

TRANSNATIONAL COMPANIES AND THEIR ROLE IN WORLD ECONOMY. RELATIONS WITH THE HOST COUNTRY

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Rezumat: Companiile transnaționale și-au făcut apariția încă din perioada Revoluției Industriale din America în sec.XVIII. Ele au fost înființate cu scopul de a furniza servicii publice, cum ar fi: construcția căilor ferate, construcția podurilor și a vaselor maritime. Odată cu decizia Curții Supreme a Statelor Unite ale Americii companiilor transnaționale li s-a acordat dreptul să cumpere bani, proprietate și să aplice în instanțele judecătorești. Din acel moment, corporațiile transnaționale au devenit mecanismul de bază al creșterii economice și al globalizării. Scopul cercetării este de a realiza o analiză mai aprofundată asupra rolului companiilor transnaționale, pentru a pune în evidență care sunt avantajele și dezavantajele expansiunii teritoriale a companiilor transnaționale, analiza politicilor locale de atragere a investițiilor și ce impact au companiile transnaționale asupra economiei locale. Metodele științifice în principal folosite sunt studiile de caz și metoda studiului longitudinal, datorită carora am analizat evoluția companiilor transnaționale la nivel global și am identificat care au fost principalele efecte create de aceasta atât din perspectivă macro cât și micro.
Cuvinte cheie: Companii transnaționale, investiții, dezvoltare, Republica Moldova

JEL CLASSIFICATION: F22, J23, J62

INTRODUCTION

In the last two or more decades, the global economic arena has become more uncertain, volatile and complex, and more players from widely different cultures have entered the world economic stage. The increase of consumption and economic progress expressed the need for countries to participate to an increasing and more effective extent in the international division of labor. This research paper has the aim to identify the main characteristics of TNCs, to specify the leading TNCs in the world, to define the role of TNCs at global and local level, to define positive and negative aspects of TNCs on local economies and to evaluate the impact of TNCs on Moldovan economy. In this research paper will be assessed three initial hypothesis concerning the general activity of TNCs and their impact upon global and regional activity.

Initial hypothesis:

1. The territorial expansion of TNCs affected positively local economies.
2. The TNCs have oriented investment flows and tendencies during last period .
3. Moldova`s openness for foreign investment attracted many TNCs which have had a positive influence upon national economy.

LITERATURE REVIEW

The role of TNCs is highly appreciated by economic experts throughout the world. The TNCs are the result of globalization, openness, access to factors, technologies that facilitate movement of people, a world of capital without borders, trade liberalization and the import and export of cultural commodities.[1] Moreover, the new organization of productions, in forms of TNCs, from national context to the international, makes all the economies more efficient[2]. However, there are opposite opinions regarding the so-called “perfect image” of TNCs. In his work, Ayres Christopher J expressed the idea that the national sovereignties are threatened by eroding established national institutions and governance systems as foreign control of national industries by TNCs [3]. Generally, the impact of TNCs is seen both, as positive and negative one and it always brings disputes in economic community, but it is worth mentioning that transnational corporations are the mechanism of major trade and FDI flows and are indispensable for further technological progress.

Methods of research used:

Method of observational trial based on the longitudinal approach (analyzing the how the regional preferences of TNCs changed the FDI flows directions) and comparative method by evaluating relations of TNCs with host countries and their contribution to local economy.

CONTENT

United Nations sets out the definition of transnational company, as an economic entity with legal personality or not having legal personality, composed of the mother company and its foreign affiliates.

At macro level, one of the main characteristics of TNCs is that they have geographically spread their subsidiaries across different countries based on specialization of goods or components. Due to geographical expansion of many enterprises, the role of TNCs is highly evaluated by global community, being appreciated as one of the major driving forces of the economic growth. The TNCs encourage transnational investments, making all Global markets integrated, more inter-connected and inter-dependent. Furthermore, TNCs completely altered the nature of economics in terms of pricing and productivity. The main objective of TNCs is to maximize output while maintaining low prices, in order to satisfy the consumers. Mass production, geographical availability and efficient trade mechanisms make the consumers, to purchase goods at relatively low prices and to have access to all varieties of products all year long. [2]

At local level, multinational firms have traditionally carried out their core innovative activities – particularly industrial R&D activities in emerging markets. For example, in the mid-1980s, the Chinese Government decided to allow the importation of greater numbers of cars, mainly for use as taxis for the state-owned taxi companies in Beijing and Shanghai. Volkswagen and, subsequently, other foreign automakers were allowed to form joint ventures with a state-owned Chinese partner as long as foreign ownership was limited to a 50 per cent share in the joint ventures. The Government’s intent was to rapidly develop a car industry, learning from the foreign companies how to make cars while maintaining control of the car industry.[4]

Another example is Adobe’s R&D hub in India. The company employs about 2,000 scientists and engineers in these research hubs, focusing on not just the two core products but also wide applications in machine learning, natural language processing, information retrieval, big data systems and image processing. Similarly, Apple, like other United States-based MNEs, is finding it increasingly difficult to obtain visas for foreign nationals to come to work in its United States research labs. So, rather than losing these researchers, United States firms are moving some R&D overseas to where those people are, particularly concentrated in China and India.[5]

According to the “Top 5 of the Fortune Global 500” March Edition 2019, five the largest TNCs in the world are: WALMART (US) with the revenue of 514,405 \$ mil.; Sinopec Group (China) with the revenue of 414,649 \$ mil.; Royal Dutch Shell (Netherlands) with the revenue of 396,556 \$ mil.; China National Petroleum (China) with the revenue of 392,976 \$ mil. and State Grid (China) with the revenue of 386,056 \$ mil..

From another perspective, TNCs do not always bring prosperity and development for host countries. Some of the main disadvantages of TNCs may be denoted from the table 1.

Table 1. Advantages and disadvantages of TNCs for host countries.

Advantages	Disadvantages
1. Stable income	1. Poor working conditions in some cases
2. Creation of job opportunities	2. Damaging the local environment by ignoring the local laws
3. Improving general level of education and skills of local workers	3. Profits are going overseas
4. Higher investment in infrastructure	4. Factories are often not adjusted to security standards and are insecure for local workers. If labor costs increase, the company may move to another region with cheaper facilities.
5. Increasing trade balance of the country	5. Natural resources being over-exploited

Source: Elaborated by author based on collected data

For the last period, TNCs are the main reformers of investment flows. They set investment tendencies and change the value of FDI in different regions. Currently, TNCs are oriented to developing and less developed countries due to low cost of factors of production and soft legal regulations for investors. Most of the them allocate their factories in developing countries because of the low wage of labor force and cheaper land for set up factories which may help to reduce production cost and generate higher profit. The profit they gain will be exported to their home country for development purpose.

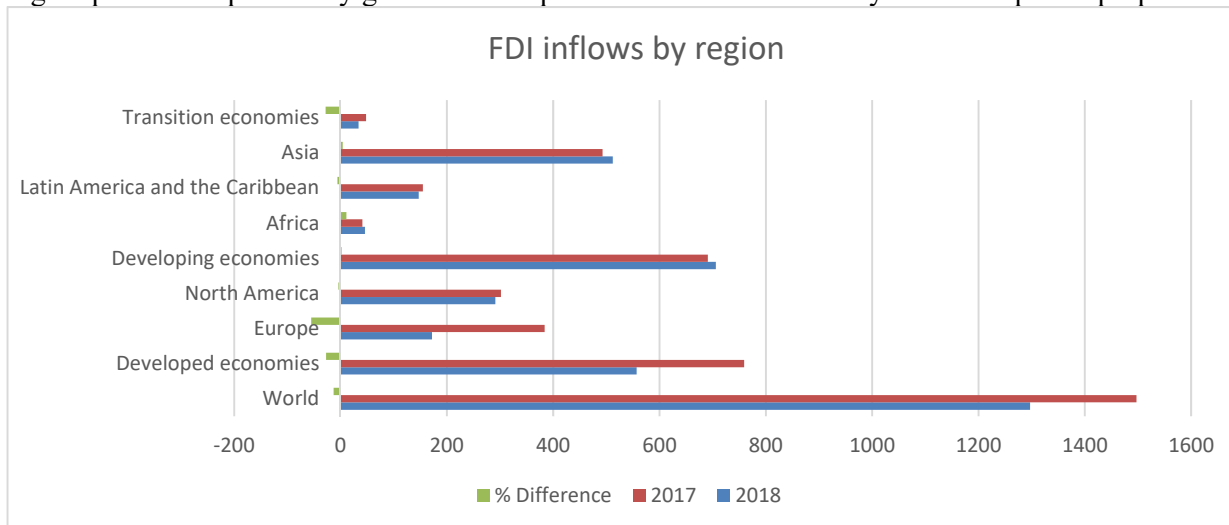


Fig.1. FDI inflows by region, 2017-2018, billions of dollars and percent.

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics)

From the figure 1 it is shown that FDI flows to developed economies reached the lowest point since 2004, declining by 27 per cent in 2018. Flows to developing countries remained stable, rising by 2 per cent (2018). As a result of the increase and the anomalous fall in FDI in developed countries, the share of developing countries in global FDI increased to 54 per cent, a record. FDI flows to structurally weak and vulnerable economies continued to account for less than 3 per cent of the global total. Flows to the least developed countries recovered from their 2017 fall, back to \$24 billion, the average for the decade. FDI flows to economies in transition continued their downward trend in 2018, declining by 28 per cent to \$34 billion, driven by a 49 per cent drop in flows to the Russian Federation.

The Case of Republic of Moldova is also one of attracting FDI and favoring TNCs to bring foreign investment. Due to unique geographic position: bordered by the EU (Romania) and the CIS (Ukraine), Moldova is the only country with free trade agreements with the EU and the CIS. In 2016, the Moldovan Government approved The National Strategy for attracting and promoting investment and exports (2016-2020). The main achievements related to FDI and foreign trade relations of this strategy were:

Table 2. The impact of Moldova 2020 strategy upon FD investment and country competitiveness

	2010	2011	2012 (base year)	2013	2014	2015 (evaluated year)	2016	2017	2018
FDI net inflows, mln USD	212,0	347,9	282,6	290,5	349,9	234,4	88,4	154,4	311,9
FDI, % of GDP	3,6	5,0	3,9	3,6	4,4	3,6	1,1	1,6	2,73
Country position in the Ranking global competitiveness		94	93	87	89	82	84	87	88
Economic Freedom Index	53,7	55,7	54,4	55,5	57,3	57,5	57,4	58	58,4

Green: achieving or/and exceeding the goal; Red: not achieving the goal

Source: Raportul de evaluare intermediară a Strategiei naționale de dezvoltare, „Moldova 2020”

https://cancelaria.gov.md/sites/default/files/raport_evaluare_md2020_rom.pdf

From the table 2 it is shown that a worrying involution is revealed by the net inflows of foreign direct investment. In 2015, the value of FDI net inflows was below the 2012 level, both in absolute terms and as a share of GDP, which implies important repercussions on the competitiveness of the economy and undermines one of the key objectives of Moldova 2020 Strategy, to develop an investment-based growth mechanism.

In order to identify the top 10 TNCs in the Republic of Moldova, the AXA Management Consulting, a research company, have done an opinion survey among TNCs employees, based on their satisfaction level regarding companies' facilities and opportunities. In 2018, the top 10 TNCs with more than 50 employees were: JT International Luxembourg, Ellation, TRAVOD International, Amdaris, Coca-Cola Hellenic Moldova, Noction Moldova, Moldcell, Yopeso, Petrom Moldova, Orbico. [6]

With more FDI flows and increase of TNCs on Moldovan market, the evolution of average cost per worker is positively appreciated by economic community. The labor force costs in Republic of Moldova are more appreciated at micro and macro level. In 2015 average monthly costs of an employee was 5693.8 lei, in 2016 (6256.7 lei), in 2017 (7055.3 lei) and in 2018 (7841.7). [7]

CONCLUSION

The TNCs have a big impact on 'grouping' nations together systematically through both their production and supply chains and via the different markets they serve with products. From this research paper it was demonstrated that FDI flows are mostly driven by TNCs and their subsidies across the world. Also, it is clearly seen a tendency of TNCs to choose less developed countries for their investments, due to low costs of factors of production and favorable investment policy. At local level, Moldovan authorities are focusing on attracting foreign investment through different strategies such as "Moldova 2020". The cost of Moldovan employees is more appreciated in last years and this tendency is increasing. There are many big and medium foreign companies on Moldovan market which come with new technologies, knowledge and more opportunities for local workers. Generally, Moldova is oriented to increase the foreign investment inflows, to set up attractive policies to interested TNCs and to record economic growth by developing more business opportunities and facilities for local employees.

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