THE WORLD OF TRANSNATIONAL CORPORATIONS IN THE COVID 19 PANDEMIC

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Abstract:

We are aware by now that, when talking about transnational corporations, we refer to global economic agents, to giant companies that are operating on extremely varied international markets. However, they are guided, like any economic agent by the hedonistic principle. Companies of the type have come to have such an expansion that they have, in a sense, lost their national character. The world of transnationals is extremely varied, although, in the current context, in which the world economy suffers from the ongoing pandemic, all large companies are forced to rethink their investment policies, to be able to adapt to the new global challenges. We can say with certainty that, the year 2020 will mean for many transnational corporations, a year of balance sheet and a year of fundamental change in the means of approaching to various international markets. It is clear that pharmaceutical or IT companies will have a different take compared to those in the food industry, for example. It is certain that, companies that will be more create, innovative, competitive, those that will adapt to the new changes, will be able to succeed into a new world of globalization.

Key words: *transnational corporation, pandemic, foreign assets, globalization*

JEL Classification: *F23, F60*

1. Introduction

Transnational corporations do not resemble individual capitalist firms in the nineteenth century or even trusts and other international monopolistic associations formed on the threshold of the nineteenth and twentieth centuries, which developed until after the second world war as dominant forms. Transnationals are economic systems developed with their own geography. They include parent companies and subsidiaries in the country of origin and in other countries. These systems generate not only goods and services, but also money capital for new technologies, investments, innovation and training skills, self-organization and management practices. Such a system is not closed, but is in interaction and exchange relations with the systems of other transnational companies. The current global situation, generated by the COVID - 19 pandemic, contributes to a totally different approach to investment markets by these giant companies.

2. Recent developments in investment flows

Foreign direct investment represent a barometer of the health of transnational corporations and their ability to generate global growth, according to the World Economic Forum. Transnational corporations have proven in recent decades to be the main carriers of cross-border capital, the formation and modification of different types of capital flows.

In recent years, foreign direct investment has been one of the most important features of the world economy and globalization. These involve the creation of new enterprises abroad or the acquisition of significant shares in foreign companies. The increase in foreign investment over the past decades is due to increased liberalization, caused by reduced barriers to trade and investment.

Foreign direct investment is defined according to the UNCTAD / 2003 Report as an investment that involves a long-term link, reflecting the interest and lasting control of a unit resident in one economy over an economic unit resident in another economy. Foreign direct investment assumes that the investing company exerts an important influence on the management of the foreign enterprise. The evolution of direct investment flows is determined by the following "concrete objectives":

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➢ *for FDI supplier countries*:

- supply of raw materials and energy resources from host countries;
- the use of production factors available in the receiving states;
- the possibility to sell the products on the markets of the host countries.

➢ *for FDI recipient countries*:

- obtaining top technologies;
- creating new job opportunities;
- development of new branches;
- efficient management;
- refurbishment with effects on the modernization of production and on the generation of technical progress.

The evolution of the flows of foreign direct investments formed according to the presented objectives reflects the expansion of the activities of the transnational companies.

The global economic crisis of 2009 and rising investment uncertainty have led to a steady decline in global direct foreign investment in the immediate future.

In 2019, global FDI flows increased modestly to $ 1.54 trillion, following significant declines in 2017 and 2018. According to UNCTAD, FDI flows to developed economies increased by 5% to $ 800 billion in 2019 , while flows to developing countries fell 2% from $ 699 billion in 2018 to $ 685 billion in 2019. Global foreign direct investment flows will be under severe pressure this year as a result of the COVID-19 pandemic. These flows are expected to fall well below the threshold reached during the global financial crisis and offset the already lacking growth in international investment over the last decade. Flows to developing countries will be particularly affected, as export-oriented and commodity-related investments are among the worst affected. The crisis generated by the coronavirus pandemic, which is felt in most sectors of activity, will also affect the segment of foreign direct investment.

UNCTAD predicts that the economic uncertainty created by the global pandemic of COVID-19 will force multinational companies to restrict their capital expenditures, directly hitting FDI flows. As these companies have declining profits, they will have fewer resources to reinvest.

But COVID-19 is not the only cause of declining FDI flows. The new industrial revolution, the change of policy towards more economic nationalism and sustainability trends, will have far-reaching consequences for the configuration of international production by 2030.

Global foreign direct investment flows decreased by 49% in the first half of 2020 compared to 2019, according to UNCTAD.

The largest decreases were registered in developed countries (figure no.1), affecting all the main forms of foreign direct investment.

The COVID-19 crisis will cause a dramatic decline in foreign direct investment in 2020 and 2021. Global FDI flows are projected to decline by up to 40% in 2020, from their 2019 value of $ 1.54 trillion. This would bring FDI below $ 1 trillion for the first time since 2005. FDI is also expected to fall by another 5-10% in 2021.

The top 5,000 transnationals, which together account for a substantial proportion of global FDI, have reduced their profit estimates for 2020 by an average of 30%. The areas most affected by the COVID - 19 crisis are car production, energy industry, air transport. Imposing restrictions on international travel has caused airlines to record a rapid decline in revenue, and industry-wide gains have been drastically revised in the negative. Automakers are implementing emergency procedures, so Ford, Fiat Chrysler, Toyota and General Motors are targeting capital markets in a bid to secure $ 55 billion in credit lines.

However, the global pharmaceutical industry is expected to grow positively, as leading pharmaceutical companies are at the forefront of the fight against COVID-19.

FDI inflows by region - the first 6 months of 2020 compared to the 6-month average of 2019

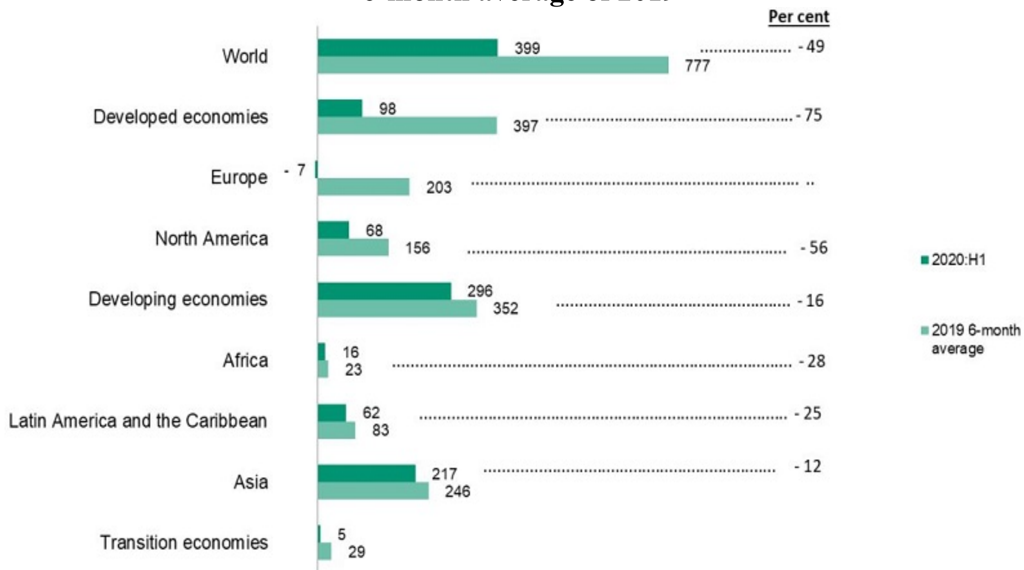

Figure no. 1

Source: https://unctad.org/news/global-foreign-direct-investment-falls-49-first-half-2020 [accessed on 25 November 2020]

For example, Pfizer, with annual revenues of $ 51.75 billion, saw slight revenue declines in the first quarter of 2020 due to restrictions and declining patient visits. The company has increased investment in research and development by $ 500 million for the discovery of anti-infective products and a COVID-19 vaccine and it is estimated that the company's profit will increase in the next period.

The COVID-19 crisis has had immediate effects on FDI and will have long-term consequences. Sudden and simultaneous supply disruption, as well as demand shocks, combined with political reactions to the crisis around the world, have triggered a number of effects on FDI.

Against this background, in 2020, FDI flows to Europe are expected to decrease by 30% - 45%, significantly more than those in North America and other developed countries, as the region has entered the crisis on a relatively more fragile basis.

Flows to developing Asia will be severely affected due to their vulnerability, although Southeast Asia, mainly China, will be less affected. For example, in 2019, China was one of the countries that attracted more direct investment ($ 141 billion) than in 2018 ($ 138 billion).

For example, according to the World Economic Forum, comparing recent data on transnational confidence in China and the United States - two countries that have a significant impact on global investment flows - could give us a suggestion about the future of global investment flows. From the chart below (figure no. 2), we see that China is following a different trend from the United States: the confidence of Chinese wine companies is improving to pre-pandemic levels.

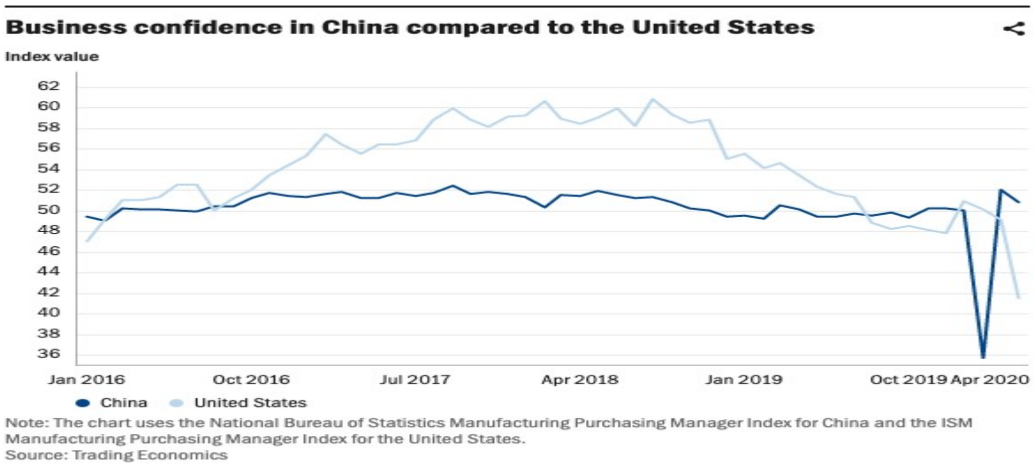

Figure no. 2

Source: https://www.weforum.org/agenda/2020/06/coronavirus-covid19-economics-fdi-investment-united-nations/[accessed on 25 November 2020]

What does this mean? Well, in practice, China resumes production earlier than other countries, while business confidence in most other countries shows similar trends to the United States. Monthly production data from China confirm this trend. This situation could indicate that Chinese companies are using this crisis as an opportunity to further expand their global influence.

According to the latest UNCTAD data, in the first nine months of this year, FDI in China rose by 2.5%. Most foreign investment in the Asian state has been in the field of e-commerce, specialized technology services and research and development.

FDI, which includes cross-border mergers and acquisitions such as loans and investments within a company, is an indicator of globalization and a possible signal of the future growth of supply chains at the company level.

3. Conclusions

Making predictions about the economic consequences of COVID-19 is an ungrateful task. It is not known how soon economic activities will resume, the extent of the damage caused by declining global supply and demand cannot yet be determined, and the nature of potential future fiscal incentive packages cannot be predicted.

COVID-19 dismantles economic globalization. Both supply and demand face simultaneous shocks due to isolation measures, global production networks are disrupted on a scale that has never been recorded before. The pandemic has revealed how countries are now rethinking their international trade strategies to reduce their vulnerability to global economic shocks.

Certainly, the year 2021 will mean a change of perspective in approaching the international activity of these transnational companies. However, their world continues to be just as competitive. The COVID-19 pandemic causes the process of globalization to be rethought and international interdependencies to become increasingly insecure, even if companies of this type have come to have such an expansion that they have lost in a sense, national character.

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