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Transnational Corporations: History, Evaluation, Modern Trends

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Abstract. The article examines history and emergence stages of transnational corporations. In a rapidly globalizing world TNCs play the key role in contemporary markets.

Keywords: globalization; transnational corporation; world economy; business; transnational corporations (TNCs).

Globalism – that notion is closely connected with the activities of transnational corporations (TNCs). Today the major part of experts agrees that TNCs play dramatic role in global economy. Transnational corporations hold ninety percent of all technology and product patents worldwide, and are involved in 70 percent of world trade. They employ in their foreign affiliates about 80 million people. The United Nations has justly described these corporations as “*the productive core of the globalizing world economy*”. Some transnational corporations are very big, with budgets that exceed some nations' GDPs. Transnational corporations can have a powerful influence in local economies, and even the world economy, and play an important role in international relations and globalization.

For many corporations, going global is a matter of survival, and it means radically changing the way of doing business. Most people think that the multinational and the global corporation are the same. But is not so, multinational corporation operates in a number of countries and adjusts its products and practices in each at high relative costs. The global corporation operates with resolute constancy at low relative cost. It sells the same things in the same way everywhere. The global corporation – or transnational corporation – looks at the whole world as one market. It manufactures, conducts, researches, raises capital and buys supplies wherever it can do the job best. It keeps in touch with technology and market trends all around the world.

The development of transnational corporations has passed historically a number of stages. What company first became transnational? It is very controversial question. Some experts confirm that *Order of the Temple* established in 1118 became the first transnational corporation when it launched banking business. The *Dutch East India Company* was the second multinational corporation in the world (the first, the *British East India Company*, was founded two years earlier) and the first company to issue stock, and it was the largest of the early multinational companies. It was also arguably the world's first mega corporation, possessing quasi-governmental powers, including the ability to wage war, negotiate treaties, coin money, and establish colonies.

At the time, the government chartered all corporations – that is, it gave them a specific public mission in exchange for the formal right to exist. The United States was settled by one such corporation, the Massachusetts Bay Company, which King Charles I chartered in 1628 in order to colonize the New World. The practice of chartering companies was a crucial part of the mercantile economic system practiced by the epoch's great powers – Holland, Spain and England. By allowing investors to pool their capital, the monarch made it possible for companies to launch ventures that would have been beyond the means of one person. And in exchange for the charter, companies expanded their government's wealth and power by creating colonies that served both as sources of raw materials and as markets for exported goods.

From the very beginning of TNCs' existence became object of rough economic discussions. One their activity was estimated as destructive, the emphasize became on negative consequences of industrialization. Others attributed a role of the main tool of world progress.

In the 60th years, an increasingly prominent role of TNCs has begun to play the third generation, which was widely used to achieve scientific and technological revolution. These techno-consumer companies: corporations and conglomerates.

70th years have passed under the sign of negative estimations for TNCs as a factor of an aggravation of economic, political and social contradictions.

In 80th years, appreciable role of the TNCs was observed in economic development and in the permission of political and social problems. Previously, it came with the recognition of their enormous potential, a huge role in development of scientific and technical progress.

The world's four largest multinationals in 2000, were Exxon Mobil, Wal-Mart Stores, General Motors, and Ford Motor – their joint revenues were more than the combined gross national product of all African countries. 22 multinationals made more than \$6 billion profit in 2000, and Exxon Mobil made \$17.7 billion profit, a 124% increase over the previous year. The value of mergers and acquisitions in 2000 was estimated at \$3.2 trillion, the most notable being Pfizer with Warner-Lambert in a \$116 billion deal, and Glaxo Wellcome's purchase of SmithKline Beecham for \$76 billion (to create GlaxoSmithKline). [4]

Many have changed since those times. Transnational corporations are important factors in processes of globalization. National and local governments often compete against one another to attract TNC facilities, with the expectation of increased tax revenue, employment, and economic activity. To compete, political entities may offer TNCs incentives such as tax breaks, pledges of governmental assistance or subsidized infrastructure, or lax environmental and labor regulations. These ways of attracting foreign investment may be criticized as a race to the bottom, a push towards greater autonomy for corporations, or both. [3]

Why companies are going to be global? The rules of survival have changed since the beginning of the 1980s. Domestic markets have become too small. They were too saturated. Even the biggest companies in the biggest countries cannot survive of their domestic markets if they are in global industries.

Adapting to the new global format won't be easy. Managers can find it tough to eliminate national preferences in making decisions about such matters as promotions and capital investment.

No company has yet reached a state of pure globality. Even with its world-wide net of products, plants and offices a company still has a long way to go. Every which would be global company has its own pace and approach, but common imperatives stand out – as exemplified by several major world players: JP Morgan Chase, Citigroup, General Electric, Apple, Microsoft, BP, Phillips and etc.

TNC is very comprehensive system which depends on fast-changing world economic processes. Different factors can influence TNCs' performance. One of them is financial stability in the world economy.

Transnational corporations had a negligible direct impact on the international financial crisis of 2008. TNCs such as General Motors and the international financial institutions are publicly regarded as drivers of the financial crisis, but this can be better explained by analysis of macroeconomic policy and the reasons for a global imbalance of foreign exchange reserves and financial assets, in particular between China and the United States. In other words, it was misalignment of financial portfolio investment that caused the global crisis, not FDI undertaken by TNCs. Still, the financial crisis has had substantial impacts on TNC organization and strategy: most visibly, TNCs have been adversely affected by the financial crisis, as evidenced by substantially decreased flows of FDI. Perhaps more interesting, however, are the long-term effects of the financial crisis on TNC strategy.

The economic and financial crisis has significantly affected TNCs' operations abroad. Foreign affiliate' sales and value-added declined by 4-6 percent in 2008 and 2009. Since this contraction was slower than the decline of world economic activity, however, the share of foreign affiliates' value-added (gross product) reached a new historic high of 11 percent of world domestic product (GDP). Besides Greenfield investments, any expansion of the foreign operations of TNCs in 2009 can largely be attributed to the organic growth of existing foreign affiliates.

The world market is becoming more and more integrated. Within last ten years world trade developed much faster than world production grew. Foreign employment remained practically unchanged in 2009 (+1.1 percent). This relative resilience might be explained by the fact that foreign sales started to pick up again in the latter half of 2009. In addition, many TNCs are thought to have slowed their downsizing programs as economic activity rebounded – especially in developing Asia. In spite of the setback in 2008 and 2009, an estimated 80 million workers were employed in TNCs' foreign affiliates in 2009, accounting for about 4 percent of the global workforce [2].

Current trends in the international marketplace favor the continued development of transnational corporations. Countries worldwide are privatizing government-run industries, and the development of regional trading partnerships such as the North American Free Trade Agreement and the European Union have the overall effect of removing barriers to international trade. Privatization efforts result in the availability of existing infrastructure for use by multinationals seeking to enter a new market, while removal of international trade barriers is obviously a boon to transnational operations. [1]

Perhaps the greatest potential threat posed by transnational corporations would be their continued success in a still underdeveloped world market. As the productive capacity of transnational's increases, the buying power of people in much of the world remains relatively unchanged, which could lead to the production of a worldwide glut of goods and services. Such a glut, which has occurred periodically throughout the history of industrialized economies, can in turn lead to wage and price deflation, contraction of corporate activities, and a rapid slowdown in all phases of economic life. Such a possibility is purely hypothetical, however, and for the foreseeable future the operations of transnational corporations worldwide are likely to continue to expand.

References:

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**Транснациональные корпорации:
история, оценки, современные тенденции**

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Аннотация. В статье рассматривается история и этапы формирования транснациональных компаний. В современных условиях глобализации, роль ТНК становится ключевой на современных рынках.

Ключевые слова: глобализация; транснациональная компания; международная экономика; бизнес; transnational corporations (TNCs).