The role of transnational corporations in the globalization of the economy

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Abstract. The article investigates the role of transnational corporations in the processes of optimization of market relations in the context of economic globalization. Methodological and historical aspects of the emergence of transnational corporations and separate stages of their activity in the context of tendencies in development of foreign trade are considered. The authors identify and analyze the main factors and competitive advantages of transnational corporations, which lead to the improvement of production forces and contribute to the globalization of the economy and global competitive relations.

Keywords: corporation, transnational corporations, globalization, global economy

1. Introduction

Modern processes in the global economy that lead to the creation of a single market for goods, services, capital, labor and knowledge are called globalization processes. This phenomenon is inextricably linked with the activities of transnational corporations (TNCs), which are one of the main actors in the economic globalization. Their influence on various types of integration processes is due to the concentration of control over such strategically important areas as finance, labor, technology, raw materials and components supply, services, and sales.

2. Materials and Methods

Independent conclusions of the authors and the results of other research served as materials for this article. This study is based on the thesis that the emergence and development of transnational corporations is a consequence of the processes taking place in the world economy. The emergence and development of transnational corporations lead to the improvement of the production forces, the expansion of the geography of production, contribute to the strengthening of the economic globalization and global competitive relations. In the course of the study, the facts that support this hypothesis were collected and analyzed.

3. Results

There is still no uniform and rigorous scientific definition of transnational corporations. Most experts interpret the concept of transnational corporations as companies (corporations) that have a parent company in the country of origin, but they also have offices in different countries. These units operate under national law. In the draft UN Code on the Conduct of TNCs of 1983, a transnational corporation

is defined in the following way: "An enterprise that has legal entities in two or more countries, regardless of their legal form and sphere of activity. These legal entities operate under a decision-making scheme that allows for a consistent policy and overall strategy through one or more decision centers. Legal entities of this company are so interconnected through the right of ownership or in any other way that one or several legal entities can significantly influence the activities of others. In particular, they can use knowledge, resources, and responsibilities of others" [3, p. 65].

Currently, the largest number of multinational corporations is registered in developed countries and rapidly developing China. Figure 1 clearly shows the distribution of 100 leading transnational corporations by world macro-regions (according to Forbes, data are for 2017) [4].

Figure 1. The distribution of the world's 100 leading TNCs by macroregions.

As follows from Figure 1, most of the leading TNCs are located in North America, then Europe and Asia are almost on equal footing, while the Russian TNCs occupy only 3% of the list. This roughly corresponds to Russia's share in global GDP.

If we consider the distribution of TNCs in the world, Figure 2 shows that the overwhelming majority of industrial corporations are in the USA and Japan, and the rest is divided between the countries of Western Europe.

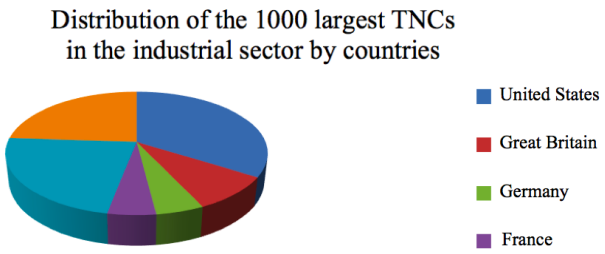

Figure 2. The distribution of the 1000 largest TNCs in the industrial sector by countries.

A common determining factor in the development of generations of transnational corporations is their response to structural and qualitative changes in the world and the world economy. In the era of the colonies, the task of TNCs was the fastest production of material goods in the colonies and their transportation to the metropolis. With the collapse of most empires after the First World War, transnational corporations were more engaged in the production of various products using the international division of labor and selling them to former colonies.

After the Second World War, TNCs began restoring the post-war world economy and introducing new technologies into production, as well as developing new markets. Gradually, the largest TNCs reoriented to conduct activities and competition on a global planetary scale. Their globality is reflected in the fact that the production and geography of their activity extend to several continents. Their goal

is the same, which is the economic optimization of activities. Thus, transnational capital is looking for the most profitable way to multiply profits on a planetary scale.

Exploring TNCs, we should highlight the historical criteria by which companies should be classified as transnational:

Qualitative criteria:

- Carrying out activities in countries around the world;
- The company's activity contributes to the GDP of the countries where their units are located;
- The company's management staff is multinational;
- Multinational share ownership.

Quantitative criteria:

- Degree of monopolization is high;
- Significant development in capitalist countries;
- High degree of activity concentration in the industries that determine the scientific and technical progress;
- The cosmopolitan nature of TNCs.

The above criteria are enough to classify a company as transnational, but there are additional criteria [2, p. 452]:

- The share of foreign component is not less than 25%;
- The lower limit of the volume is not less than $100 million;
- The number of host countries is not less than three.

If we consider the factors of competitiveness of transnational corporations, then, as a rule, they have a well-known trademark in the world (Table 1). More than that, their products are in demand among consumers. At the same time, a transnational corporation has significant financial resources that allow them to be resilient to crises or to implement short-term dumping policy. Also, large financial resources allow transnational corporations to conduct large-scale marketing research that is aimed at studying the market and identifying consumer's needs. Marketing services of transnational corporations are engaged in the promotion of goods, their advertising and market positioning. Thus, if a transnational corporation entered a new market, it would be able to ensure a decent promotion of its product or service.

Table 1. The world's largest TNCs.

Company	Home country	Branch of activity
Royal - Dutch / Shell	UK, Netherlands	Energy
Ford	USA	Automotive industry
General Electric	USA	Energy
Exxon	USA	Energy
General Motors	USA	Automotive industry
Volkswagen	Germany	Automotive industry
IBM	USA	Hardware and software
Toyota	Japan	Automotive industry
Nestlé	Switzerland	Food industry
Bayer	Germany	Chemicals
Nissan	Japan	Automotive industry
Microsoft	USA	Software
Dimer-Benz	Germany	Automotive industry

In addition, transnational corporations have an advantage over smaller single companies in penetrating new markets. But this advantage is relative, because if a TNC starts to seize the market of another country, it may be detrimental to local producers. Consequently, the state, if it protects

national interests, will lobby local producers and implement protectionist policies. This will put a transnational company in an unequal position with local companies and give them an advantage. In this regard, one of the tasks of the World Trade Organization is smoothing of international protectionist trade barriers. In some cases, the country in which a resident TNC relies on government support for this company in the development of new foreign markets. Indeed, in this case, corporations will contribute to the flow of capital from the countries where these markets are located. This will give the country's budget an additional increase in taxes. Thus, it can be said that transnational corporations may experience difficulties in developing new markets. However, with a large margin of safety and the support of their state, it will be relatively easier for them than for small and medium businesses.

Transnational corporations have a number of significant competitive advantages. Two types of competition exist: price and non-price. The methods relate to price competition if they allow to set the price level for goods or services at which the company can have a competitive advantage in the market. At some point, the company may trade with a negative profit margin, i.e. losing its financial resources. The company does this in order to sharpen competition in the market and remove weaker companies that have a lower margin of safety. Such actions are called "dumping."

Methods of non-price competition include improving the quality of their goods, conducting an advertising campaign and other actions related to the promotion of goods on the market. Any transnational corporation can afford this. Small business can't.

Transnational corporations save significant funds on the scale of production. Indeed, as is known, the share of fixed costs decreases with the expansion of the scale of production; therefore, the cost of production decreases, giving the company the opportunity to adjust the price depending on the market situation. This approach gives TNCs the necessary freedom to set prices, which is one of the features of monopoly. Only those companies that have significant financial resources can afford this non-price competition. TNCs can afford to produce high-research and development work, and they even conduct basic scientific research. Transnational corporations use the factors of production in other countries, which also allows to reduce the cost of production. Due to the uneven distribution of world resources and the international division of labor, each country has its own share in the production and extraction of resources. Optimizing production on a global scale and achieving minimal costs for factors of production, TNCs have a huge competitive advantage in reducing the cost of goods.

Creating production or assembly sites in other countries, the transnational corporations bypass the customs barriers, which are created by the state to protect against imported goods. Such a situation is expedient given the obvious attractiveness of the market. At the same time, direct import of goods would not be beneficial because of the import went to the finished product or transport costs. In order not to miss the free market, a transnational corporation creates a local production in this country, supplying it with raw materials and semi-finished products that are easier to transport and are not subject to heavy duties. The country in which production is organized receives additional jobs for its population.

A TNC can quickly move resources within its structure, which allows it to quickly adapt to the changing market conditions, use these resources more efficiently, and achieve the lowest cost of production by reducing costs and more efficient use of resources.

Transnational companies seek to concentrate their financial resources in countries with soft tax laws, low customs duties, and transfer prices. TNCs evade paying part of the taxes and fees with this. It is also necessary to note the fact that in the formation of transnational corporations, various factors play a dominant role in various countries. So, in the USA, financial capital plays a dominant role, it is the organic interweaving of large companies in Japan. In South Korea, Japan, France, and other countries, the coordinating role of the state in the activities of national corporations plays the key role. Governments in developed countries encourage the creation of large and branched corporations. Governments give them tax breaks on profits, offer contracts primarily through the existing contract system and priority participation in government programs. Governments mitigate or abolish antitrust laws, as well as provide export quotas and benefits for firms working in the military market.

4. Discussion

The study led to the following conclusions. The formation of transnational corporations was influenced by the development of technology and market relations and was associated with specific historical periods and the emergence of new areas of activity. The classification of a company as a TNC may occur when certain quantitative and qualitative criteria are met. In general, TNCs have absolute competitive advantages over smaller single companies; however, TNCs may experience difficulties in developing new markets, owing to the protectionist policies of those states lobbying the interests of local producers.

5. Conclusion

Thus, transnational corporations are the result of the processes occurring in the world economy, leading to the improvement of production relations, the expansion of the geography of production. They contribute to strengthening the economic globalization and global competitive relations.

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