity of products from our country, for example: organic and ecologically friendly)	Introduction or usage of cheap genetically modified products
Relatively cheap work force (which arises from the high level of unemployment in the economy of Ukraine in overall)	Increase of risk of agricultural production. In case of trade liberalisation, development of cooling technology, logistics, and etc., lower prices of raw material procurement in developing countries can be useful solution for transnational corporations
Methods of contracting and cooperation of TNC with agricultural producers arising from copying (example) through other national agribusiness enterprises	
AT MICRO LEVEL	
Providing the stable procurement of raw materials contracted by the minimum guarantee prices. Possibility of access to new production technologies, credit, genetic material, thereby increasing product quality and decreasing their	Strong competition, sustainable fallout of the weakest producers, low prices. Low position of agricultural producers regarding negotiations with global companies (weak connections in Ukraine, a small number of manufacturing

cost.	groups, as well as production and marketing groups)
Rising of enterprise profitability that arises from specialisation and concentration of production.	Dependence of the agricultural worker on global firms that emerge from specialisation and concentration of production, long-term loans, etc.
	Growth of companies' production that belong to global enterprises in Ukraine (production cost is lower there, accordingly to the latest production technology and management)

***Notice: Developed on the basis of personal research**

Below is provided some data with key ranking indicators on Ukraine and its business environment from Doing business 2012 World Bank's report. These indicators directly influence upon investment climate and activities of the foreign investors in our country.

Table 8

Doing business in Ukraine, some indicators

Name of ranking	2012 rank	2011 rank	Change in rank
Starting a Business	112	118	+ 6
Dealing with Construction Permits	180	182	+ 2
Registering Property	166	165	- 1
Getting Credit	24	21	- 3
Protecting Investors	111	108	- 3
Paying Taxes	181	181	No change
Trading Across Borders	140	136	- 4
Enforcing Contracts	44	44	No change
Resolving Insolvency	156	158	+ 2

Source: [15].

Conclusions. In the era of globalisation the capital plays a very important role in our lives, leading us a completely different way than it was at the dawn of independence of our country, as well as deepen its influence in the following decades. The central place in the economy has the investment activity - that is a tool to achieve economic growth and development. Among the other various forms of investments foreign capital and FDI seem to be most dynamic and have advantages for the countries of Central and Eastern Europe, including Ukraine for two partners, investor and the recipient. Conducting this research and analysis of the evolution of the Ukrainian business environment in recent years, the influence of legislation and the new tax code, the role of FDI in the economy and the agricultural sector it enables to elaborate efficiency and SWOT analysis of foreign capital's influence upon Ukrainian agricultural sector.

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Summary**Lytvyn R.I.**

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