The essence of the transnational corporations in the modern economy development

Pet'ko Stanislav Mikhailovich

Vadym Get'man Kyiv National Economical University,

postgraduate student, Department of international economic

Abstract

This article presents the study of the transnational corporations in the world economy. Transnational corporations play one of the leading role in the development of economy in different countries, in this case in home countries and in host countries. By the way, the major feature of the TNCs lies on their ability to build an integrated global space.

Keywords: globalization, multinational, Transnational corporation (TNCs), foreign investments, European Common Market, transfer prices, Internal Revenue Service (IRS), home country, host country, foreign affiliate, assets, investors.

I. Introduction. As the world starts to globalize, it is accompanied by criticism of the current forms of globalization, which are feared to be overly corporate-led. As corporations become larger and multinational, their influence and interests go further accordingly. Being able to influence and own most media companies, it is hard to be able to publicly debate the notions and ideals that corporations pursue. Some choices that corporations take to make profits can affect people all over the world [3].

II. In this article our ambition has been to investigate theoretical material that is accumulated up to nowadays and to analyze literary and researches on this theme. First of all, we must to know the meaning of the Transnational Corporations. Terms such as International Corporation, Multinational Corporation, transnational corporation and global corporation are often used as synonyms. However, several multinational shave evolved into certain advanced stage of transnational organization and operations that it becomes necessary to draw some distinction between these terms However, the interpretations of these terms given by different authors are nor some. Sometimes the differences arise form the differences in the context [4].

III. The Results. Transnational corporations (TNCs) are incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates. A parent enterprise is defined as an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity capital stake. An equity capital stake of 10 per cent or more of the ordinary shares or voting power for an incorporated enterprise, or its equivalent for an unincorporated enterprise, is normally considered as a threshold for the control of assets (in some countries, an equity stake other than that of 10 per cent is still used. A foreign affiliate is an incorporated or unincorporated enterprise in which an investor, who is resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise (an equity stake of 10 per cent for an incorporated enterprise or its equivalent for an unincorporated enterprise) [5].

Transnational corporations exert significant influence over the domestic and foreign policies of the Northern industrialized government that host them. Indeed, the interests of the most powerful governments in the world are often intimately intertwined with the expanding pursuits of the transnationals that they charter. At the same time, transnational corporations are moving to circumvent national governments. The borders and regulatory agencies of most governments are caving in (or being paid off) to the New World Order of globalization, allowing corporations to assume an ever more stateless quality, leaving them less and less accountable to any government anywhere.

These corporations, together with their host governments, are reorganizing the world economic structures – and thus the balance of political power – through a series of intergovernmental trade and investment accords. These treaties serve as the frameworks within which globalization is evolving – allowing international corporate investment and trade to flourish across the Earth. They include: 1) The Uruguay Round of the General Agreement on Tariffs and Trade (GATT), 2) The World Trade Organization, which was created to enforce the GATT's rules, 3) The proposed Multilateral Agreement on Investment. (MAI), 4) The North American Free Trade Agreement (NAFTA), 5) The European Union (EU).

These international trade and investment agreements allow corporations to circumvent the power and authority of national governments and local communities, thus endangering workers' rights, the environment and democratic political processes [7].

A transnational, or multinational, corporation has its headquarters in one country and operates wholly or partially owned subsidiaries in one or more other countries. The subsidiaries report to the central headquarters. The growth in the number and size of transnational corporations since the 1950s has generated controversy because of their economic and political power and the mobility and complexity of their operations. Some critics argue that transnational corporations exhibit no loyalty to the countries in which they are incorporated but act solely in their own best interests.

For example, U.S. corporations have various motives for establishing a corporate presence in other countries. One possible motive is a desire for growth. A corporation may have reached a plateau meeting domestic demands and anticipate little additional growth. A new foreign market might provide opportunities for new growth.

Other corporations desire to escape the protectionist policies of an importing country. Through direct foreign investment, a corporation can bypass high tariffs that prevent its goods from being competitively priced. For example, when the European Common Market (the predecessor of the European Union) placed tariffs on goods produced by outsiders, U.S. corporations responded by setting up European subsidiaries.

Two other motives are more controversial. One is preventing competition. The most certain method of preventing actual or potential competition from foreign businesses is to acquire those businesses. Another motive for establishing subsidiaries in other nations is to reduce costs, mainly through the use of cheap foreign labor in developing countries. A transnational corporation can hold down costs by shifting some or all of its production facilities abroad.

Transnational corporations with headquarters in the United States have played an increasingly dominant role in the world economy. This dominance is most pronounced in the developing countries that rely primarily on a narrow range of exports, usually primary goods. A transnational corporation has the ability to disrupt traditional economies, impose monopolistic practices, and assert a political and economic agenda on a country.

Another concern with transnational corporations is their ability to use foreign subsidiaries to minimize their tax liability. The Internal Revenue Service (IRS) must analyze the movement of goods and services between a transnational company's domestic and foreign operations and then assess whether the transfer price that was assigned on paper to each transaction was fair. IRS studies indicate that U.S. transnational corporations have an incentive to set their transfer prices so as to shift income away from the United States and its higher corporate tax rates and to shift deductible expenses into the United States. Foreign-owned corporations doing business in the United States have a similar incentive. Critics argue that these tax incentives also motivate U.S. transnational corporations to move plants and jobs overseas [6].

As the concept of multi nationality has several dimensions, there is no single universally agreed definition of the term multinational corporation, According to an ILO report, "the essential nature of the multinational enterprises lies in the fact that its managerial headquarters are located in one country (referred to for convenience as the ("home country") while the enterprise carries out operations in a number of other countries as well ("host countries"). Obviously, what is meant is "a corporation that controls production facilities in more than one country, such facilities having been acquired through the process of foreign direct investment. Firms that participate in international business, however large they may be, solely by exporting or by licensing technology are not multination enterprises." Among the various other benchmarks sometimes used to define 'multinationality' are that the company in question must: 1) Produce (rather than just distribute) abroad as well as in the headquarters country, 2) Operate in a certain minimum number, of nations (six for example), 3) Derive some minimum percentage of its income from foreign operations (e.g., 25 per cent), 4) Have a certain minimum ratio of foreign to total number of employees, or of foreign total value of assets, 5) Possess a management team with geocentric orientations, 6) Directly control foreign investments (as opposed simply to holding shares in foreign companies) [4].

The definitions of the terms transnational corporation (used to mean the same thing as MNC and similar terms) foreign affiliate, subsidiary and branch given in the UN's World Investment Report are as follows. Transnational Corporations are incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates. A parent enterprise is deemed as an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity capital state. An equity capital stake of 10 per cent or more of the ordinary shares or voting power for an incorporated enterprise, or its equivalent for an unincorporated enterprise, is normally considered as a threshold for the control of assets (In some countries such as Germany and United Kingdom, the threshold is a stake of 20 per cent or more) [4].

The transnational corporation's impact on the competition environment of the host state is not necessarily harmful, as many radical economists argue. Penetration of a transnational corporation on a national market with a limited number of competitors relative to the market capacity may enhance competition level on the market. Corporate contribution to the competition process includes reducing prices, product differentiation, advertising, introducing new products because of research and development activity. It is possible that beside the welfare of consumers, the emergence of transnational corporations in the competitive landscape on a national market to determine the performance improvement of local firms [2].

We would like to present the world biggest Transnational corporations (TNK) in 2011 *(see fig. 1)*. The giant American conglomerate General Electric (GE) holds more assets abroad than any other non-financial firm in the world – over $500 billion worth. Its foreign assets make up over 70% of its total. Of the 100 companies with the most foreign assets, 17 hold over 90% of their assets abroad, including Arcelor Mittal, Nestlé, Anheuser-Busch InBev and Vodafone. Their share of foreign sales is also substantially larger than GE's. More than half of GE’s 300,000-strong workforce is based outside America; Toyota, which has slightly more employees, only has 38% of its 326,000 workers abroad. The Japanese carmaker is one of only two Asian firms to make it into the top 20 transnational companies by assets; Honda, another carmaker, ranks 19th. Three of the top five firms are oil companies. Exxon Mobil had the largest foreign sales last year at $317 billion, 73% of its total. Transnational firms benefited from the more favorable economic climates in emerging markets, and some developed markets, like America. According to the latest World Investment Report from the UN Conference on Trade and Development (UNCTAD), production by foreign affiliates increased in 2011: sales rose by 9% to $28 trillion; employment rose by 8% to 69m; and total assets rose from around $75 trillion in the previous two years to $82 trillion. Thanks mainly to economic uncertainty, UNCTAD reckons transnational companies are hoarding some $5 trillion in cash. This could lead to a surge in foreign direct investment. Though firms might instead opt for liquidity, or to pay off debts or pay out dividends to maintain share prices [1].

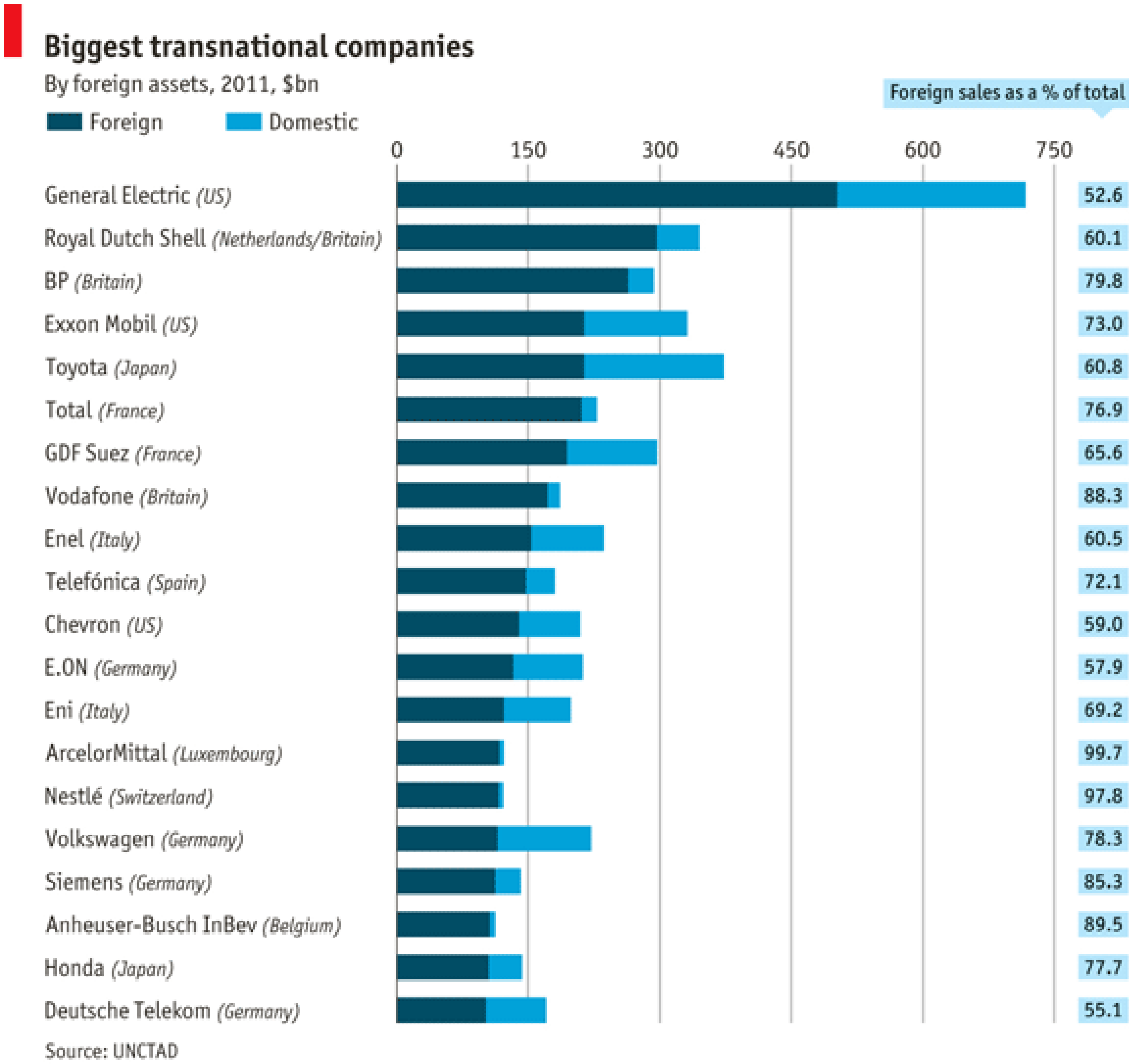

Figure 1. The world Biggest Transnational corporations (TNK) in 2011 [1].

To sum up, transnational corporations are incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates. A transnational corporation has its headquarters in one country and operates wholly or partially owned subsidiaries in one or more other countries. These corporations, together with their host governments, are reorganizing the world economic structures – and thus the balance of political power – through a series of intergovernmental trade and investment accords.

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