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### FOREIGN INVESTMENT: A PANACEA OR A THREAT

*The resources of Ukrainian industry were already depleted prior to the start of Russia's large-scale military aggression in February 2022; while the forthcoming physical destruction of manufacturing facilities and infrastructure, and the migration of qualified personnel and promising innovators further worsened the situation. Before the outbreak of war, only individual manufacturers of technologically complex products had research units, made innovation, and were able to compete in international markets. Some industries were only based on one or two companies, who mastered unique high-tech competence; these manufacturers paid taxes to budgets of all levels; provided employment, and helped to improve incomes and social stability.*

*At present, the resources possessed by Ukraine's private sector are critically low; so the country's leaders are pinning their hopes on foreign investment as a means to solve the complex postwar issues such as the restoration of basic conditions for economic growth, the promotion of stability and the creation of an enabling environment for sustainable development. The goal of the article is to demonstrate some historical examples as to the obstacles and threats of foreign direct investment for host countries, which Ukraine may face in its post-war economic recovery.*

*The author reveals that the foreign investments along with the well-known positive side, also have a lesser known negative side. The paper shows that transnational corporations as major investors, having economic power and political influence, have the potential not only to speed up but also to slow down the development of the host country's companies, which can have an adverse impact on business results and lead to significant problems including the denationalization of assets, loss of technological competencies and industries, increased external dependence, and various threats to national security and economic sovereignty.*

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*On the example of the pharmaceutical industry in Mexico, which appeared and started actively developing after the end of World War II, the key challenges and threats (caused by denationalization and transfer of production control to foreign business) are shown. The author formulates the basic warnings for Ukraine. It is substantiated that the determining factor whether foreign investment will stimulate economic modernization and structural changes or will slow down the country's development, lead to de-industrialization, and denationalization of the economy and mass unemployment is the extent to which that investment will be integrated by the Government into national development plans, also to what extent the absorption potential of domestic economic entities will be able to implement investments and ensure their maximum effects.*

**Keywords:** *post-war economic recovery, foreign direct investment, transnational corporations, industry, denationalization*

**Formulation of the problem.** The world experience of post-war recovery proves [1] that investments in technological changes contributed to the development of certain industries, which became catalysts for increasing the productivity of economic entities and structural shifts, ensuring macroeconomic stability and growth. Ukraine now needs such transformations. The government, looking for opportunities for this, relies on the attraction of foreign capital and calls on world business to start implementing foreign projects in Ukraine as soon as possible.

**Analysis of the latest research.** The problems related to the cooperation with foreign companies, mainly TNCs, and the attraction of foreign direct investment (FDI) have been relevant since the first days of Ukraine's independence and are widely presented in the works of scientists, as well as in the reports of experts of international organizations. Scientists draw attention to the leading role of FDI for economic growth [2] and the need to expand international cooperation [3] and - at the same time - warn that the interests of foreign capital are not necessarily aimed at the technological renewal of Ukraine's economy [4] and point to the need to improve government policy on attracting foreign investment capital, taking into account economic security, and the priority of protection and support of the Ukrainian producer [5]. A characteristic feature of most researches in this field<sup>3</sup>

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<sup>3</sup> At the same time, a number of scientists pay attention to the obstacles to the development of the host country's economy from the unbalanced attraction of foreign investments. V. Sidenko pays attention to the fact that changes in the strategies of leading TNCs, in particular the mass relocation of production abroad, have a significant impact on the direction and scale of their investments, as a result of which "resources of state macroeconomic regulation simply become insufficient to offset fluctuations caused by changes in business attitudes of leading TNCs" [6, p. 14]. Yu. Kindzersky justifies the need to "regulate the processes of entering the domestic market by foreign TNCs with the aim of adapting their interests to the interests of the country's development; and leveling the threat of the transformation of domestic enterprises into peripheral production facilities for the service of international alliances, which can negatively affect the integrity of the national economic system, and the level of security and sustainability of the country's development" [7, c. 14].



is an exclusively positive assessment of the contribution of FDI to the socio-economic development of the host country. Possible negative consequences, problems of state policy (or its absence) regarding the attraction of foreign capital, obstacles that may be observed in the host country, are often left out of consideration, making it impossible to take them into account in rigorous discussions and recommendations regarding Ukraine. **The purpose of the article** is to use historical example to demonstrate the barriers and threats that accompanied the development of national industries, and based on this experience to substantiate the challenges that Ukraine may face in its post-war economic recovery if it relies exclusively on foreign capital.

### **Ukraine's political declarations and the position of partners**

Foreign investments "will become the foundation of the future post-war recovery", - declares the First Deputy Prime Minister - Minister of Economy Yu. Svyridenko<sup>4</sup>. In her opinion (voiced in New York in September 2022 at the presentation of the investment platform Advantage Ukraine), "the biggest financial risk today is not to invest in Ukraine"<sup>5</sup>. To the question "where to invest?" the head of the Ministry of Economy answered that the sectors that are interesting for the investor are primarily those where high added value is created, and whose products can be competitive on global markets. The government has identified 10 key sectors with significant investment potential, including the pharmaceutical industry. "This industry is one of the investment leaders. Ukrainian pharmaceutical companies meet international standards, most production facilities have been partially restored in accordance with GMP," the presentation notes<sup>6</sup>.

In June 2023, on the eve of the Conference on the Restoration of Ukraine in London, it was announced: **"We have developed a vision for the restoration and development of Ukraine. We have chosen those areas in which we have the greatest advantages. ... Our rich natural resources will allow Ukraine to turn**

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<sup>4</sup> Svyridenko Yu. The Ukrainian economy has experienced the most difficult year since independence: how we survived and what's next. Retrieved from: <https://www.epravda.com.ua/columns/2022/12/30/695585/>

<sup>5</sup> Advantage Ukraine presents the following 10 investment priorities: defense industry, metallurgy and metalworking, agro-industrial complex, energy, pharmaceutical industry, natural resources, logistics and infrastructure, furniture and woodworking industry, innovations and technologies, processing industry (although pharmaceuticals and woodworking are industries processing industry, they are presented separately); the argument regarding the priority of innovation and technology is as follows: "Ukraine is the first country to digitize most of its personal official and government documents. Ukraine ranks 4th in the world in terms of the volume of financial transactions using mobile devices. Ukraine ranks 4th in terms of the number of crypto users in the world with legalized mining and cryptocurrency ecosystem" (for details, see Advantage Ukraine. URL: <https://advantageukraine.com>).

<sup>6</sup> Svyridenko Yu. A country of opportunities: why the investor will come to Ukraine. 10 sectors of the Ukrainian economy with the greatest investment potential. Retrieved from: <https://www.epravda.com.ua/columns/2022/09/29/691997/>

Thus, despite the emphasis on pharmaceuticals, the key issues discussed were "smart networks", the introduction of energy balancing capacities, gas production using advanced technologies, "green" metallurgy using direct reduction iron, options for deep processing of corn for the purpose of extracting amino acids and bioethanol, and prospects of graphite and lithium mining in Ukraine.



**into the European epicenter of the excavation of lithium, titanium and other minerals and, more importantly, to establish the production of high-tech products immediately within the country"**<sup>7</sup>. At the conference, Yu. Svyridenko presented a new vision of the principles of recovery: "We need to develop our strategic industries. This is of crucial importance for the sustainable growth of Ukraine and satisfying the world's needs for energy, food, critical materials and high-tech products"<sup>8</sup>. Foreign investors were presented nine key sectors that will determine the future of Ukraine<sup>9</sup>: the production of construction materials and equipment; the development of energy, including the production of "green" energy for domestic demand and for export to the EU (it is also assumed that Ukraine will produce "green" hydrogen, and agricultural waste will be used for biomethane production); agribusiness (including the deep processing of more than 50% of waste); transport infrastructure (the emphasis is on its integration with the EU, in particular the transition from the post-Soviet to the trans-European network<sup>10</sup>), extraction of minerals, critical materials and the manufacture of products from them (it is about the development of lithium, titanium and other minerals necessary for the production of batteries, electric cars and other equipment, as well as fuel for nuclear power plants); "green" industry (mentioned the release of environmentally friendly steel, aluminum and fertilizers without the use of coal and natural gas); and the defense industry. The nine so-called key sectors include start-ups and entrepreneurship, as well as "professional and social development" (assuming the creation of proper conditions for the return of forced migrants).

What real decisions on the part of foreign partners were approved in view of such a vision? The answer to this question is given in the information posted on the website of the British government<sup>11</sup> - "Supporting the ambitions of Ukraine's government regarding reforms, and technological and energy innovations", in particular:

- £1.5m for the Government's digital regeneration management system to raise project transparency;
- £62 million for UK to support Ukraine's energy sector, £10 million for the Innovate Ukraine Green Energy Innovations Challenge Fund and £25 million for the Ukraine Economic Resilience Action platform of the International Finance Corporation (IFC) to strengthen Ukraine's energy security;
- Agreement between Great Britain, the Government of Ukraine and the G7+ members on the Clean Energy Partnership to coordinate international efforts to

<sup>7</sup> Svyridenko Yu. The world will see a Ukraine that has ambition. Retrieved from <https://www.epravda.com.ua/columns/2023/06/19/701238/>

<sup>8</sup> All sessions of the Ukraine Recovery Conference / URC. 2023. Retrieved from <https://www.urc-international.com/ukraine-recovery-conference-urc-2023>

<sup>9</sup> Yulia Svyrydenko presented her vision for Ukraine's economic development at the Ukraine Recovery Conference. Retrieved from <https://www.me.gov.ua/News/Detail?lang=en-GB&id=695a03e0-1508-49eb-a494-eea301706318&title=YuliaSvyrydenkoPresented>

<sup>10</sup> Presumably, the developers of this vision mean the railway.

<sup>11</sup> London conference unites international community on Ukraine's future and global security. Retrieved from <https://www.gov.uk/government/news/london-conference-unites-international-community-on-ukraines-future-and-global-security>



- restore a more modern, decentralized and environmentally friendly energy system in Ukraine;
- a £26.3m loan from the UK Export Credit Agency (UKEF) to enable the Ukraine's government to start rebuilding six vital bridges damaged by the illegal Russian invasion, in order to restoring supply routes near Kyiv;
- the new British-Ukrainian TechBridge space in London, which will bring together British and Ukrainian innovators, entrepreneurs, technology and finance to promote closer collaboration and boost recovery and reconstruction;
- £25 million from the United Kingdom to strengthen Ukraine's cyber defense;
- a new cooperation between Great Britain, Ukraine and Estonia in the field of e-government.

Thus, at this stage, the announced "adjustment of the production of high-tech items immediately within the country" is not yet considered by foreign partners...

At the same time, according to the British side, about 500 companies (including Google, Siemens, Vodafone, Uber, Virgin Group, Anglo American, Rolls-Royce and Philips, etc.) from 21 sectors have signed the Ukraine Business Compact, certifying their intentions towards Ukraine: "By signing this agreement, we undertake to support the recovery and reconstruction of Ukraine, looking for opportunities, when the time comes, to participate in trade and investment, exchange in experience, work on public grounds and commercial activities"<sup>12</sup>.

In critical times for Ukraine, when socio-economic situation in this country is worsening, and the state budget deficit is already covered by almost 70% from external sources<sup>13</sup>, appealing to a selective approach in attracting foreign investments may seem inappropriate. However, the really inappropriate thing is the disregard to historical facts that prove that foreign investments have a little-known negative side along with the well-known positive one. Because, operating with significant resources, having economic power and political influence, the TNCs are able not only to speed up, but also to slow down the development of local companies, affect their business results (such as productivity growth, prices and sales volume, profits) and provoke major problems in the host country, such as denationalization of assets, loss of technological competences and production, increased external dependence, and threats to national security and economic sovereignty. A clear example to confirm this statement is the development of pharmaceuticals and the Mexican industry in general after the Second World War [8-10].

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<sup>12</sup> WW+P support Ukraine with signing of Ukraine Business Compact 2023. Retrieved from <https://www.westonwilliamson.com/news-and-events/ww-p-support-ukraine-with-signing-of-ukraine-business-compact-2023>

<sup>13</sup> Almost 70% of the state budget deficit in 2023 will be covered from external sources - the head of the Budget Committee of the Verkhovna Rada. Retrieved from <https://interfax.com.ua/news/economic/892023.html>



### Historical experience of the impact of foreign investment on the host economy

Since the beginning of the last century, European and North American pharmaceutical companies considered Mexico as a "fertile ground" for investments and established their branches in the local market [11]. The country's government actively contributed to this. According to the first industrial census of 1930, there were 50 pharmaceutical companies in the country (whose owners were: 41 Mexicans and 23 foreigners)<sup>14</sup>. In 1939, there were already 77 pharmaceutical companies in Mexico (59 owned by Mexican shareholders and only 18 by foreigners). Pharmaceutical production grew exponentially, but remained dependent on foreign raw materials (the companies' costs reached 6,155.9 thousand pesos for imported supplies versus 2,277.4 thousand pesos for local ones) [11].

Against this background, an event took place in Mexico that changed the global pharmaceutical industry [8–10]. The American company Parke-Davis funded a project to find raw materials for medicines, which was led by Russell Marker<sup>15</sup>, a chemist from the State University of Pennsylvania. In 1939, as a result of successful experiments, he established that the plant *Dioscorea Mexicana*, or *cabeza de negro* (Mexican yam) is an extremely useful basic material for the synthesis of sex hormones<sup>16</sup>. Parke-Davis confirmed this discovery, but did not agree to invest in its commercialization for "trivial" reasons: yams was grown in Mexico, a country that was politically and economically unstable<sup>17</sup>. In addition, the decision to invest was influenced by the image of Mexico shaped in the United States as a technologically backward nation, whose citizens are poorly professionally prepared to master the complex processes of fine organic chemistry (at that time, the country did not have any scientific schools of the appropriate technological profile, unlike in Europe and USA). These concerns were added by other problems – poor infrastructure and inadequate means of transportation (to transport yams from the jungle). But this did not stop the innovator R. Marker, who with his own savings created an improvised chemical laboratory in the premises of a former pottery workshop in Mexico, where he and his colleagues obtained 2 kg of progesterone (which was the largest batch at that time) with a market value of \$160,000. This gave impetus to establish the Syntex startup in 1944, which became a cornerstone of the new steroid hormone industry in Mexico.

Ten years later, Syntex already employed about 3,000 people, including 150 chemists and technicians, while its annual sales had grown to 5 million USD. The company received patents for its own developments, which now covered more than 100 processes, and this made it possible to master the production of all sex

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<sup>14</sup> These were mostly citizens of Germany, France, America, Spain, Italy, and Hungary.

<sup>15</sup> In Mexico, Marker studied steroidal substances of botanical origin, in particular diosgenin, which Japanese chemists isolated in 1936 from a plant of the genus *Dioscorea*.

<sup>16</sup> An article published in 1951 by the American magazine "Fortune" regarding this phenomenon stated: "the jungle industry" was probably "the best technological boom that ever happened south of the border." [10].

<sup>17</sup> The expropriation of oil by the government of President Lázaro Cárdenas in 1938 was cited as an argument, which most affected American interests.

hormones and corticosteroids. Thanks to its unlimited and monopoly access to local raw materials, Syntex considerably "moved" its competitors on the world market in the early 1950s. Although the company was not the only producer of synthetic steroids in Mexico at the time, it became a pioneer in this industry<sup>18</sup> and played a decisive role in its rise and innovative development<sup>19</sup>. Syntex and other Mexican steroid manufacturers took more than 60% of the world market and became the main suppliers of steroid hormones and intermediates, building their own chemical synthesis laboratories and establishing research schools at the two major Mexican universities, the National Autonomous University of Mexico and the National Polytechnic Institute [13].

To strengthen the local producers, Mexican government introduced a number of protectionist measures for the steroid hormone industry: first, a tax was imposed on the export of products with a low degree of processing<sup>20</sup>; secondly, the access of foreign competitors to raw materials was limited and an embargo was imposed on their exportation. But after the end of the Second World War, European pharmaceutical companies restored their capacities and returned to the market. This prompted Syntex to send a letter to the Mexican government justifying the need for greater government intervention, as European companies were actively buying raw materials (at the stage of primary processing) through small Mexican firms. The management of Syntex stated: "In our opinion, the Mexican government cannot support two opposing policies at the same time: on the one hand, to promote the industrialization (industrial use) of our natural resources, and on the other hand (when the industry has found ways and means to use these natural resources) - to enable small suppliers to send raw materials abroad for foreign firms, who then compete with the Mexican industry, making it much more difficult for it to develop and expand ... We consider that the protection that was made available to us with the prohibitive tax on the export of barbasco roots<sup>21</sup> must be supplemented in order to pursue a sound economic policy for the industry by applying a similar prohibitive tax also to diosgenin, its

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<sup>18</sup> Syntex: Clinical Study of a Stock. Retrieved from <https://www.nytimes.com/1964/05/29/archives/syntex-clinical-study-of-a-stock-price-soaring-again-after-slide.html>

<sup>19</sup> The total number of patents in the field of steroids for the period from 1935 to 1965 (issued by R. Marker or researchers from Syntex while the company was in Mexico) shows that 642 patents were issued in 31 years, out of which 2% belong to R. Marker and 87% of Syntex, others belong to such companies as CIBA Co., Shionogi & Co., Merck & Co., Laboratories Jouveinal, Searle & Co., Monteclair. Research Corp., Ellis-Foster Co., National Research Development Corp., Laboratoires Français de Chimiotherapie and others. [12].

<sup>20</sup> The public Farquinal laboratory, which at that time did not meet the specified requirements, received a subsidy from the state equivalent to its payment of export taxes.

<sup>21</sup> Barbasco is another type of raw material for the agricultural industry. It had two main advantages over *cabeza de negro* (Mexican yam): about five times more of diosgenin could be produced from it, while the source of this raw material was practically inexhaustible in Mexico. Also, barbasco diosgenin had a significant advantage over cholesterol, the raw material used by European hormone manufacturers. This advantage lays in the former's extreme versatility as a parent steroid. Whereas cholesterol can be chemically broken down into only two intermediate compounds that can be converted into commercial products, diosgenin allows the production of an intermediate compound known as 16-dehydropregnenolone (16-D) from which chemists can make almost all other pharmaceutical steroids, which opened extremely broad commercial prospects for Mexican pharmaceutical producers [10].



acetate and 16-dehydropregnenolone acetate. Since these are products of only the first phase of hormone production, they could be used to raise the industrial production in Mexico ... We ask for protection by taking measures that enable an excise tax on the export of these products to ensure survival" [14, p. 52-53] Manufacturers argued that the industry would lose thousands of jobs, and the country would no longer receive millions in foreign currency.

However, even without waiting for a reaction to this letter, the competitors began to act. Since the early 1950s, TNCs were concerned about Syntex's success and its expanding presence in the US market<sup>22</sup> with both finished and intermediate products. The above letter from Syntex with new demands to protect the interests of the local industry, which affected the TNCs' business interests, urged the latter to take decisive action - they engaged their political lobby, effectively using US politicians and civil servants to suppress the attempts made by the Mexican government to provide protection to Syntex and other national pharmaceutical producers [8-9]. When considering these issues, the US leadership took into account the following facts [14]: in 1949, it was discovered that cortisone relieves the symptoms of rheumatoid arthritis and other diseases. People suffering from rheumatoid arthritis numbered about 3 million in the USA alone, which created a huge demand for the drug, whose basic raw material at European and American manufacturers was beef bile. The high cost of the method of obtaining drugs from bile and the latter's limited volume were serious bottlenecks and posed a threat. To solve the problem, the United States government encouraged a shift to alternative, cheaper plant-based sources. Such an alternative source turned out to be yam root, and later barbasco, but the Mexican company Syntex had a monopoly on the sale of bulk steroids made from this raw material. The Mexican government imposed an embargo on the export of cabeza de negro and barbasco roots, which created serious supply problems for American pharmaceutical companies and became a subject of discussion between the United States State Department and the Mexican government [15, p. 14-21]. The American side decided that Syntex's activities were restricting their business competitors and scheduled a Senate committee hearing on Syntex in July 1956 with the prospect of banning the supply of its products to the American market.

A month before the hearings in the Senate, the owners sold Syntex to the US investment company Ogden Corporation USA. When the deal took place, American experts and politicians, as evidenced by the materials [14], were very pleased and convinced that the purchase of Syntex by an American business organization managed by American businessmen would be an excellent solution to the problem created by Mexico. They were absolutely sure that the company's new

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<sup>22</sup> Syntex products were divided into three main categories. The first category included special products. They consisted of pharmaceutical products, mainly developed as a result of in-house research and mostly protected by patents or patent applications. The second category consisted of advanced steroid intermediates wholesaled to other pharmaceutical companies. The last category included ready-made sex hormones. Syntex processed them and sold them in bulk to other pharmaceutical organizations. These latter entities either sold them under their own brand names or combined them in special formulations with other drugs.



owner and new management would adhere to the principle of free trade and free competition [14, p. 131]. These expectations came true.

The new owner of Syntex, the US Ogden Corp. on February 12, 1957 sent a letter signed by its executive vice-president M.L. Sindeband<sup>23</sup>, addressed to J. O'Mahoney, Chairman of the Subcommittee on Patents, Trademarks and Copyrights of the US Senate. The letter mentioned the hearing of 1956, the claims against Syntex and, in particular, against its previous management, who blocked other companies' access to barbasco root [14, p. 149-150]. The Ogden Corp. executive, based on the fact that Syntex and related companies in Puerto Rico and the United States were now owned by Ogden Corp., announced a new strategy of the Mexican pharmaceutical giant: "While it is not my job or role to make judgment on Syntex's policy and past actions, I wish to say that I wholeheartedly support your goal of ensuring that there are no artificial restrictions on the production of pharmaceuticals... I assure you that the new management will adhere to the traditional American concept of free enterprise and competition embodied in the Sherman Act and other relevant antitrust laws" [14, p. 150]. Furthermore, Syntex's new management informed the Mexican Ministry of Agriculture that the company seeks neither favoritism towards itself nor any discrimination against any other company in relation to barbasco root. "This position was officially confirmed in a letter dated November 12, 1956, addressed to this ministry, a copy of which was presented to you," M.L. Sindeband noted. He also assured the US senator that if this position was not sufficiently convincing, Ogden Corp. would insist that the new management of Syntex re-inform the relevant ministries in the Mexican government that they do not object to granting other companies permits for barbasco root. "We ordered Syntex to abstain from any action or support of any program aimed at blocking other companies' access to barbasco root stocks" [14, p. 150]. Besides, Ogden Corp. assured the US politician that "it is its duty to license the Syntex patents based on reasonable fees to any company that requests them. In particular, the materials recently presented to your committee have shown that when a new competitor (General Mills, Inc.) requested a license to some of Syntex's patents, Syntex's new management immediately offered to grant such licenses on a reasonable royalty basis. Thus, it can be seen that the new management not only did not block the emergence of a large new American competitor, but also actively contributed to its creation in Mexico," the Ogden Corp. manager reported [14, p. 150]. The US State Department reported: "The Department the American Embassy in Mexico has been informed that all interested companies, including the American firms Schering Corp., Productos Esteroides, SA and Julian Laboratories, can now apply for permits to obtain barbasco root to the Mexican Ministry of Agriculture" [15, p. 20].

Commenting on the rise and fall of the Mexican "nugget", at the hearings of the Committee on Commerce of the US Congress, American experts noted: "The experience of Syntex illustrates the difficulties of a small pharmaceutical company

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<sup>23</sup> This letter is given in [14].



in trying to successfully compete with large drug manufacturers. From the very beginning of its research achievements in the 1950s, Syntex made efforts, and for a time it seemed that it had a chance for struggle. But its vitality was not sufficient; blows were struck one after another from 1955 until its disappearance as a competitor in the production of steroids" [16, p. 76].

Gary Gereffi confirms that Syntex was the engine of Mexican hormonal steroid industry, but in 1956 everything came to an abrupt end with the purchase of Syntex by an American company [8-9]. According to the researcher, a significant role in this history was played by the second largest external force after the TNC - the US government [9, p. 94].

### **Consequences for the host country's economy**

After the sale of Syntex, as G. Gereffi notes, the process of "denationalization" began in the Mexican steroid industry<sup>24</sup> [9, p. 95-132]. The scientist explains this phenomenon as follows: the steroid hormone industry in Mexico was formed from seven Mexican companies, of which five were set up by foreigners or immigrant businessmen and only one<sup>25</sup> was a purely foreign corporation; there was only one manufacturer of direct Mexican origin (the public laboratory Farquinal). Therefore, "denationalization" was not a replacement of indigenous owners with foreigners, but a transfer of control over companies and the entire industry to foreign business, which was motivated not by Mexican national interests, but by the priorities of the country where the parent company was based. The issue of denationalization<sup>26</sup> of the Mexican industry as a result of the TNCs' action was studied by other experts [17], who argue that denationalization occurs when the largest firms in the economy and even entire industries fall under the power of foreign absentee owners and final decision-makers. This is demonstrated by the events that took place in Mexico after the sale of the flagship in the steroid hormone industry. Nine new private companies entered the Mexican industry, each of them a subsidiary of a foreign pharmaceutical firm. Local manufacturers could not counteract the threat of foreign capital, and in 1963 they were all absorbed. As a result, the high-tech sector in the Mexican pharmaceutical industry became a conglomerate of affiliated structures of (mostly American) TNCs, whose strategies and behavior were determined by the imperatives of their parent companies, that is, by profit-making and increasing efficiency. Since the TNC parent companies determined the source of raw materials and their quantity based on their own needs, they easily switched from Mexican to other suppliers. Thus, American TNCs – as consumers of the products manufactured by the Mexican steroid hormone industry – initially

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<sup>24</sup> According to the scientist, the concept of "denationalization" refers to the situation when the assets of local owners are bought out by foreign firms, and the national bourgeoisie is directly crowded out by international capital.

<sup>25</sup> BEISA – Beneficiadora e Industrializadora, SA.

<sup>26</sup> Denationalization refers to the transfer of ownership of a private business in a given country to corporations located in other countries. Denationalization of the national industry can take place via the acquisition of existing firms or via new subsidiaries. One of the indicators of the degree of denationalization is the share of assets' owned by foreigners in a certain sector or industry [17].

contributed to the sector's expansion by providing a sales market; however, after the acquisition of the industry's technological leader Syntex they caused its decline. In the late 1970s, TNC branches located in Mexico switched to alternative raw materials and technological processes that no longer required barbasco, and in 1977, under their pressure, the Mexican government approved the decision to import diosgenin from China. This ultimately undermined the position of Mexican pharmaceutical producers and peasants - suppliers of raw materials and had corresponding consequences for the Mexican economy. The revenue part of the Mexican budget no longer received high revenues from pharmaceuticals. The TNCs resorted to transfer pricing (buying at low prices and selling at high prices), which minimized their declared incomes in Mexico, and thus their taxation. When the country's leadership decided to raise tax rates, the TNCs began to understate profits by using offshores in Puerto Rico, the Bahamas, and Panama<sup>27</sup>.

The new owners of Mexican pharmaceutical companies did not reinvest their profits in the sector's development and in the creation of innovative products. Consequently, denationalization had yet another consequence, which was even more detrimental to the future of the local industry: it transformed Mexico from a country capable of carrying out R&D in the field of steroid chemistry and creating original drugs, into their consumer. Before the sale to Ogden Corp. Syntex conducted R&D in Mexico, while the new owners decided in 1959<sup>28</sup> to move the headquarters and R&D center abroad to Palo Alto, California. As stated in [9], once Syntex was sold and turned into a TNC with a foreign office, Mexico in the steroid hormone industry lost the key opportunity to maintain its position in scientific and manufacturing activities. "Unfortunately for Mexico, Syntex moved its research laboratories to California, and the development of new drugs in Mexico practically stopped"<sup>29</sup> [13, p. 3].

This tendency is not unique for the steroid hormone industry. In Mexico in the 1960s, a significant industrial denationalization took place. Having established control over vital industries, leading firms and a significant share of the local market, TNCs exerted a significant influence on the local economy. As noted by experts of that time, "in general, TNCs, due to the large denationalization, the structure of their markets and the well-shaped internal organization, began to represent a powerful force in Mexican industry, significantly influencing its productivity" [17, p. 148]. The flow of foreign capital only affected the development of the use of the country's natural resources for further export,

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<sup>27</sup> After it was established that TNCs declared the exports of steroid hormones produced in Mexico in the amount of 400 million USD, while the real value of supplies was supposed to reach 1.4 billion USD per year (taking into account world market prices), the country's authorities accused the TNCs of tax fraud, proving that the country's economy lost more than 400 million USD annually (taking into account the current tax rates).

<sup>28</sup> By 1959, Syntex in Mexico had published more scientific publications on steroid chemistry than any other academic or industrial organization in the world; the company was one of the world centers in this specialized field of chemistry.

<sup>29</sup> All subsequent efforts of the pharmaceutical industry were already directed at the development of dosage forms and analytical methods. In the pharmaceutical sector, research was limited to synthesis to obtain already known products to replace them in the national market.



neglecting the local production. Denationalization and subsequent foreign investment turned once profitable sectors into economic enclaves, where the TNC affiliates made no attempt to integrate into the Mexican economy and establish ties with local businesses. As a result, a "dual economy" emerged, in which export-oriented production existed and developed separately, surrounded by technologically backward industries with low labor productivity.

The greatest penetration of foreign capital was observed in manufacturing - half of the 300 largest Mexican firms in the early 1970s were under foreign control; in 11 out of 18 industries, foreign firms controlled more than 50% of the large firms' capital; their control was particularly considerable in the production of non-electric machinery (95%), transport (79%), chemicals (68%) and electrical machinery (60%). Overall, TNCs were in the lead in technological and capital-intensive sectors [17]<sup>30</sup>. Another evidence of the denationalization of the Mexican economy was the share of TNCs in total sales of manufactured products: 28% in 1970 against 20% in 1962. However, if we do not take into account small enterprises (up to 10 employees), the share of companies with foreign capital in total sales becomes noticeably higher - 44.7% in 1970 against 37.5% in 1962. In particular, in chemical (including pharmaceuticals) production, the share of TNCs in sales in 1970 reached 77.8% [17]. Between 1960 and 1972, intra-company exports increased and accounted for 82% of all sales of Mexican TNC branches [17]. Thus, Mexican affiliates were fully integrated into TNC operations and dependent on the decisions of head offices regarding credit, investment, R&D, key supplies, and access to export markets, especially in technology-intensive and capital-intensive industries.

### **Eliminating negative consequences**

To overcome the problems of denationalization of the local economy, Luis Echeverría, who became the president of Mexico in 1970, initiated the adoption of a number of laws regulating FDI flows. Among other things, the new firms in the production of steel, cement, glass, fertilizers, pulp and aluminum were to be by 51% owned by Mexican owners; a number of other activities were included in the list of restricted property rights, among them basic chemistry. The Mexican Investment Promotion and Foreign Investment Regulation Act, promulgated in February 1973, codified many of the laws passed in the early 1970s, set up the National Registry of Foreign Investments to monitor their flows, and established criteria to consider losses and gains against which investment projects were evaluated. The criteria included: threats of the displacement of local investments, impact on the balance of payments and employment, technological contribution, regional location of production, impact on social and cultural values, etc. In pharmaceuticals, foreign investors had the right to own up to 49% of the company's capital, without receiving control over its management. In the early 1980s,

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<sup>30</sup> At that time, the following industries were considered technology-intensive and capital-intensive ones: production of rubber, chemicals, non-electrical and electrical equipment and transport, and even metallurgical production.



regulations were passed that favored the development of local pharmaceutical and chemical industry: the Pharmaceutical Industry Promotion and Regulation Decree of 1984 (the basis for drug price controls), the Comprehensive Pharmaceutical Industry Development Program, the General Law on health care, etc. This made it possible to raise the potential of local farm producers [18].

In order to encourage foreign investors to produce medicines in Mexico, the Law "Regulation of Health Products" (1998), in particular its Article 168, established the following provision: "To have a sanitary registration of a medicinal product, it is necessary to have a sanitary license for a factory or laboratory of medicines or biological preparations for human use". This meant that in order to sell pharmaceutical products, the holder of the drug's registration must have facilities in Mexico. This provision was abolished in 2010<sup>31</sup>. After that, a significant number of TNC branches closed their factories in Mexico and gave preference to imports.

Presently, the pharmaceutical industry in Mexico consists of two large groups of companies: the TNCs, which are called "Big Pharma", and laboratories with 100% Mexican capital. The first group is united in the National Chamber of the Pharmaceutical Industry (Canifarma) and has been active since 1946; the other belongs to the Mexican Association of Pharmaceutical Laboratories (Amelaf), which was created in 2003. AMELAF unites 45 laboratories that have 82 industrial enterprises, with more than 55 thousand directly employed and more than 250 thousand workers indirectly involved in the manufacture of medicines<sup>32</sup>. About half of the products manufactured by Amelaf's partners are sold to the public sector, and the rest to the private market. These are mostly generic drugs, but there are already laboratories producing biotechnological drugs of the latest generation: antiretroviral drugs and those for the treatment of oncology. Mexican laboratories provide 50% in quantity and 20% in value of the government's purchases. One fifth of the total output is exported, mainly to Latin American countries.

However, despite the potential of the national pharmaceutical industry created thanks to the government's policies over the past 50 years, Mexican companies remain under the TNCs pressure<sup>33</sup>. These corporations account for about 70% of this country's pharmaceutical market [18], while the number of their employees does not reach 10,000. Evaluating the government's current position towards foreign investors, experts from Mexican pharmaceutical industry say that government officials have been acting "for many years in favor of multinational

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<sup>31</sup> Adiós requisito para las farmacéuticas. Retrieved from <https://expansion.mx/opinion/2010/10/25/el-requisito-de-las-farmacéuticas>

<sup>32</sup> Luis Verduzco Koloffon, nuevo presidente de la AMELAF. Retrieved from <https://www.razon.com.mx/negocios/luis-verduzco-koloffon-nuevo-presidente-amelaf-476586>

<sup>33</sup> Precios altos de los medicamentos en México, producto de la transnacionalización de la industria farmacéutica. Retrieved from <https://www.comunicacionsocial.uam.mx/boletinesuam/530-16.html>



companies and to the detriment of consumers and the public sector," signing international agreements on unfavorable terms for local drug producers<sup>34</sup>.

Summarizing the above mentioned historical experience, we can say that the current position of the Mexican agricultural industry is a consequence of the decision by this country's government to stop supporting and protecting the industry in the mid-1950s, which played a decisive role in the competition between the national producers and the TNCs and in opposing the latter's oligopsony<sup>35</sup>. The country's leadership did not take advantage of the opportunity to create an endogenous core of technological dynamization by creating a vertically integrated industry of steroid hormones to obtain the largest possible oligopoly profit for producers, and introduce the optimal excise tax on exports to encourage deeper processing of raw materials. The country's leadership lacked the political will to use the existing advantages of the steroid hormone industry to the benefit of the national economy. The industry's denationalization due to the change of ownership that took place in Mexico in the 1960s showed that, beside the contribution of capital for development, TNCs are able to inhibit innovation, affect the structure and efficiency of economic activities, and also, using their market power, lobby for a certain macro-political regime and even defy the host government's right to pursue an independent national industrial policy in accordance to local needs and priorities.

There exists an example of the implementation of an alternative strategy – an autonomy from TNCs, which was implemented by the Republic of Korea. A study of this historical experience is presented in [19-20]. **The restrictive policy was aimed at the independence (autonomy) from TNCs and was introduced by the country's government because foreign corporations were seen by many Koreans as a threat of perpetuation of economic and technological dependence, which aggravated this country's asymmetric relations with industrialized countries.** Acquisition of controlling stakes for foreign companies was not allowed, except in cases where it was a condition for providing unique technologies or ensuring the promotion of Korean exports in international integrated activities. The government intervened in key technology contracts to strengthen the capabilities of domestic buyers and tried to maximize the number of domestic specialists in TNC engineering contracts in order to develop core technology processes. The important factors in deciding on attracting foreign technologies and supplementing with them local efforts included reverse engineering, original equipment manufacturing, and external licensing.

When implementing its autonomous strategy, Korea resorted to long-term foreign loans to finance technological innovation and investment in industry. The

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<sup>34</sup> Punto de quiebre para la industria farmacéutica mexicana. Retrieved from <https://revistacomercioexterior.com/punto-de-quiebre-para-la-industria-farmacéutica-mexicana>

<sup>35</sup> The country's leadership justified their position by the fact that continuing the conflict with TNCs (and their patrons) is impractical, as it threatens with certain consequences. After all, Mexico is not only a supplier of intermediate pharmaceutical products, but also a consumer of imported finished medicines, for which TNCs could raise prices to compensate for the profit not received due to protectionist policies.



country's government attracted large-scale foreign loans and distributed them as investments into priority industries, which led to massive imports of foreign capital goods and turnkey factories. In order to master the necessary technologies, this country's industry later reverse-engineered the imported capital goods. **As a result of the introduction of its autonomous strategy, Korea became the largest importer of capital goods among developing Asian countries and encouraged its firms to attract the latest equipment and technologies (except in cases of the promotion of a certain domestic producer).** The import of technologies was encouraged by tax incentives: costs related to obtaining patent rights and fees for importing technology were excluded from the taxable amount; income from technology consulting was exempt from tax; and foreign engineers did not pay income tax. Depending on the industry, private companies faced various restrictions on the mechanisms of attracting foreign technologies. Korean companies made large investments in mechanical engineering and chemical industry. In particular, to encourage the development of its own chemistry, Korea preferred to import turnkey plants, which included technical training programs as part of the packages. To stimulate the rise of mechanical engineering, a focus was made on license agreements as a mechanism for attracting the necessary foreign technologies. Along with the measures mentioned above, **one of the pillars of the Korean development strategy aimed at independence from TNCs was the creation of successful exporters based on huge private conglomerates and providing them with a wide range of subsidies and privileges (including restrictions on TNCs entry into the Korean market) in order to continue the strategy of consolidating capital- and technology-intensive activities.** The goal of creating national technological champions is the following: given the scarce markets of capital, skilled labor, technology and even insufficient infrastructure, large diversified firms could take on the costs and risks of introducing very complex technologies, their further development based on their own R&D, building world-level capacities, as well as the creation of own brands and sales networks. This strategy required clear planning and political will<sup>36</sup>.

Analysis of the consequences of the post-war recovery and development in the Republic of Korea proves that FDI on this country had an impact not due to free access to the domestic market, but rather as a result of the government's vigorous activities to regulate their flows as part of the strategy of autonomy from TNCs. The integration of technologies involved with FDI in the development of

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<sup>36</sup> The Economic Planning Committee was established in the state administration system. Among other things, its structure included: general planning office, and supply bureau, which made it possible to control the movement of all goods and capital, as well as the receipt of foreign aid and foreign investment. On its site, extensive consultations were held within the framework of the "forum for political dialogues" and "industry committees". In the 1960s, the country's political leadership regularly met with the leading economic entities at monthly meetings, with the participation of the president - as chairman - and ministers of economic affairs, as well as leading representatives of business, political parties and representatives of scientific circles to elaborate relevant guiding principles of the national development strategy based on the national industry.



priority industries played a decisive role in this country's national industrial development.

In order to achieve the maximum effect from the involvement of the TNCs' technological resources in the development of the national industry, the government of the Republic of Korea set certain requirements for foreign investors regarding the share of the local component, thus encouraging them to use parts and components of domestic make, which, in turn, contributed to the transfer of technologies and increased added value generated by Korean companies, thereby creating additional national income and employment.

There were also requirements related to export performance or trade balance, which urged TNC branches located in the Republic of Korea to integrate into global production chains. This favored the entry of goods of Korean make to foreign markets as part of the strategy of export-oriented industrialization.

In order to limit the imports of intermediate goods by TNC branches, the government set requirements for currency balancing. As a result, foreign investors, whose activities depended on imports, had to meet their needs in foreign currency at the expense of export earnings, and not by transferring local profits into foreign currency.

South Korea used indicative planning and moral incentives persuading the local private sector to "play by the rules" set by the state. The government regarded the consolidation of private sector as a key factor in economic growth, recognizing businessmen as their partners in achieving the intended goals. Besides, as shown in a research of the initial stage of forced modernization in South Korea, the basis for its successful implementation included, among other things, such factors as: ethnic culture (South Korea is one of the few countries in the world with ethnic homogeneity, an established system of cultural standards and values, and racial, linguistic and national identity), as well as a meritocratic civil service (this also applied to quasi-state institutions such as banks), which was formed via an impartial examination system, rather than fictitious competitions.

### **Caveats for Ukraine**

*Foreign capital is not the Holy Grail for Ukraine's post-war recovery.* FDI can certainly be accompanied by increased flows of finance, information, skills, technology, goods and services; it can provide access to the TNCs' assets and open the way to large-scale innovation and investment projects (which are currently not feasible for either domestic business or the state due to the lack of financial resources). However, the catalytic role of FDI will manifest itself and give multiplier effects only with an appropriate local potential. In its absence or limitation, foreign capital implemented fragmentarily in local economic activities by itself will not slow down Ukraine's economic marginalization<sup>37</sup>. Attracting foreign investments to Ukraine is not a guarantee that the received capital will

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<sup>37</sup> As already noted [21], there is a paradox: with weak local potential, industrialization should be more dependent on FDI and foreign developments, however, the latter are not able to influence the innovative development of the host country's industry in the absence of appropriate local capabilities.



become an engine for post-war recovery and structural reforms in the national economy, expand production facilities with high labor productivity, create ties between the elements of the national innovation system and raise their technological level, because in many cases TNCs are not interested in transferring knowledge and supporting innovation in their foreign branches, except for those necessary for their production process or product. Host country development is not part of TNCs' FDI strategies.

Moreover, as the experience of Mexico shows, Ukraine, relying exclusively on attracting FDI, will inevitably face a number of problems that should be taken into account.

***The potentially volatile and cyclical nature of the balance of payments.***

When, in the process of post-war recovery, the economy will revive and the market will grow creating favorable conditions, there will be an inflow of foreign capital, which will promote enough hard currency for the purchase abroad of goods important for the economy. However, as the cycle turns to decline and investment prospects narrow, foreign companies will tend to raise cash flows to the parent company, creating a negative pressure on the balance of payments. In addition, TNCs are more likely than local companies to decide to withdraw funds from the economy at the first signs of a recession or threats of a change in the political situation. In addition, the decision of the TNC's head office to supply Ukrainian branches with raw materials and intermediate goods from its foreign branches (rather than local producers) will negatively affect the balance of trade accounts.

***Absence of high growth rates of the tax base.*** At the level of TNC global corporate activities, internal financial flows are a tool for optimizing income tax. The ramified structure of large corporate groups suggests a situation where the TNC's subsidiaries in Ukraine, created with the former's FDI, will use local economic advantages (both in the form of cheap labor and natural resources), while its subsidiaries located in other jurisdictions will concentrate its profits due to more favorable tax treatment and other benefits in countries like, for example, Ireland, which is a mecca for pharmaceutical investors. The internal financialization of the corporate structure, which is traditionally used by TNCs to optimize income taxes, will affect the fiscal base in the Ukrainian economy: revenues to the budget from the activities of the TNCs' affiliated entities created by them thanks to FDI may be unexpectedly small. It is obvious that the currently formed global corporate and financial architecture primarily creates conditions for obtaining profits by private corporate and financial entities of economically developed countries.

***"Dual economy", a weak use of domestic resources and optimization levers.*** While FDIs will be directed exclusively to export-oriented activities<sup>38</sup> (including the production of "green" energy), TNC resources will have little effect on modernization and improvement of the technological level of Ukrainian industry, and will become a polar economic system. Embedding TNCs into added

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<sup>38</sup> In early 1960s, maquiladoras were established in Mexico, which represented export-production zones with a preferential business regime, which produced goods and services for export, processing foreign materials that came in under the return import regime.



value chains without agreeing with investors on the prospects of using local resources in the implementation of projects and establishing ties with the domestic economy would create a risk of being trapped in dependence on imported supplies of intermediate goods provided for by investment projects.

The business behavior of Ukrainian companies that will be controlled by foreign capital will be first of all coordinated with the parent company, which will make decisions in the interests of the entire corporation, not a separate structural unit. If, for example, the company's branch in Ukraine decides to purchase intermediate goods from a Ukrainian supplier at lower prices in order to increase its own profit (rejecting supplies from a foreign manufacturer of these components subordinate to the same parent company), this would create a problem of underutilization of TNC capacities and a threat of reduction of its total corporate profits, which will obviously not be approved by the "center". The same applies to decisions on the export to the markets of other divisions of the TNC, investments, expansion of the product line, etc. Any optimization decisions by the Ukrainian branch can create a non-optimal situation for the TNC, and therefore it is possible that the management will not agree to their implementation in Ukraine.

***Inadequate competitive environment.*** The behavior of affiliated TNC structures that have market power can deteriorate the economic performance of local companies and even entire industries. In particular, in the markets of individual goods, where producers with foreign capital will dominate, the nature of competition may change due to their decisions on pricing, output, exports, technology transfer, etc., since these decisions are determined by the competition between international oligopolists within the framework of their global strategies.

***Inhibition of technological innovation.*** The dominance of TNCs can lead to the complete technological dependence of Ukraine's industry, since, as the experience of Mexico shows, decisions about the scope and directions of R&D, the place of their implementation and the introduction of their results are made by investors - foreign owners. Since the TNC business model is primarily based on maintaining control over the main areas of specialization that provide the company with maximum income (for high-tech areas such areas primarily include R&D, patenting, and licensing), decisions on innovation can bypass Ukrainian branches, not only failing to promote but even hindering the emergence of new products and processes. Ukraine may face a situation where TNCs will not transfer advanced technologies, especially considering the problems with the protection of intellectual property rights.

***Denationalization of the economy and loss of sovereignty in decision-making in national policy.*** The currently formed structure of global financial and corporate management, like in the period of the denationalization of Mexican economy, makes possible a situation when the ultimate and direct owners of assets are different entities. Macro-financial data on FDI flows may not reflect the real

owners (and therefore the beneficiaries)<sup>39</sup>. Such a situation reveals one of the aspects of international investments - possible attempt to gain access to technologies or data, as well as the management of critical assets in the host country<sup>40</sup>.

It is possible that the activities of business entities in Ukraine, as the experience of Mexico shows, will largely depend on the decisions not only of parent companies or foreign absentee owners and final decision-makers, but also the governments of their countries of origin (in particular, due to their policies guided by their national interests, for example, access to critical raw materials for high-tech industries).

**Denationalization will to some extent limit the control over the investment regime, as well as Ukraine's ability to independently shape and pursue development policies and strategies based on national potential and priorities.** After all, international business is not interested in the industrial modernization of the host country. As the experience of Mexico shows, TNC affiliates with a market power, are able to act resolutely in the interests of global business, rather than the host country's economy, in particular by influencing politicians and government officials.

#### **Conclusions and recommendations for Ukraine**

Before the start of full-scale Russian aggression against Ukraine, the destruction of industrial facilities and infrastructure, the migration of qualified personnel and promising innovators, the bankruptcy of businesses and the closure of enterprises, the authors of the article<sup>41</sup> justified the need for a national policy aimed at building a powerful industrial foundation for economic development and warned that for the domestic industry even minimal shocks can be fatal. Because the resources of the Ukrainian industry were already exhausted even before the pandemic and the war, and there were few producers of technologically complex goods with high added value who had their own R&D units and could compete on foreign markets (in some technological areas, there were just one or two enterprises with unique competencies). This explained a significant number of associated partners. "Since one job in industry generates from 4 to 16 jobs in the entire economy (depending on the complexity of production), if one such producer falls, a domino effect is inevitable"<sup>42</sup>. At the same time, the study of the contribution of the TNCs' technological resources, in particular through various channels, made it possible to reach the following conclusion [22, p. 22]: "As Ukraine's over twenty-year experience shows, it is impossible to ensure modernization processes in the

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<sup>39</sup> According to official statistics, as of 01.01.2015, in the first place for direct investment (shareholder capital) in Ukraine's economy was Cyprus (about 12 billion USD); as of December 31, 2019 it held its leadership (10.4 billion USD).

<sup>40</sup> Salikhova O. Turbo-nannies. *Livyi bereh*. February 2, 2019. Retrieved from [https://lb.ua/economics/2020/02/25/450866\\_turbonyani\\_.html](https://lb.ua/economics/2020/02/25/450866_turbonyani_.html)

<sup>41</sup> Girshfeld A., Salikhova O. The chess players' blunders. *Livyi bereh*. October 8, 2019 Retrieved from [https://lb.ua/economics/2019/10/08/439152\\_zevok\\_shahmatistov.html](https://lb.ua/economics/2019/10/08/439152_zevok_shahmatistov.html)

<sup>42</sup> Idem.



economy, to create a powerful technological base, and to develop the national high-tech industry only through the mechanisms of free FDI access".

As a generalization of the conclusions of this study in connection with the above mentioned considerations, it seems obvious that the pace of the post-war recovery of Ukraine's economy will depend not on the scale of attracting foreign capital, but primarily on the state's efforts to improve the economic system in terms of the use and accumulation of local potential. The decisive aspect in whether attracted FDI will encourage economic modernization and structural shifts (towards industries capable of providing high added value through the use of advanced technologies, local resources and cooperative ties), or will cause retarded development, deindustrialization, denationalization and mass unemployment, is the extent to which FDI will be integrated by the government into national development plans; as well as to what extent Ukraine's absorption potential will be capable of their implementation and obtaining maximum effects. As the study of the experience of Mexico shows, in the absence of state control over foreign investment, TNCs will gain control over leading companies, vital industries and the host market, together with a decisive role and influence on the national economy and, moreover, on the formulation and implementation of the policy of economic development<sup>43</sup>.

At the same time, the reproduction in Ukraine of the experience of South Korea, relying not on FDI, but on the import of technologies via various channels, currently has certain limitations due to the established global economic governance (in particular, WTO agreements), the Association Agreement with the EU, and relevant legislative and regulatory acts already adopted in Ukraine<sup>44</sup>.

Taking into account the above experience, it is obvious that for maximum effect and optimal use of domestic and foreign resources, it is necessary to formulate a national policy that would will set the tone and create common fundamental principles that will allow to speed up the post-war recovery and at the same time prevent unfriendly foreign investments and denationalization of Ukraine's economy. The above stated proposals require a professional discussion with scientists, industrialists and civil servants and coordination of positions, in particular regarding the mechanisms of capital formation and endogenously based investments (which determines the prospects for further research); according to

<sup>43</sup> Salikhova O. Turbo-nannies. *Livyi bereh*. February 2, 2019 Retrieved from [https://ib.ua/economics/2020/02/25/450866\\_turbonyani\\_.html](https://ib.ua/economics/2020/02/25/450866_turbonyani_.html)

<sup>44</sup> Today's Trade-Related Investment Measures (TRIMS) "tabooes" the requirements to foreign investors as to the use of local components. Besides, the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement limits reverse engineering and other forms of simulated innovation that have been used in modern Korea. The choice of policy instruments for increasing endogenous innovative potential is also influenced by the concept of subsidies and compensatory inputs (ICI). Нею встановлено порядок субсидування імпорту (який, як вважається, завдає шкоди вітчизняним виробникам) і визначено "заборонені" субсидії, надання яких пов'язане з результатами експорту або використанням вітчизняних товарів замість імпортованих. It establishes the procedure for subsidizing imports (which is believed to harm domestic producers) and defines "prohibited" subsidies, whose use is related to the results of export or the use of domestic good instead of imported ones.

their results, appropriate changes in the regulatory framework and complementary actions of the authorities are necessary in regard to their implementation in the interests of the national economy and security.

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## ІНОЗЕМНІ ІНВЕСТИЦІЇ: ПАНАЦЕЯ ЧИ ЗАГРОЗА

*Ресурси української промисловості були виснажені ще до початку російської агресії у лютому 2022 р., фізичного*

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руйнування промислових об'єктів та інфраструктури, міграції кваліфікованих кадрів та перспективних інноваторів. Небагато виробників технологічно складних товарів мали дослідницькі підрозділи, здійснювали інновації та могли конкурувати на зовнішніх ринках. За деякими технологічними напрямками окремі індустрії спиралися лише на одне-два підприємства – носіїв унікальних компетенцій, які сплачували податки до бюджетів усіх рівнів, забезпечували зайнятість, сприяли збільшенню доходів, скороченню бідності та соціальної напруги у регіонах. Нині ресурси українського приватного сектора критично низькі, тож вирішення проблем повоєнного відновлення, забезпечення стабільності та економічного зростання керівництво країни покладає на іноземні інвестиції. Мета статті – на історичному прикладі продемонструвати бар'єри та загрози, що мали місце у процесі розбудови національних індустрій із опорою на зарубіжний капітал; обґрунтувати виклики, з якими Україна може зіштовхнутися у повоєнному відновленні економіки. Виявлено, що іноземні інвестиції поряд із широко відомою позитивною мають і маловідому негативну сторону; показано, що, оперуючи значними ресурсами, маючи економічну владу та політичний вплив, транснаціональні корпорації – як головні капіталовкладники – здатні не лише прискорити, а й загальмувати розвиток компаній приймаючої країни, вплинути на її бізнес-результати та призвести до значніших проблем – денационалізації активів, втрати технологічних компетенцій та виробництв, збільшення зовнішньої залежності, загроз національній безпеці та економічному суверенітету. На прикладі фармацевтичної індустрії Мексики, становлення якої відбувалося після Другої світової війни, показано ключові виклики та загрози, пов'язані з денационалізацією і переходом контролю над виробництвом до іноземного бізнесу. Подано застереження для України; обґрунтовано, що визначальним у тому, чи стимулюватимуть іноземні інвестиції модернізацію економіки та структурні зрушення або призведуть до гальмування розвитку, деіндустріалізації, денационалізації та масового безробіття, є те, наскільки вони будуть інтегровані урядом у національні плани розвитку, а також наскільки потенціал вітчизняних господарюючих суб'єктів виявиться здатним абсорбувати ці інвестиції та забезпечити максимальні ефекти.

**Ключові слова:** повоєнне відновлення економіки, прямі іноземні інвестиції, транснаціональні корпорації, промисловість, денационалізація