



## Globalization Impacts on The Structure of Ukraine's Economy: Innovations Challenges for Management in Digitalization, Social and Economic Transformations

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### Abstract

Globalization is one of the important elements of external environment of the enterprises, that is why it is defined to be the main object of this study. The main signs of globalization in international trade and the qualitative / quantitative changes caused are studied, in particular,

attention is paid to the mutual exchange of resources to solve international problems, including environmental ones. The transformation of competitive / monopoly relations under the influence of globalization in the areas of levels of cooperation, the ratio of competition / rivalry, the dependence of competition on innovation, models of competitive behavior are analyzed. The impact of globalization on economic processes of influences redistribution in the markets between residents and nonresidents is investigated, the factors that cause changes in investment activity of nonresidents are identified, namely the direct relationship between changes in the index of economic globalization and the number of foreign enterprises in Ukraine. Based on the research, the identified exogenous factors are complemented by such factors as protection of intellectual property rights and prevention of abuse of intellectual property rights, and endogenous - as a relationship of decisive influence on businesses in specific markets, management awareness of the impact of their transactions on the market and others. It is concluded that globalization does not take into account the national characteristics of individual economies, the resource potential of development, but involves the use of existing benefits, respectively, those who want to become part of it must acquire certain exclusivity, disseminate relevant information, introduce innovation in enterprise management systems, show interest in cooperation with the relevant participant for the development of digitalization, social and economic transformations.

**Keywords:** Globalization, Index of economic globalization, Deglobalization, Innovations, Competition, Direct investments, Digitalization.

## Introduction

It is important to form an optimal structure of the economy, which will allow the development of various industries with maximum impact on society. The structure of the economy can be understood as a set of different industries, markets that form the national economy; a set of different entities that directly produce economic benefits; market structure. The authors in the scientific publication adhere to the understanding of the structure of the economy as a market structure, and agree with the opinion of Fyliuk (Fyliuk, 2011), that the market structure is the internal structure of the market, its organization, which is formed by a complex system of relationships and socio-economic relations and the quantitative ratio of its elements.

The structure of the state economy is variable, which requires the study of factors that determine the direction of change in the structure. The instability of the structure of the economy of each state is due to the influence of internal and external factors. Internal factors depend on market participants, their market shares and behavior; the economic structure may acquire

features from competitive to monopoly. External factors depend on the degree of openness of the national economic system, integration into the world economy; the structure of the economy may be influenced by external factors, one of which is globalization.

## Methodology

### 1. Globalization Influence on International Trade

By the point of view of Shcherbyna (Shcherbyna, 2019), signs of globalization include trade wars between countries representing different economic systems, the purpose of which is to establish a sphere of influence on a global scale. Such wars have the characteristics of global ones, as they affect a significant number of economies of different states. An example of such a war is the US-China economic war, which began with the introduction of US steel and aluminum tariffs from China in 2018. However, the US did not stop there, banning US companies from cooperating with Chinese companies such as ZTE and Huawei. At the same time, there is a confrontation in the world in trade between Japan and South Korea.

Although globalization through global trade wars can block access to certain markets, it can also contribute to the creation of new markets, causing little or no participation in the globalization processes of national agents, which are characterized by production, innovation and qualification restrictions. For example, the lack of qualified specialists within the national economy may lead to the search for workers within the world economy, and as a consequence, the formation of virtual management structures. Under such conditions, monopolies will emerge, the behavior of which may pose new threats to competition and, consequently, the structure of the economy may change. However, globalization processes can also contribute to the loss of monopoly's signs by monopoly economic structures through market expansion. If a certain enterprise can have a monopoly position within the national market, then globally such an enterprise is forced to look for ways to unite with global structures or try to compete with them. This ambiguous impact of globalization on the economic structure is also due to changes in international trade, in which trade barriers can contribute to the development of trade relations or, conversely, to their inhibition.

Burakovskyy (Burakovskyy, 2016) sees the following qualitative changes that take place in international trade under the influence of globalization:

- Growth of regional trade agreements both quantitatively and qualitatively - free trade, liberalization of capital movements, opening of public procurement markets, cooperation in the field of protection of economic competition and intellectual property rights, transparency in economic policy, simplification of trade rules and procedures. The result is the US-EU Transatlantic Trade and Investment Partnership (TTIP) and the Trans-Pacific Partnership (TPP);

- Search for agreements on trade in goods of a particular group, such as environmentally friendly products. One such agreement is the liberalization of trade in relevant goods, which affects the supply sector;
- Search for agreements to deepen or complementing existing agreements within the World Trade Organization (WTO), such as the Trade in Services Agreement (TiSA), which combines 70% of world trade in services, except air transportation services and administrative services;
- Reduction of production fragmentation and location of individual production stages in different countries, which is possible due to the reduction of transport, telecommunications and other costs due to technological development. Global production chains are being formed, the participation of which of national companies will be determined by a set of national regulatory measures;
- Liberalization of cross-border movement of goods, services, capital, labor, which results in the elimination of restrictions on trade, and, accordingly, the formation of trade associations;
- Dynamic development of international trade in high-tech goods and technology directly. There is a problem of preserving intellectual property rights due to the fact, that transfer of technology is the basis of trade operations;
- Development of e-commerce, which makes possible to reduce the cost of collecting, processing and storing commercial information about the trade operation; and at the same time create new trade opportunities.

There is also an exchange of resources in international trade to solve common problems, such as environmental ones. Thus, according to the Kyoto Protocol (1997), the implementation of joint projects involving non-residents and residents is allowed. According to Article 2 of the Kyoto Protocol (1997), each of the parties in order to increase the individual and overall effectiveness of the implementation of relevant policies and measures has the right to share experiences and information, to develop methods to increase interoperability, transparency and efficiency.

Changes in international trade due to lower barriers to entry in various markets increase market competition and can turn the monopoly structure of the economy into a competitive one (Babenko, *et al.*, 2019; 2020). However, it is possible to observe the opposite process - the emergence of trade associations, technological innovations, ownership of intellectual property rights can be a source of monopoly structures, without regulation of which, structural markets will acquire monopoly features, and society will suffer losses from monopoly market power.

## **2. Globalization Impact on Competition Environment in Ukraine**

Kravchenko (Kravchenko, 2018) believes that the change in the competitive environment under the influence of globalization affects the change in competitive relations in the following areas:

- Development of specific forms depending on the ratio of different levels (global, regional and local);
- Predominance of cooperation in competitive relations over competition, which is possible due to the common goals of the agents to participate in the global economy;
- Dependence of the competitive process on innovations;
- Institutional nature of competitive interaction;
- Integrative model of competitive behavior.

At the same time, globalization leads to the emergence of network competition and competitive interaction of big business. With regard to small and medium-sized businesses, the competitive relations between such structures are mainly regional and local (Bilovodska et al., 2021). At the global level, competitive relations are maintained by governments of different countries, which open opportunities for interaction with non-residents. An example of such state assistance is state agreements to avoid double taxation in economic activity. Thus, in accordance with the Convention between the Government of Ukraine and the Government of Luxembourg on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital (2017), countries reaffirm their desire to develop and deepen mutual economic relations.

In order to be able to compete globally, individual entities need to have exceptional competitive advantages, one of which could be innovative management systems, enabling entities to overcome globalization challenges. This is a much more difficult task than developing cooperation. The threat to the development of global markets may lead to competitive cooperation in national markets, which should counteract the influence of global structures on domestic markets.

In order to forecast the development of competition, competitive relations in the markets and, accordingly, the prerequisites for structural changes in the economy, it is possible to take into account the dynamics of the index of economic globalization (see Table 1), the dependence of changes in economic globalization on indicators such as direct investment (see Table 2), the presence of non-residents in the national economy (see Table 4), the participation of non-residents in the growth of market share of non-residents or their decisive influence in specific markets (see Table 3).

Table 1. The overall index of economic globalization of Ukraine, taking into account the place in the overall rating in the period of 2015-2019

Index	Years				
	2015	2016	2017	2018	2019
Index of economic globalization	67,52	68,89	68,42	56,22	64,97
The place in the overall rating	56	54	63	89	72

Source: formed by authors (based on KOF, 2020)

For Ukraine, the level of economic globalization in the period of 2015-2019 does not have a steady trend - there is both growth and decline. The most significant decline occurred in 2018, but in 2019, similarly to 2016, the index of economic globalization increased. Such dynamics of change in the index of economic globalization for Ukraine is accompanied by fluctuations in the activity of non-residents in Ukraine in terms of direct investment (see Table 2).

Table 2. The direct investments of non-residents (share capital and debt instruments) in the economy of Ukraine in the period of 2015-2018 (the index for the 31st of December of the corresponding period in million USD)

	Overall index		Including	
	Absolute value	Growth/decrease rate	EU countries	Other world countries
31 <sup>st</sup> of December 2015	40 793,6	-	32 351,1	8 442,5
31 <sup>st</sup> of December 2016	40 530,1	0,994	31 157,0	9 373,1
31 <sup>st</sup> of December 2017	41 104,6	1,014	31 782,1	9 322,5
31 <sup>st</sup> of December 2018	40 514,1	0,986	31 559,0	8 955,1

Source: formed and calculated by authors (based on Official, 2020)

There is no direct dependence in the dynamics of changes of the index of economic globalization and the volume of direct investment, because in the case of a decrease in the index, the volume of direct investment may increase, as in 2016-2017. Ukraine could be characterized by integration into the European economy, as the largest amount of investment came from EU countries. The study of non-residents as agents of the global economy is important due to their possibility by participation in economic globalization processes through direct investment activity not only to increase the impact of globalization, but also to redistribute control relations in commodity markets. Thus, on the basis of Law of Ukraine "On Protection of Economic Competition" (2001), non-residents may become participants in concentration processes, in particular, mergers, acquisitions, acquisition of ownership of the entity's assets, acquisition of the right to use the entity's assets; appointment, election to the position of the head, deputy head of the supervisory or executive body of the business entity of a person who already holds the relevant position in other business entities; creation of an economic entity; acquisition of ownership or receipt in management of shares (stocks, units), which ensures the achievement or excess of 25 or 50 percent of the votes in the highest governing body of the relevant entity, etc. The formation of relations of control is the tool that can depress national competition, extend the influence of monopoly global structures on the national economy.

In Ukraine, non-residents act as foreign investors and enterprises with foreign investment, which in 2018 decreased their activity of applications to the Antimonopoly Committee of Ukraine (ACU) for permits for economic concentration by 2.06 times (see Table 3). The procedure for granting concentration permits is a state mechanism that will either open the national economy to global structures or block non-residents from entering national markets and gaining decisive influence over residents and, consequently, the functioning of markets.

Cooperation with non-residents (such as mergers or acquisitions) requires companies not only to obtain permits from the ACU, but also to make innovative changes in management systems. The necessary permission can be obtained even if the company proves to improve its efficiency through innovative management systems.

Table 3. Participation of foreign investors or enterprises with foreign investments in concentration processes in the period of 2015-2018

Index	Years			
	2015	2016	2017	2018
Overall number of applications to the ACU for permits for economic concentration	774	547	666	532
Number of applications from foreign investors or enterprises with foreign investment	647	417	439	314
Growth/decrease quantity of application rate from foreign investors or enterprises with foreign investment	-	0,645	1,053	0,715

Source: formed by authors (based on Antimonopoly, 2015-2018)

According to the results of comparing the activity of applications to the Antimonopoly Committee of Ukraine (see Table 3) with the volume of foreign direct investment (see Table 2), it is possible to conclude that the number of direct investments that would require permission for economic concentration is declining. This conclusion corresponds with the trends of changes in the volume of direct investment of non-residents and the number of applications from foreign investors or enterprises with foreign investments to receive a concentration permit, which for the period of 2015-2018 are similar. One of the factors reducing the activity of investors in applying to antimonopoly authorities for a permit is a change in 2016 of cost indicators (the amount of assets, sales, both individual and aggregate for all participants), which are taken into account in obtaining a prior permit. For example, on the basis of Regulation on Concentration (2002) if before 2016 the total value of the assets of the merging parties was determined in the amount of 12 million euros, then from 2016 – it became to be 30 million euros. Also, the decrease in activity in obtaining appropriate permits may be caused by ignorance of the law. Thus, in 2017, such companies as RAG-Stiftung Beteiligungsgesellschaft mbH (Essen, Germany), Evonik Industries AG (Essen, Germany), “Grupo Idesa, S.A. of C.V.” (Mexico City, Mexico) were fined by the Antimonopoly Committee of Ukraine for merging without proper permits. However, despite such a violation, due to ADS Legal Group (2017), the Antimonopoly Committee of Ukraine later granted permits to these companies. Such actions of the antimonopoly authorities confirm the interest of the state in the presence of non-residents in the national economy.

As for the analyzed indicators (see Table 1, Table 2 and Table 3), the downward trend of such indicators persists only in 2018. It is possible to conclude that economic globalization, although it affects the economic processes of redistribution of influences in the markets between residents and non-residents, but there are other factors that may reduce the investment activity of non-

residents despite the growth of the index of economic globalization. Such factors include, for example, the lack of institutional legal instruments to protect foreign investors. In order to improve investment activity in Ukraine by the Law of Ukraine “On Amendments to Certain Legislative Acts of Ukraine Concerning the Stimulation of Investment Activity in Ukraine” (2019) in September 2019, the responsibility of officials of the joint-stock company was introduced, who made transactions on terms worse than normal market conditions, caused losses to the company; the requirement for the construction customer to provide any services, tangible or intangible assets, including the construction of facilities, had been abolished.

### 3. Globalization Impact on Investment Activity in Ukraine

Investment activity is one of the factors in the spread of globalization processes to national economies, but at the same time is a source of resources for economic development. Investment inflows to enterprises may require innovative changes in enterprise management systems. To maintain the competitive structure of the economy, it is important to determine the limits of the presence of non-residents in commodity markets. The formation and implementation of domestic policy, taking into account such boundaries, will protect the potential of domestic markets and provide an opportunity for its implementation. Thus, due to the Order of the Ministry of Economic Development and Trade of Ukraine “On approval of the Regulations on the Department of Internal Market Protection within the Department of Trade Protection” (2016) the Department of Internal Market Protection has been established in Ukraine as a part of the Department of Trade Protection, the main tasks of which are:

- Ensuring the implementation of national legislation governing the protection of domestic producers from dumped, subsidized, growing imports by foreign producers / exporters, which harm it;
- Implementation of bilateral and multilateral cooperation on the use of trade defense instruments;
- Participation in the examination of draft regulations for compliance with WTO agreements and Ukraine’s obligations as a member of the WTO in the use of trade defense instruments, etc.

The participation of foreign enterprises in globalization processes can be identified by comparing changes in the index of economic globalization and the number of foreign enterprises in Ukraine (see Table 4).

Table 4. Number of active enterprises, legal entities and foreign enterprises for 2015-2019 (index for the 1<sup>st</sup> of November of the respective year)

Index	Years				
	2015	2016	2017	2018	2019
Number of active enterprises, units	62476	60585	64054	66698	69728

	9	1	5	6	2
Overall number of legal entities, unites	1112757	1174530	1224854	1288309	1341760
Including foreign enterprises, unites	677	672	655	642	634
Part of active enterprises in the overall number of legal entities, %	56,15	51,58	52,30	51,77	51,97
Part of foreign enterprises in the overall number of legal entities, %	0,061	0,057	0,053	0,050	0,047

Source: Formed and calculated by authors (based on Official, 2020)

As can be seen from the data in Table 1 and Table 4, starting from 2016 in Ukraine, the trends of change in the index of economic globalization, the number of foreign enterprises coincide, that means when the index of economic globalization decreases, the number of foreign enterprises in Ukraine decreases, and when the index of economic globalization increases, the number of foreign enterprises in Ukraine increases. Hence the conclusion could be made that the globalization is accompanied by the emergence of foreign companies in the national economy. As the share of foreign companies in the total number of legal entities in Ukraine for the period 2015-2019 is declining, we can conclude that there is the dominance in the commodity markets of national enterprises in Ukraine, the lack of full globalization in national markets, the emergence of signs of deglobalization.

#### 4. Globalization versus Deglobalization

According to international experts due to Yurchyshyn (2019), deglobalization process can be provoked by two factors:

- The reduction of marginal benefits from direct investment and foreign trade. Rising value of Asian goods and increasing risks of participation in the value chain from a large number of countries, including an unreliable partner that is unable to maintain a competitive advantage;
- The strengthening trade rivalry between the world's largest economies, such as the United States and China, as well as the introduction of protection of national markets, national security on a populist basis. Such uncertainty in commodity exchange affects the direct investment and securities markets.

Deglobalization process may also be due to minimizing the impact of the negative effects of the world economy on the national economy, as well as the desire of national governments to control the receipt and distribution of profits among members of the global structure. For example, deglobalization process may be accompanied by increased domestic competition. In Ukraine, in 2015-2017, due to Poplavska (2019) the level of competition in the domestic market increased in most areas, and only in the mining and metallurgical complex there was higher competition in markets with neighboring countries than in domestic markets. In markets and countries with a high degree of competition, companies are more ready for innovative changes, in particular in management systems.

Since the processes of globalization and, accordingly, investment activity presuppose trust in the country, in business partners, any uncertainty will cause a decrease in investment processes and a decrease in the active participation of national economies in globalization processes. Under such conditions, the change in the structure of the economy will depend to a greater extent on the action of internal factors of development of national companies.

Structural changes in the economy can be considered a transformation of market structures, which according to Fyliuk (2011), is the process of transition of the market structure from one qualitative state to another under the influence of exogenous and endogenous factors. Thus, the development of the information technology revolution, the increase in the level of risk (Vovk et al., 2020) and uncertainty in business, the strengthening of the asymmetry of information are attributed to the exogenous factors. Endogenous factors include economic concentration, changes in mechanisms, forms and methods of competition, the presence of non-strategic barriers and quasi-barriers to market entry and exit, opportunistic behavior of entities, competition policy. We consider it appropriate to add to endogenous factors such factors as the relationship of decisive influence on economic entities in specific markets, awareness of economic entities about the impact of their transactions on the market and the obligation to obtain prior authorization from antitrust authorities. Exogenous factors also include the protection of intellectual property rights and the prevention of abuse of intellectual property rights, which can be recognized as an abuse of intellectual monopoly.

According to Stiglitz (2002), globalization does not aim to stabilize the world economy or preserve the environment, which is due to the existing institutional system, such as the absence of a world government responsible for the peoples of all countries. Instead, there is a system of global governance dominated by international institutions (the World Bank, the International Monetary Fund, the World Trade Organization, and the Ministries of Finance and the Ministry of the Interior and Foreign trade of individual countries that share common financial and commercial interests). However, the interests of countries that are not among the leaders are ignored.

Due to Shynkaruk (2011), globalization covers the mechanisms of redistribution of finances, money circulation, credit operations, development of communications, transport and communications, mobility of factors of production among countries and the possibility of mutual exchange of knowledge, technologies, experience of specialists, etc. Accordingly, globalization has the ability to create conditions for synchronizing structural changes in different countries, regardless of the degree of their development, the level of per capita income. The impact of globalization on economic development in the scientific literature is determined by the complex interaction of processes that have different effects on the economy. It is a simultaneous action of internationalization, integration along with regionalization, localization and fragmentation of the world economy. Accordingly, it is believed that globalization has a contradictory impact on the

economy, as the strengthening of interaction and integration of national economies into a single global structure is accompanied by fragmentation and disintegration. The consequence of globalization is the division of national economic complexes within the disintegration processes with the subsequent integration of their parts into global complexes.

Thus, globalization does not take into account the national characteristics of individual economies, does not take into account the resource potential of development, and involves the use of existing benefits. Accordingly, globalization plays the role of a joint project and profit, and those who want to become a participant must independently acquire certain exclusivity, disseminate relevant information, so that global structures can show interest in working with the participant. Each of the national economies has its own individual development problems, the solution of which is not possible due to globalization. Accordingly, it is necessary to identify such areas in which the spread of globalization processes does not require the solution of all problems of national economic development, but on the contrary - aimed at solving common problems for most economic systems. Accordingly, it can be concluded that the impact of globalization on the structure of the economy should be allowed only in those areas where:

- The development problems are common to most national economies;
- The level of national monopolization cannot be reduced due to the development of internal competition, and accordingly it is more appropriate to involve existing national monopolies in competitive cooperation within the world economy;

The competition has reached a level at which market participants incur significant costs of competition and innovation are depleted. With such fierce competition, agents can be involved in globalization. Excessive competition costs can be used, for example, to carry out joint research and development work.

## **Results and Discussion**

The economic essence of globalization is the leveling of national characteristics of goods and markets, which affects the existence of competition in domestic markets. Globalization also implies that in a global society there are common needs that can be met by any entity, regardless of its nationality (global entity). As a result of globalization processes, national competition may turn into global competition or may be suppressed by global companies. Accordingly, within the world economy, competition is leveled. If there is a monopoly in the national economy, then when merging with global structures, it can acquire global characteristics and harm the societies of different countries. It is considered that the most optimal for public welfare is the competitive structure of the economy, which forces enterprises to innovative development, provides opportunities for the highest profits to enterprises with the best competitive advantages, and so on. However, if the monopoly structure of the national economy cannot be overcome through domestic competition, then such a function can be performed by global competition that arises in

international economic cooperation.

Burakovskyy (2016) believes that in modern conditions, international economic cooperation in its dynamics, scale and content is gaining global trends and is characterized by rapid variability. So, signs of globalization in international trade are the development of the following processes:

- Digitalization - economic relations in different markets through the development of information and communication technologies are accelerating, new ways of communication, new technologies that create new opportunities to enter markets, new goods and services and, accordingly, new markets;
- Technological innovations - changes in production processes, in particular due to robotics, change the requirements for management, requirements for employees' skills;
- Increasing interdependence of regions, markets and firms, which is based on quantitative and qualitative interaction and leads to the spread of economic consequences to national economies - shocks to the world economy;
- Rebalancing the world economy - a growing role in the formation of the world economy and world GDP belongs to developing countries and countries with market economies. Leaders of global, regional and national levels are formed, accordingly;
- Change in the business environment regardless of its size and degree of internationalization. This change is the reason for the liberalization of cross-border movement of goods, works and services, as well as resources, which leads to increased competition in markets of different levels;
- International system of regulation of economic relations, which is implemented through the activities of international economic organizations, consulting and concluding international agreements. The task of such a system is to remove barriers to the development of international economic cooperation, ensuring the predictability of regulatory changes and their transparency;
- Growing importance of relevant areas in the economy, including health care, which affects the development of certain markets, such as pharmaceuticals, trade in environmental goods, etc.

## Conclusion

As globalization is manifested in national markets through the entry of foreign companies, national governments must develop conditions to allow or prohibit such entry in order to ensure the development of the entire national system, to motivate national companies to innovative changes in management systems, due to which to enter foreign markets. Due to the fact that globalization does not belong to the stabilizing mechanisms within the world or national economy, it is therefore necessary to establish clear boundaries for the integration of the national economy into the globalization process. Accordingly, participation in the globalization of an individual economy should be defined and analyzed, as in the case of business projects, with the definition of alternative ways of economic development and opportunity costs. The task of

national governments should be to unlock the internal development potential of each state, to abandon the leveling of national economic identity and to give priority to globalization.

Regarding the structure of the economy, since globalization can be defined as a tool to increase competition in domestic markets (through countering monopolies) and a tool for the emergence of monopoly structures (through the merger of global entities with monopoly national entities, the emergence of intellectual monopolies that abuse their position), each individual case of an attempt by foreign companies to enter the national market must be subject to careful investigation and control by antitrust authorities, for their impact on national markets and competition in particular.

Thus, by regulating the integration of national economies and economic agents into globalization processes, national governments will be able to stabilize their own national economies while adhering to internationally established rules and procedures, particularly in international trade. Accordingly, international economic institutions will play the role of a global coordinator of actions of national governments, the role of a supranational agency that has the capacity to provide information on the activities of global structures on a global scale. With access to certain information, national governments have the opportunity to streamline the development of national economic structures.

### Conflict of interest

The authors declare no potential conflict of interest regarding the publication of this work. In addition, the ethical issues including plagiarism, informed consent, misconduct, data fabrication and, or falsification, double publication and, or submission, and redundancy have been completely witnessed by the authors.

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