TRANSNATIONAL COMPANIES AND FOREIGN DIRECT INVESTMENTS

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Abstract:

Foreign direct investments (FDI), especially those of transnational companies, take shape through the transfer of modern technology including machinery and fixtures, precise technical documentation and know-how flows (technical and managerial assistance) as well as creating new work places. All this make the direct foreign investments an advantage for both the investing countries and host countries. For the investing countries the advantages materialize first through the use of cheap technological and human resources and by providing a market for the products in the host countries. Meanwhile the countries receiving foreign direct investments are ensured full and effective use of available inputs and the creation of favourable conditions towards the development of their productive capacity for export and last but not least, to achieve the goal of reducing unemployment by creating new work places.

Key words: transnational corporations, foreign direct investment, capitalization, mother-corporation, host country

JEL Classification: F2, G1

1. INTRODUCTION

One of the biggest pressure forces that country development and international trade unions face is the power and influence of the transnational corporations (TNC) as part of their response to globalization.

Transnationality is a world economy phenomenon that manifested itself strongly in the XX century and enjoyed a rapid expansion in the early XXI century. Economic agents that have a decisive role in this process are the transnational corporations. At the end of the twentieth century, the total of TNC exceeded 60,000 throughout the world with over 800,000 subsidiaries outside the country of origin.

In the '80, TNC action is characterized by increased regional integration (especially in Europe), and the investment climate relaxation in terms of legislation. The mid 80s give TNC a new dimension with the advent of new technologies for processing and transmitting information and local requirements development in terms of integration into local economic systems while giving particular value to the governments' involvement.

2. THE EMERGENCE AND DEVELOPMENT OF TRANSNATIONAL COMPANIES

The emergence and development of transnational companies is not only due to the industry. Such companies have expanded in many other sectors: banking, insurance, tourism, advertising, etc. Particularly intense has become the international activity of large commercial firms that open branches in more and more countries such as Metro Holding (Switzerland) - the largest wholesale company in the world, Sears Roebuck (U.S.) - the largest sales company by mail. In advertising, the most powerful transnational firms are those from the United Kingdom (Saatchi and Saatchi Co.) and Japan (Dentsu). Japanese companies are particularly strong in banking. In 1995 in the top 10 banks in the world, six were Japanese, including the Industrial Bank of Japan, Sanwa and Mitsubishi Bank. In life insurance the world leader in the same year was ING Group (Netherlands). Among the TNC leaders there are some that should be mentioned such as General Electric - for years at the top of the rankings – the U.S. oil giant Exxon, the Anglo-Dutch Royal-Dutch Shell, Ford to which U.S nationality is conferred, Toyota with Japan paternity - to call the first five of the world's industrial hierarchy.

The size increase of transnational companies usually happens in the following ways: international integration horizontally or vertically and international conglomeration. The international integration on the horizontal is a characteristic of some companies such as General Motors, Ford, Toyota, General Electric, etc.. Firm size increases by merging or absorbing national or international firms acting in the same branch. Through such integration, the size and financial strength of the company increases without leaving the basic branch. American company General Motors has grown as a TNC by acquiring the companies Adam Opel in Germany and Vauxhall in Britain and by building assembly companies in various countries. By contrast, General Electric has expanded across the border through increasing participation in societies such as Bull (France), AEG (Germany), Olivetti (Italy) - all related to electronics. International integration on the vertical means increasing the size of the company through the acquisition or construction of companies in other countries, located in the "downstream" or "upstream" in relation to the mother-society activities. Exxon (former Standard), initially focused on oil refining business then turned its attention to the acquisition of crude oil supplies and to establishing oil exploitation companies as well as to developing its own distribution network across the globe . The pattern of the vertical integration is a characteristic usually of the companies active in primary products, the diversification of production characterizing both forms of integration.

Growing by international conglomeration is especially characteristic to American companies, representing the "union" of companies from different countries, whose activities are mostly technological unrelated. In most cases the absorption is caused by purely financial reasons. The most convincing example is provided by International Telegraph and Telephone (ITT), the number one U.S. conglomerate which makes over 50% of its profit abroad. The forming method of the transnational corporations is the capital investment in other states economies. These direct capital investments in other countries may take the form of the acquisition of the control shares, the rising of a foreign subsidiary, the acquisition of businesses or building new ones. Most American and Japanese transnational corporations investments abroad are carried out in this way.

Although TNC are companies characterized by a high level of production and capital concentration once established, they do not automatically turn into monopolies. For a company to become a transnational monopoly it is necessary that from the mother-society - foreign subsidiaries, at least two units located in different countries to hold "key" position in a given field. A good example is the International Business Machines company which is a transnational monopoly that dominates not only the U.S. market, but also the entire computer global market. A monopoly is the Anglo-Dutch company Unilever, but only in the margarine industry where it holds the largest share in world production and Nestle in the production of concentrates of soluble coffee. During its existence Nestle has focused on production, marketing and wholesale distribution of its products, avoiding vertical expansion - sales in supermarkets for example. To maintain control over all of this, headquarter managers handle all company acquisitions and decisions concerning the issue of new products of whose research is made by the units in Switzerland. Decisions are made based on groups of products, such as the chocolate group, the confectionery group, etc. In order to operate efficiently each geographical group must obtain positive financial results. Actually Nestle is trying to focus all revenues towards the centre in Switzerland, and there it will be decided in what currency will the revenues be processed and in which country will they be transferred.

An important component of the development of transnational corporations is the products structure of the international trade which changes from one period to another. In the late '90s, the most significant international market segments, taking into account the developments in the value of product exports were in this order, vehicles, crude oil, petroleum products, airplanes, computers, telecommunications equipment, etc. After the war, the diversification of world trade has increased. At short intervals there were created new markets (computers, microprocessor, etc.) and currently we are witnessing the expansion of international markets of the industrial robots. The history of modern world trade demonstrates that constantly the first place on global market has been held by an industrialized nation. At the beginning of the 20th Century the supremacy was held by England which has played a long time the role of the industrial workshop of the capitalist world. Subsequently this place went to the U.S.

International trade does not have the same role for all the industrialized countries. In some, especially those smaller in population and in territory, the share of exports in GDP is high: 63% in Ireland, 69% in Belgium, 89% in Luxembourg in 2007. At the other extreme lie the bigger countries with large domestic resources with a large domestic market, where this proportion is lower: 11% U.S., 18% in Australia in 2007. In the case of former socialist countries, reality has shown that in a production economy the role of international trade is a minor one.

3. THE GEOGRAPHICAL SPREAD OF TRANSNATIONAL COMPANIES (TNC) IN THE CONTEXT OF GLOBALIZATION

At the beginning of the XXI century transnationality in the world economy has specific characteristics, reflecting on the one hand the degree of participation of different countries to globalization as well as the opportunities or lack of, specific to these economies (Tanasie, 2002). Thus we can highlight some features and the geographical distribution of the TNC:

The TNC’s economic power and their degree of trans-nationality are different. The economic power measurement is usually done according with the volume of assets, while the trans-nationality depends on an index whose measurement is based on three indicators:

- foreign assets related to total assets;
- foreign sales related to total sales;
- labour force used abroad related to total labour force.

By analyzing the 100 biggest TNC in the world it is noticed that most of them come from developed countries, except for a single company from countries like Hong Kong, Mexico and Venezuela. Thus the economic power was held in 2002 at a rate of 91.7% by the world's three economic poles - U.S. 33.3%, EU 43% and Japan 15.4%. These percentages have changed in recent years in favour of small states and Japan. After the transnationality term (different than the term foreign assets) the 10 largest TNC in the world in 2009 were grouped in the following countries: four Swiss, two Canadian, one British, one Dutch, one Anglo-Dutch and one Swedish. The presence of small states in this ranking must be seen through the fact that these countries have the size of the domestic market comparably with the U.S. or Japan ones.

The trans-nationalization process takes place in developing countries, but at a smaller scale compared to developed countries, highlighting the growth of foreign assets and sales.

Research on the 50 largest TNSs from developing countries shows that they are smaller than their competitors from developed countries, thus the average of foreign assets from small states in this ranking has risen from $ 1.5 billion in 2009 to 1.9 billion dollars in 2007 but well below the $ 15.2 billion average of the 100 STN. The states considered small that are present in the 100 TNC group are: Hong Kong (10), Venezuela (1), Mexico (3), Malaysia (4), Republic of Korea (9), Singapore (8) South Africa (4) Brazil (4), Taiwan (2), Chile (2), the Philippines, Argentina and India each having one. For these countries, the share in the total of foreign assets is divided as 72.1% in South East Asia, East and South, 21.9% in Latin America and nearly 6% in Africa.

TNC’s foreign assets exceed with almost 500 billion dollars the total GDP of the 49 low-income economies (GNP per capita of $ 765 and below this value) taken together, including China and India, having together a population of over 3.1 billion inhabitants. Their sales abroad totals 2.0453 billion U.S. dollars and are 1.8 times higher than the exports of 107 countries with low and average income per capita put together ($ 1,138,800,000,000).

4. THE METHODS OF THE TRANSNATIONAL COMPANIES’ IMPLANTATION (TNC) IN THE WORLD ARENA

The new European architecture led the transnational companies, especially American ones, to increase their investments in the member countries of the European Union. Upon the formation of the European Union, American capital was present in Western Europe since the early years after the war which represented a solid starting point for future activities. The international role of the dollar was one factor that facilitated the movement of the American capital. The dollar's overvaluation policy, many years in a row on the European financial markets, has created very favourable conditions for the STN, the purchasing power of each dollar invested in Europe becoming superior compared to the situation in the U.S. In EU countries the implementation of American corporations is massive in the top departments where they can exploit their technological advance best: electronic, optical industry, precision mechanics and it is very low in sectors where the future is uncertain as steel, the extraction of coal, textiles, etc. In the 'interesting' sectors the created subsidiaries belong 100% to the American capital. In this category companies such as IBM, Xerox, Polaroid, etc. are included. There are sectors that traditionally belong to Western European companies and that have been particularly profitable, and are magnets for American capital: perfumery, photographic materials, pharmaceuticals. In those areas where French companies occupy a strong position, many of them are bought by American companies: Coty SA is controlled by Pfizer, Caron by Robbins Comp., Balmain by Revlon. In the pharmaceutical industry an example is the Abbott Laboratories which are over 110 years old.

There are cases where American companies heavily implanted 30-40 years ago in certain domains (oil, automotive, chemicals) attempt to withdraw or to limit their work, by focusing all investments on highly specialised products. If Europe is an area invaded by the American TNC, the U.S. economy is also a magnet for Western European companies and especially the Japanese. The U.S. market advantages are multiple: ultramodern infrastructure, relatively low prices of raw materials and energy, efficacy of the communication systems, electronic information processing, all of this in addition to a high purchasing power. The U.S. market is most attractive for foreign capital and the U.S. Department of Commerce encourages investment in Europe.

Until 1998 Japan, with all the dynamism of its post-war economic development, has not created a proper framework for foreign investment. The only industry branch under foreign control in Japan is that of the oil (60%). When the foreign capital is employed, its transfer outside of Japan is limited for the benefits from investments. The only advantage that the foreign capital has is that of over three years exemption on income tax, but only when new and important products for the Japanese economy are manufactured.

Developing countries continue to represent one of the main areas of the TNC. Practical methods of TNC implantation on the world arena include a wide range, going from minority participation to full ownership of subsidiary capital. The strategy most favourable for the foreign implantation of U.S, Japanese and European firms is to acquire companies already functioning (one native example is that of Orange who took over MobilRom company on the Romanian market). This method of implantation gives time and financial resources, procuring skilled labour force this being the result of a management that knows the local market characteristics, etc.. Buying a corporation is finally determined by the relationship between the paid price and predictable profits. A unique way to implant a TNC is joint companies with the state agencies representatives (Mixed joint ventures) or joint enterprises (joint International Business ventures).

Regarding U.E. evolution, companies and management, the forming of the single market and single currency has a decisive impact. The implementation of the single market had as a goal from the start the tariff and non tariff barriers elimination which slowed down the fast and efficient economic development of the EU countries. The influence that the single market and the euro have on businesses and management can be generally divided into three areas: economic, social and formative. Creating long-term European markets creates many advantages such as:

- the acceleration and multiplication of investment;
- forming dimensional economies;
- achieving a higher capacity to negotiate with the other two large economic poles: the Japanese and the U.S.

In terms of the relations of the transnational corporations with national states Dunning believes that in the post-war period there were three phases (Dunning, 1993):

- The *"honeymoon"* in the '50s and the beginning of the'60s during which there was an overlap of interests between investors from the U.S. and the West European economies that were in post-war reconstruction. U.S. TNC at that time were building replicas of the mother-companies with a high degree of freedom and having as a motivation-the market. The produced output replace imports and their presence in these markets was desired;The *"confrontation"* - period regarding the relationship between transnational corporations and developing countries. The political independence increase of most developing countries during the ‘60s and ‘70s led to a better identification of their economic objectives and a greater reluctance regarding the presence of TNC in their countries. FDI were treated according to their contribution to satisfying basic needs and to improving the balance of payments and raising the technological level. Large transnational companies were perceived by the governments of the developing countries as foreign companies that transfer aboard huge economic rents at the expense of host countries and their investments introduced a foreign lifestyle to their national cultural traditions. Strategically the large TNCs acted by an excessive centralized decision of and by the guidance of their policy to a regional and global scale. During this time some restrictions were introduced for foreign investment and it even resorted to some expropriations of TNC assets. TNC strategies used a specific reserve to launch new projects in these countries and at technological transfer restrictions in an attempt to persuade host governments to change the policy on foreign investment;
- The current phase is one of *"reconciliation"* in Dunning's vision. In the late '70s developing countries have felt a certain disappointment in the efficiency of their economic policies, disappointment that led to a change in the policy on foreign investment, in the attitude towards the market in general and particularly over TNC operations. Meanwhile TNC strategies have become more responsive to the socio-cultural characteristics of the host countries, thereby seeking to promote advantageous policies to both parties. This period proved the beneficial role of FDI and TNS role in promoting technical progress for the host countries.

5. THE EXPANSION OF TRANSNATIONAL CORPORATIONS (TNC) THROUGH FOREIGN DIRECT INVESTMENTS (FDI)

The international investment has four characteristic elements: *profit* - the purpose of investment, *time* – as the dimension of the recovery process, *risk* - as an expression of the economic decision and the *nature of extra-unit* international transactions (Popa, 1992). The real ways through which a trader can make an international investment:

- building on a "vacant place" a company or a subsidiary of an existing one in another country;
- the acquiring a foreign company or the merger with such a firm;
- the creation of joint ventures;
- the purchase of shares / debentures of a foreign market;
- granting a financial credit to a trader from another country;
- signing international contracts for leasing or franchising.

Through the contact established between a issuing trader and the receiver foreign direct investment (FDI) and those of portfolio can be distinguished.

FDI includes: the issuing agent transfer of the investment flow of control possibility and the decision over the receiver’s activity, the control over the transferred resources is of the investor, the investment is made outside of the country of origin but within the investing company and it represents a package consisting of finished and intermediated goods, capital, technology, management, access to markets (Dunning, 1995).

When the existence of such a relationship is not taken for granted, it is about the portfolio investment which represents a purely financial investment, the control over the resources being transferred by the issuer to the receiver.

Traditionally through FDI was provided the expansion of TNC which are defined by the IMF as: 'the investment which involve a long-term relationship that reflects the interests of an entity resident in an entity resident in another country than its investor, the direct investor's role is to exert a significant degree of influence over the management of the enterprise resident in another economy. The minimum percentage of control accepted by most countries is 10-25% (10% U.S., 20% France and Britain, 25% Germany).

Vice versa TNSs are often a vehicle for FDI. Thus, FDI as an important part of international capital movements (international lending process) represent the international capital flows in which a firm in one country creates or increases a subsidiary in another country (Krugman, 1991). The subsidiary not only has a financial obligation to the mother-company but it is part of the same organizational structures.

The mother-company often ensures with capital its foreign subsidiaries hoping an eventual return. To the extent that TNC provides financial subsidiaries abroad, FDI is an alternative way to achieve the same goals as international loans, but it remains open the question of why FDI is preferred to other ways to transfer funds. There should be made the indication that the existence of TNC does not necessarily reflect a net capital flow from one country to another, STN sometimes collect money for the expansion of their branches in the country where the subsidiary perform better than in their country of origin.

Moreover, there is a two-way road in the industrialized countries: U.S. firms expand their subsidiaries in Europe while European firms are expanding their subsidiaries in the U.S.

A strong response to the preference of FDI in international loans is to allow the formation of multinational organizations, representing an essential goal that control is obtained.

FDI started in the international economy since the early period of capitalism, but recording a real boom in international transactions in the last decades of the twentieth century, particularly due to development activities of transnational companies.

The investment flows (Voinea, 2001) generally attached to the direct foreign investments are usually composed of:

- the capital provided by investors to buy shares in a company abroad;
- the reinvested profits from foreign economic activity (in proportion investor share to the capital);
- the loans from the company –credits granted by the mother-company to its subsidiaries abroad.

The foreign subsidiaries of transnational corporations can be funded (besides the sources mentioned above) through domestic market funds of the host country, but also through foreign direct financing through loans and by purchasing of bonds from sources other than the mother-company. All these funding sources increase the transnational corporations subsidiaries production's capacity by influencing the dynamics of the local markets but without being recorded as FDI, but as capital expenditure.

The particularity of FDI is given by the control exercised by the investor over the assets in which the investment was made. Thus, FDI represented a transfer of an industrial package that included capital, technology, industrial organization, managerial expertise, marketing, etc. elements, transfer that allows the investor to exercise his right to control his investment. (Negritoiu, 1997).

The foreign investor's control depends on the share that he holds in that company. If this ratio is low, the control is replaced by a direct participation in the management and organization of production. Experts consider foreign direct investment a company in which the foreign investor owns or exceed a share of 10-25%, although the foreign investor participation is usually above 50%. Noteworthy is the fundamental difference between the foreign direct investment and the portfolio investment:

- through the foreign direct investment the investor is directly involved in the management and organization of production, in the business activity monitoring;

- the investment portfolio entitles the investor to receive only dividends without the possibility to control or manage the company he invested.

To place the foreign investment (Vătăşescu and Albu, 1999) somewhere between one of those two types (foreign direct investment or portfolio investment) is sometimes difficult, between area there being a cohabitation in which boundaries can be difficult to delineate. Thus, the forms that foreign investment can take are:

- the purchase of shares on a foreign market or issued by a firm in a third country;
- the purchase of bonds on foreign markets or issued by a firm in a third country;
- the establishing of a new company or opening a subsidiary in another state;
- providing a financial credit for a foreign company or a company that operates on its own market;
- the acquisition of a foreign company or merging with it;
- the participation with capital in the making of a mix corporation.

FDI are a characteristic feature of large transnational companies, therefore, experts consider that FDI theory overlaps the theory of transnational corporations, these being the main actors in the global economy although without FDI representing only the privilege of the transnational corporations. FDI is not only a capital transfer, *"but rather an extension of the corporation from the country of origin into a foreign host-country. A business activity in a foreign country involves capital, technological and entrepreneurial experience flows which in combination to local factors, generate the production of goods or services for the domestic market or export. This package transfer remains under the control of the investing firm, as in fact the subsequent production and marketing activities conduced in the host country. "(Negritoiu, 1997)*

6. CONCLUSIONS

Business analysts considered the starting point of the theories on FDI is the work of John H. Dunning in 1958 regarding the U.S. companies investments in the UK manufacturing industry. But the first major contribution to studying the phenomenon of FDI is given by Stephen H. Hymer through his Ph.D thesis at the Massachusetts Institute of Technology in the U.S. which was presented in 1960 but published in 1976.

During the past decades, the FDI phenomenon theorists have divided into two: a first group of Canadian economists formed by Mc Monis, Calvet, Hymer, Saforian Gordon, Fower, Shapiro, the other one being of British origin has as representatives Dunning , Buckley, Casson and Cantwell.

These theories on the place and role of the foreign direct investment (starting from the causes that determine FDI flows) have been united by the works of AL Calvet (1981), J.A. Cantwell (1988) and Soul Lizondo J. (1991 - IMF study).

This paper may be assigned into:

- theories of the firm-monopoly advantage, internalization;
- theories on macroeconomic development - market imperfections, the model of oligopolistic competition, the product life cycle.

The economic literature in Romania the theories and developments on FDI have been questioned by economists, such as Mişu Negriţoiu, Anda Mazilu, Costea Munteanu, Daniel Dăianu, Ion Anghel etc.

Some studies show that the investment ensures the increase of fixed and circulating capital as a movement of capital whose area of influence does not stop at national borders, becoming an international activity. The process of deepening economic and technological interdependence among the national economies transforms the investment in a common transnational activity.

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