NEW TENDENCIES FOR THE TRANSNATIONAL COMPANIES

Alina,Voiculeţ[1]

Abstract

Transnational companies are among the most innovative companies, being responsible for the majority of private expenses for research and development. In the 21st century, competitive advantages no longer consist of products and technologies, but also depend on the speed with which innovation is produced and with which new products can be created and distributed. This acceleration of global competition has been enhanced by the evolution of information.

As national and local economic spaces open up to global economy, it becomes more clear that large corporations rather than nationcal economies are the coordinating units of economic relations. It has become possible and advantageous for a transnational company to profit from the differences that exist between regions regarding pay, market potential, standards and employment, taxes, ecological regulations, human resource, etc.

Their priority in production, trade, investments and transfer of technology all over the world is unique. Transnational companies have developed from national companies into global concerns that use foreign investments to exploit their own competitive advantages.

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

JEL Classification: *F60*

1. Introduction

The apparition of trasnational companies has created specific forms of confrontation in global economy. Wanting to maximize their profits, these companies get into increasingly strong confrontations, managing to capture large segments of the global market.

The 21st century represents a new and real challenge for transnational companies. It is becoming increasingly harder to stay on top. Although there are regional differences, most profitabile transnational companies, either European, Asian or American, are engaged in a process of transforming them, as well as the structures of world capitalism, to further strengthen their power.

2. Transnational society – agent of globalization

The transnational society is a real agent of globalization. Thus, as the local and national economic spaces open up to global economies, it is increasingly obvious that these companies are becoming the coordinating entities of international economic relations.

In the contemporary world economy, the value of goods and services resulting from foreign investments exceeds the value of the actual exports of goods that are worldwide. This means that foreign investments are the main instrument of international economic investments development. From here on, the special role that transnational corporations take in these relations - the result of foreign investments – is of great importance.

Through their investments, STN have encouraged international transfer of technology, created jobs, contributed to raising the qualification of some socio professional categories and the better use of local production capacities. Moreover, these investments have allowed the demand for external loans to be reduced.

The main advantages of these companies are:

- *Transnational corporations provide a flow of capital to developing countries.*

The majority of multinational corporations are based in developed countries. They rely on resources from mature markets to maintain their incomes. Transnational companies represent a major source of capital inflows towards developing countries, building factoris,

[1] PhD Associate Professor, ″Constantin Brâncoveanu″ University of Piteşti, alinav06@yahoo.com

investing in staff training centers and supporting educational systems with the intention of improving their productive capacities.

- *Transnational corporations contribute to technology transfer.*

Since most corporations come from developed countries, and the technical progress also started there, it is obvious that placing branches outside the borders of their own countries will determine an export of technology and know how.

Developing nations have searched to improve their position in global economy through different modernization strategies, also by utilizing foreign direct investments to help them catch up with their concurence, respectively advanced technology countries.

- *Transnational corporations reduce dependencies on goverment aid from the developing world.*

Since 2000, dependence on foreign help throughout the whole african continent is considered to be responsible for the general weakness of local economies. Some nations depend on foreign aid for over 40% of their annual budget. The level of trade in Europe reaches 60%, 40% in North America, while countries from Southeast Asia reach level of trade of 30%. However, the current level of trade for African countries is only about 12%. Transnational corporations could increase this percentage in developing countries by up to 50%.

- *Transnational corporations contribute to creating new jobs and raising the qualification of some socio professional categories.*

In most developing countries, a big part of the active population is employed in the primary sector, mainly in agriculture (70% in the most underdeveloped countries), while in the developed countries only 5% of the population is employed in this area. Through the investments these companies make, they offer employees the opportunity to change their work field or to improve their professional performance.

- *Transnational corporations contribute to the development of local infrastructure.*

Transport networks, communications, access to technology are three of the main barriers removed when the transnationals become active in a developing country.

- *Transnational companies contribute to the diversification of the offer.*

Through these companies coming in the field, consumers have access to certain categories of products, which they would not normally find in their country. Even if a McDonald's in India servers different products than the one in the U.S, the company's base values are the same. The interior design is similar, orders are placed the same, there is a set of best practices that are respected in both locations. One of the priorities of these corporations is the dissemination of its standardized procedures and culture. Consumers trust these businesses because they understand the value system of such companies.

- *Transnational companies encourage innovation.*

The average multinational company spends between 5% and 10% of its annual budget on research and innovation. For example, Amazon qualifies as a highly efficient innovator today, investing $ 28.8 billion in research and development, in 2018. In 2018, top global companies have invested over $ 350 billion in research and development, representing over a third of research and development financed by companies worldwide, according to UNCTAD.

- *Transnational companies increase cultural awareness.*

When companies extend abroad, they are exposed to new cultural realities. These companies are incredibly diverse, which gives them a boost of strength. They have to know the local specifity, the particularities of these countries in which they invest before they can produce goods and services for the people of the respective state. These companies offer a positive influence on communication between cultures.

However, we must not idealize the role of transnational societies. In numerous countries and regions, in which transnational societies have reached, progress especially in terms of living standards, life quality for the majority of the population is poor or even non-existent.

The contribution of STN to social assistance in host developing countries is poor, although there are financial possibilites.

Some of the disadvantages of establishing STN branches in developing countries are:

- *Pressure on the environment.*

A major advantage that multinational companies see in opening businesses in the developing world is the lack of solid legislations in environmental protection field. STN aims to reduce product prices, but with a major consequence, damage to nature.

- *Repatriation of profits.*

Once the initial investments are made and businesses start to contribute to profit maximization, benefits obtained by the company tend to be repatriated for use in other areas. If it were to be analyzed, the net flow of capital and not the gross one, it will be observed that the real benefit offered by multinationals is a small one (and sometimes even negative). Every host country has to lose when profits are not reinvested in local economy.

- *Transnational corporations import skilled labor.*

The period of time required to adapt the business to local conditions, that can lead to high levels of productivity is measured in years, not months or weeks. Transnationals invest in local workers to develop their abilities, but they must also make their business more efficient, and they have to do that quick. Most of the companies will import the skilled labor required, from other economies for the better functioning and start of the activity. This means that the best jobs, especially in the developing world, are given to people that don't even live in the local economy.

- *Transnational corporations encourage political corruption.*

The developing countries are struggling with income generation, with many workers earning less than $ 2 a day. When the transnationals arrive in a region, promissing that they will pay for the access to raw materials and other resources, including human resources, policy responsables often hinder these investments. Usually, the money received by politicians and officials, which creates a massive disruption on a local level, with minor compensations, if any, from the government that works with the corporation.

- *Transnational societies exploit the resources of raw materials.*

There are exceptions from this disadvantage. Some chinese companies, for example, build transport routes to help them access raw materials in Central Africa more easily, creating infrastructure benefits that should last for years, if not decades. Many transnationals, however, go into a new country, looking to exploit raw materials, searching for huge profits, without investing in the infrastructure.

- *Transnational corporations support unskilled labor and low wage levels.*

Low piad work is usually seen as a disadvantage towards local economies. Even though some experts suggest that any job and any income is better than nothing, work conditions and specializations of workers allow transnationals to lower wages in order to maximize their profits. Even when minimum wages are regulated by governments, what workers in developing countries make is very little.

According to ConvergEx Group, Sierra Leone has the lowest minimum wage in the world, at only $ 0.03 / hour. China has a minimum of $ 0.80 / hour. Even countries considered to be more advanced, such as Brazil, offer an hourly wage of less than $ 2. Who earns the most then: the worker of the transnational corporation?

- *Transnational corporations build legal monopolies.*

Even if the assets controlled by transnational corporations are managed by a centralized structure, governments treat each location as its own entity. This offers companies more freedom in the way that they manage their activities. Although there is no absolute monopoly on the global scene, there are some companies that are getting close. Currently, Google holds 63% of search engine traffic, for example, compared to 24% for Bing and 11% for Oath.

Even though , in many countries there are antitrust laws, many of these companies manage to go around them. Competition contributes to reducing unwanted behavior, and national antitrust policies can lessen a series of questionable activities.

- *Transnational corporations are involved in criminal activity with the use of fraud, tax evasion and the withdrawing from international sanctions.*

For example, Apple has paid a tax for just $ 40 million after they have made a $ 6 billion profit.

Critics of these corporations see in them the source of a more refined neocolonialism, which, in the name of globalization, for now, has not actually contributed to the significant reduction of international gaps, but has even deepened them by promoting a collaboration full of dependencies.

Brand companies are making the law in the consumer industry. They dictate fasion trends, and their incomes dominate economic power of many states.

„*Transnational companies have control. They control politicians, the media, the consumption model, entertainment, thinking. They distroy the planet!*" – Jerry Brown, former US governor.

But should we accuse these giant companies that they promote a fight for global supremacy? We have to accept that there are winners and losers. "Transnationality" is an attribute of modern, dynamic and profitable companies, thus carrying economic progress.

3. The strength of transnational corporations

The distribution of the 100 most powerful companies worldwide, by foreign assets, in 2018 by country, was as follows:

Table no. 1. Distribution by country of the 100 strongest transnational companies

Country of origin	Number of companies
U.S.A	19
Great Britain	14
France	13
Germany	11
Japan	10

Source: Based on data from UNCTAD, World Investment Report 2019. Special Economic Zones, [accessed on 5 November 2019]

The rest of the corporations were based in China (6), Switzerland (6), Italy (3), Spain (3), Ireland (3), two in Canada and one in Belgium, Israel, Holland, Luxemburg, Norway, India, Australia, Taiwan, South Korea and Hong Kong (China). It is noted that countries inside the European Union, numerically dominate this ranking.

U.S companies are still in the top, although, compared to previous years, we see a decrease in the number of STNs in this country.

The competition between transnational corporations is becoming more intense. However, there are companies that have made it through on a long term, showing strong competitive force: Royal Dutch-Shell, Exxon Mobil Corporation, General Electric; other new companies knock on the door of consecration. In the last few years there has been a spectacular growth of the transnationals that are coming from the developing countries, especially companies with headquarters in the new industrialized states of Asia. It seems that the relations of world forces between transnational corporations are in a continous dynamism.

The largest 500 companies in the world have generated revenues of $ 32.7 trillion and profits of $ 2.15 billion in 2018. Together, the Fortune Global 500 companies from 2018 have employed 69.3 million people from all over the world and are represented by 34 countries.

Table no. 2. Top 10 of the Fortune Global (revenues – $Mil.)

Rank	Company	Country	Revenues ($ Mil.)	Revenues % Change	Profits ($ Mil.)
1	Walmart	U.S.	514,405	2.8	6,670
2	Sinopec Group	China	414,649	26.8	5,845
3	Royal Dutch Shell	Netherlands	396,556	27.2	23,352
4	China National Petroleum	China	392,976	20.5	2,271
5	State Grid	China	387,056	10.9	8,175
6	Saudi Aramco	Saudi Arabia	355,905	35.3	110,975
7	BP	United Kingdom	303,738	24.2	9,383
8	Exxon Mobil	U.S.	290,212	18.8	20,840
9	Volkswagen	Germany	278,342	7.0	14,323
10	Toyota Motor	Japan	272,162	2.8	16,982
**Fiscal year ended on or before March 31, 2019.*					

Source:https://www.gfmag.com/global-data/economic-data/largest-companies
[accessed on 6 November 2019]

With what do we measure the power of a company? Value of assets? Sales value?

Assets are the „tangible" part of a company's wealth. To a certain extent, the more assets a corporation has, the bigger and richer it is.

Top 10 companies in the world, ranked by foreign assets in 2018, according to UNCTAD, are presented in table number 3.

Table no. 3. The world's top 10 non-financial MNEs (foreign assets - $Mil.) – 2018

Foreign assets	Corporation	Home economy	Industry	Foreign	Total
1	Royal Dutch Shell plc	United Kingdom	Mining, quarrying and petroleum	343 713	400 563
2	Toyota Motor Corporation	Japan	Motor Vehicles	300 384	468 872
3	BP plc	United Kingdom	Petroleum Refining and Related Industries	254 533	283 144
4	Softbank Group Corp	Japan	Telecommunications	240 305	325 869
5	Total SA	France	Petroleum Refining and Related Industries	233 692	256 327
6	Volkswagen Group	Germany	Motor Vehicles	224 191	524 566
7	British American Tobacco PLC	United Kingdom	Tobacco	185 974	187 330
8	Chevron Corporation	United States	Petroleum Refining and Related Industries	181 006	253 863
9	Daimler AG	Germany	Motor Vehicles	169 115	322 440
10	Exxon Mobil Corporation	United States	Petroleum Refining and Related Industries	168 053	346 196

Source: UNCTAD, World Investment Report 2019. Special Economic Zones,
[accessed on 8 November 2019]

The most powerful corporations worldwide are those in the oil industry, companies with huge assets: Royal Dutch Shell, British Petroleum Company, Exxon Mobil.

As competition has gone through an accentuated globalization process, corporations from some areas, such as the oil one, have intensified their research towards finding new methods to reduce costs, risks and environmental uncertainty.

„*Half of the world's wealth can be found in only a few hundred corporations*". Biggest of them have sales that overcome the GDP of some small developed countries. For example, if Walmart would be an economy, it would have an extremly high GDP value, being on the 25th place in the world, putting it even over Belgium. Other examples are Microsoft, Exon Mobile, BP etc.

4. Conclusions

The extent and complexity of the "big challenges" with which international economy is facing, such as climate change, poverty, inequality, food insecurity, health crises and migration, make transnationals rethink their position in the current fight to win new markets.

Transnationals and the competition between them have no beneficial effect towards economies in developing countries. Their role is context specific, varying according to the industry and technology and the level of economic development of the receiving country. Thus, governments have to intervene in order to maximize the positive impact on their economies and to protect against potential negative impact. Moreover, in order to strengthen their ability to attract and benefit from direct foreign investments, countries continue to adopt measures with the purpose of improving their investment climate.

Transnational corporations have shown that they have the ability to "cross" national borders, with the ultimate goal of becoming global companies, producing global goods.

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