CONFRONTATIONS BETWEEN TRANSNATIONAL CORPORATIONS – THE EUROPEAN UNION MARKET

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Abstract:

Transnational corporations are known as large firms that have verified competitional capabilities, that can, not only deal with the common competition, but also with the global one ,which is, in fact, triggered by them. They have developed from national firms into global companies that use foreign capital investments in order to exploit their own competitive advantages. A deepening of competition on the global market takes place, new forms being added to the old ones. The competition takes place not only at the finished product level, but increasingly at the level of production factors.

The fight for competition between transnational corporations is intensifying, and European integration has prompted these firms to intensify their investments on the territory of the member countries. With a big sales market, the European Union continues to be one of the most attractive areas for the foreign investors.

Key words*: integration, transnational corporation, foreign capital investment, competition.*

JEL Classification: *F15, F21*

1. Introduction

Attracting direct foreign investments has become a growing challenge for the European Union. The main attraction for the foreign investors is represented by the perspective that this big market offers, especially after the last enlargements. Foreign investments are a way of bypassing tarrif and non-tarrif barriers installed at the border of the community. Foreign capital does not face significant opposition from local governments. Freedom to repatriate capital and benefits is guaranteed in each member state. Even so, the taxes are high, rigid rules of the Labor Code and very little funding resources.

2. Evolution of IED at a global level

Global investments have decreased by 23% in 2017, to 1.43 trillion dollars from 1,87 trillion dollars in 2016. The decline is in strong contrast with other macroeconomic variables such as GDP and trade that have had a substantial improvement in 2017. A decline in the value of net cross-border mergers and acquisitions to $694 billion dollars, from $887 billion dollars in 2016, contributing to the decline Developing economies have attracted an increasing share of IED in 2017, absorbing 47% of the total, compared to 36% in 2016. Investment flows attracted by developed countries have decreased by 37% compared to 2016, reaching $721 billion dollars.

IED inflows directed towards developing countries remained close to the level they were in 2016, at $671 billion dollars.

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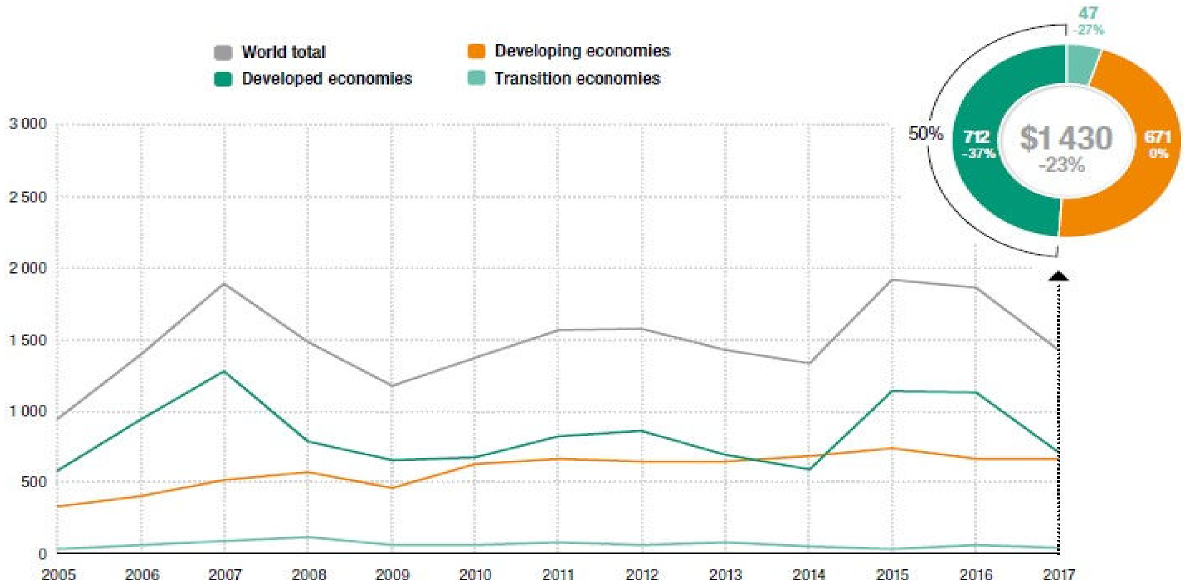
Figure no. 1
Foreign direct investment inflows, global and by group of economies, 2005–2017
(Billions of dollars and per cent)



Source: https://unctad.org/en/pages/PressRelease.aspx?OriginalVersionID=458
[accessed on 14 November 2018]

IED flows towards developing Asia have reached $476 billion dollars. The modest growth in Latin America and the Caribbean (8%), up to $151 billion dollars, has compensated the decline in Africa (-21%), up to $42 billion dollars. The decline in IED flows towards Africa has been largely determinated by the low oil price. Asia regained its position as largest region that benefits from the IED. In the context of worldwide decline of IED, its share in global flows increased from 25% in 2016 to 33% in 2017.. The three largest recipients were China, Hong Kong (China) and Singapore. China continued to be the largest IED beneficiary among countries in development and second in the world, after USA.

3. Competition in the E.U

Transnational societies have developed over the last decades, internationally exploiting their competitive advantages. These advantages come from scale economies, from superior management techniques and/or worldwide sales networks

In order to attract transnational societies in the European Union emphasis was placed on:

- Expanding and strengthening the single market;
- Always ensuring an open and competitive market inside and outside Europe;
- Improving european and national regulations;
- Expanding and modernizing the european infrastructure and its scientific base.

Foreign direct investment flows are an essential element towards consolidating the single market. In 2017, IED flows towards the EU fell to $303 billion dollars, compared to 2016, when an extremely high volume of investment flows was registered ($524 billion dollars). However, the level reached in 2007 (aproximately $870 billion dollars) remains a difficult objective. The expected exit in 2019 of Great Britain from the integrationist organization has generated a dramatic reduction in investitional flows towards EU and to that country.

According to UNCTAD, foreign direct investment outflows from European Union countries towards the rest of the world have decreased with almost 9% in 2017, compared to 2016.

The Netherlands, France, Germany and Ireland were the main beneficiaries of direct foreign investments, in 2017. Britain, however, recorded the largest decline, from $196 billion dollars in 2016, to aproximately $15 billion dollars in 2017, consequence of the decision made by the country to leave the European Union. This is the lowest level recorded by Britain over the last years. In addition, according to experts, Ireland will be an even more attractive destination for foreign investments, especially for those outside the EU that are looking for flexible, ready-to-use, english speaking workforce.

The European Union has begun to coordinate its economies and national markets in order to increase product competitiveness over US and Japanese goods.

On the european market, which is particulary fierce, there is competition between subsidiaries of foreign firms, especially american and japanese and local firms, the first category trying to gain a position on the market and the second are trying to defend the old one.

US subsidiaries operating in Europe benefit from advantageous competitive conditions: the huge financial potential of the parent company, technological advance and, above all, the managerial level. They have superior chances to obtain a higher profit rate, therefore having increased opportunities for development. US firms are in a favorable position in the top countries in the European Union.

Japan has a visible ascendant in its relationship with the European Union, as the investments held by the japanese corporations in E.U are much higher than those of western europeans in Japan.

Over many decades no region or country has attracted more foreign american investments than the European Union. Since the beginning of this century, Europe has attracted 56% of the total worldwide investments made by the US.

Even so, data from 2017 shows a withdrawal of american companies from the EU market. EU investors have also reduced their net purchases on the american market, although less significant.

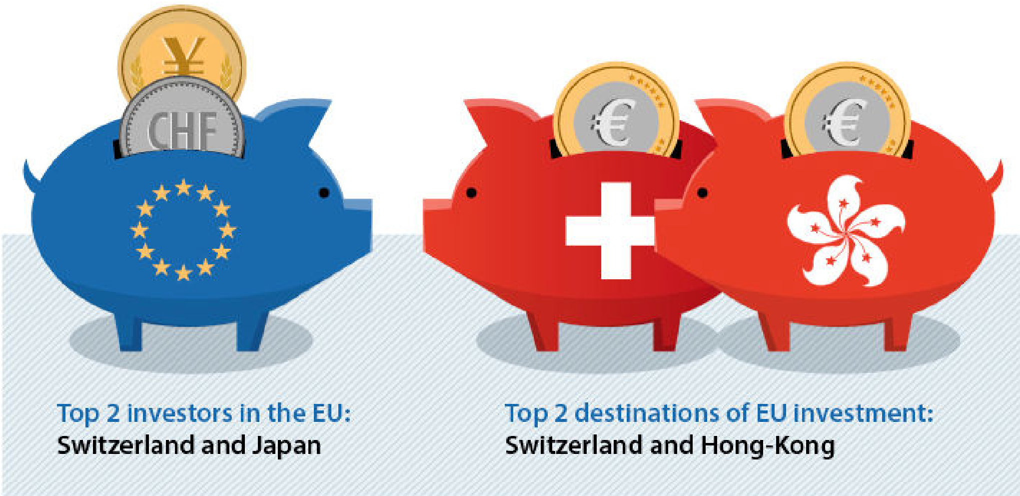
Switzerland was the main direct investor on the EU market. We saw Japan on the second place, their investments on the EU market are on the rise because japanese companies are eager to grow their businesses outside their own over-saturated market. Japanese corporations buy european firms in order to have access to the market.

The European Union and Japan have both signed an amibitous agreement for free trade, called jefta (the EU-Japan Free Trade Agreement), in July 2018, which now represents a third of the world's gross domestic product. This economic partnership agreement will stimulate trade in goods and services and will open up new investment opportunities.

The Japanese have obtained their free access to the European automotive market, but only after a transition period over several years.

Production and labor costs are higher in the EU than in other regions, but the japanese prefer legislative and economic stability provided by the single market.

Figure no. 2 EU foreign investment, 2017



Source: https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20180713-1?inheritRedirect=true [accessed on 14 November 2018]

Even since its establishment in the Treaty of Rome in 1957, European Union competition policy has been an extremly important party of the EU's activity.

The competition law in the European Union consists of Articles 101 (formerly known as Article 81 of the Treaty of Rome) and 102 (formerly Article 81 of the Treaty of Rome) of the Treaty of Operation and the national competition laws from the member states. These articles manage those activities that are considered as the essence of antitrust policy: a set of practices in the private business domain that can be interpreted as anticompetitive. With the EU's extensions some reforms of competition policy in the EU came into force. Within the European Comission, executive competences in the field are primarily the Directorate General for Competition.

The European Union's competition policies focus on four main areas of action:

- Elimination of restrictive agreements on competition and abuses of dominant position. Agreements done between firms meant to establish market prices are forbidden(the EU Commission has started to punish these „cartel" type arrangements in some industries). Also worth mentioning is the fact that on 20 March 2004, European Commission members decided to impose a fine of almost half a billion euroes on Microsoft's US concern for breach of competition rules, namely „abuse of dominant position". The cartel of the elevator manufacturers, fined by the European Commission of almost 1 billion euroes or the cartel of car windows manufacturers, also fined by the communitar autority with over 1.3 billion euros, are just a few recent examples of huge sums charged to companies for anti-competitive behavior;
- Control of the merger of firms – any concentration starting from a specific level has to be approved by the European Commission. It is very important to note that, regardless of the country in which they have their headquarters, if the companies together have a turnover of more than 250 million euros within the European Union and over 5 million euros globally, then the purchase or merger must be analyzed by the European Commission. On this principle, the Commission has blocked a series of acquisitions between large firms in the USA;
- The liberlaization of the economic sectors in the form of monopoly, opening of competition for the telecommunications, gas and electricity, rail transport sectors;
- Monitoring the subsidies given out by the state.

European competition policy is addressed equally to firms and governments and is „perhaps unique regarding the organization of EU policies because it has developed together with national policies”. Community law seeks to protect the common market and stimulate competition inside this vast economic space.

The EU has one of the most open investment regimes in the world, in this context, the European Commission has presented in September 2017, proposals to create an european framework in order to examinate direct foreign investments in the European Union.

The Commision proposes a new legal framework that lets Europe keep its essential interests. It includes:

- ✓ An European framework for the examination of direct foreign investments by the member states for safety or public order reasons; it also handles transparency obligations, the principle of equal treatment with regard to foreign investment of different origins and the obligation to assure different ways to approach adopted decisions under these review mechanisms;
- ✓ A mechanism for cooperation between the state members and the Commission. This mechanism can be activated when a particular foreign investment in one or more member states may prejudice the safety or public order of another member state;
- ✓ An examination done by the European Commission for safety or public order reasons in cases where direct foreign investment in member states may affect projects or programs of interest for the Union. Among these research projects and programs (Horizon 2020), from the space domain (Galileo), transport (Trans European transport networks – TEN-T), energy (TEN-E) and telecommunication.

Competition, known also as open confrontation, a dispute over the opportunities between firms for the most advantageous position in the market, is a crucial element for both the European Union and the member states.

4. Conclusions

A solid increase of the IED still remains a long-term objective. The economic outlook for overall developments in the global economy remains modest, currency and commodity volatility, increased geopolitical risks will negatively influence the IED flows.

Projections for global foreign direct investments in 2018 show a frail growth. It is estimated that the global flows will increase up to 10%, but will remain well below the average of the past 10 years. The current situation in the European Union will stay in the global trend, with a slight increase and, the year 2019, the Brexit year, of Britain’s departure from the EU will not produce surprises in terms of attracting foreign investors.. It is certain that, future IED developments will demonstrate that the single market continues to be one of the most secure and stable worldwide in terms of investment.

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