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**ELVINA LYMONOVA**

Dnipro

elvina.lim@mail.ru

## **CAUSES, DEVELOPMENT AND REGULATION OF TRANSNATIONAL BUSINESS**

*The article examines influence of transnational corporations on the process of globalization; it was defined that the main driving force of globalization is in transnationalization of the world economy; five generations of transnational corporations were defined and their peculiarities were viewed; main levels of management of transnational corporation activities were analyzed.*

*Key words: transnational corporation, globalization, transnationalization, supergovernmental regulation of TNC activities, intergovernmental regulation of TNC activities, governmental regulation of TNC activities, public regulation of TNC activities.*

In the beginning of the 21st century an intensive production and investment globalization has been started; and this process is accompanied with consolidation of separate economic entities. Consequences of transnationalization of national economies include abolition of restrictions and blurred boundaries, decrease of the temporary factor. Under these conditions activities of transnational companies (TNC) become particularly important as well as their influence on economies of separate countries and developmental trends of world economic indexes in general.

By means of placing their separate divisions and stages of reproduction processes on the territory of various countries TNCs appear to be the most powerful groups of corporate business acting on a global scale and playing a leading part in the process of increasing international economic interdependence. Financial flows and commodity flows are passing through TNC structures, and these flows are determinative factors for development of the world economy. The foregoing indicates topicality of theoretical interpretation of transnational corporation, phenomenon as well as the necessity of further scientific researches in this sphere.

The problem of regulating activities of transnational corporations has always been in the focus of attention of present day economists. The matter of researching the influence of TNCs on economies of the developed countries, developing countries and countries with transition economy fell under careful attention at the end of the 20th - beginning of the 21st centuries. A suffi-

cient number of foreign and domestic publications have been dedicated to this problem. Important foreign publications include works by J. Bailey, G. Caves [1], J. Dunning [2], G. Coase, S. Myers, S. Hymer [3]. Domestic publications dedicated to this problem include works by A. Arkhipova, A. Astapovych [7], G. Davtyan, A. Kovaliova, D. Lulyanenko, Y. Makogon [9], A. Nagovitsyn, A. Rogach [11], V. Rokoch [12].

But despite a sufficient number of publications dedicated to TNC activities some matters remain insufficiently studied. And the problem of regulating activities of transnational corporations in conditions of globalization processes is of peculiar importance. TNCs are in the process of an extremely quick transformation. But at the same time the external environment of their functioning is also dynamically changing. The modern economic science does not present a detailed description of interconnection and mutual influence of TNCs and the globalization. TNCs are formed in close interrelation with globalization of the world economy, and in fact TNCs are a product of this globalization. And at the same time transnational corporations appear to be the main catalyst for processes of globalization and transformation of the world economy and of separate national economies. The negative influence of TNCs on developing countries proves the necessity to regulate their activities. And of course, this requires a deeper scientific research to be carried out.

An effective regulation of TNC activities in conditions of globalization is possible only on

condition of consolidated efforts of entities on various organizational levels of world economy management: bodies of government administration of the national economy, the level of inter-governmental regulation, the level of supergovernmental regulation, the level of broad public circles etc. And that is why the main task of this scientific research consists in defining the circle of bodies dealing in regulation of TNC activities as a multilevel process.

On the modern stage of world economy development transnational corporations have become one of the main driving forces of globalization. As at the beginning of 2012 85 thousand units of transnational companies and their branches were registered and over 85% of the world export and 90% of direct foreign investments were under their control [5]. They account for over 50% of the world production, over 75% of the world trading and international migration of capital as well as over 80% of technological exchange. Up to date transnational corporations are those very structures that actually resolve key issues of the new economic and territorial repartition of the world. TNCs form the biggest group of foreign investors and carriers of new technologies in the production sphere and non-production sphere.

According to definition of the UNO transnational corporations are enterprises possessing or controlling production of goods or services outside the country of their location [4]. The main characteristic of TNCs consists in their ability to organize and to control economic activity in various countries. This characteristic distinguishes TNCs from other participants of the world economic system. These other participants include labor force, consumers, local, regional and national governments.

TNCs play the most important role in the process of world globalization first of all due to the fact that their activities and needs are in the basis of organizational and technological innovations and so they are in the basis of productive forces development; the second point is that the biggest share of international transactions is performed by such corporations; the third point is that on the modern stage of world economy development such corporations are the only factor that can really organize and control cross-

border activities; the fourth point consists in the fact that these corporations can take the full advantage of ICT and promote spread and development of these technologies; the fifth point is that unlike many other entities of the world economy TNCs are rather an active (and not passive) participant of globalization processes.

Reasons of TNCs formation and development are really diverse. But all these reasons are to a certain extent related with imperfect competition, barriers on the way of international trading development, exchange control, significant transport expenses as well as with significant differences in tax legislation of various countries.

The first prototypes of TNC came to existence in the 16th-17th centuries when colonial development of the New World started. So founders of the British East India Company (created in 1600 for "development" of Indian resources and acting until 1858) included not only English businessmen but also merchants from Holland and bankers from Germany. Colonial companies of the kind dealt exclusively in trading and not in organization of production and that is why they did not play a decisive role in the economic system development. These companies are considered to be only predecessors of "real" TNCs which came to existence at the end of the 19th century when free competition was substituted by active development of big monopolies performing massive capital outflow [13].

Transnational corporations have several stages of their development. And that is why five TNC generations are usually defined in the literature.

Activities of the first TNC generation (starting from the period of their emergence at the end of the 19th century and until the beginning of the First World War) were related predominantly with extraction of raw materials in colonial countries of Asia, Africa, Latin America and with processing of these raw materials in parent (metropolitan) states. During that period it was unprofitable to organize High-tech industrial production abroad. On one side accepting countries did not have personnel of necessary qualification level and technologies in those countries had not yet reached a high level of automation. On the other side one had to take into account possible negative influence of new

production capacities on the ability to maintain an effective level of capacity utilization at "domestic" enterprises of the company. So, the average capital outflow from England was 7% of the national income. In general, before 1914 England accounted for 50% of the total exported world capital. Foreign investments were distributed in the following way: 40% was invested to the railroads, 30% was invested to governmental and municipal loans [10]. Entities of transnationalization during that period usually included consolidation of companies of different countries (international cartels) which shared market outlets, carried out coordinated pricing policy etc.

The second generation of TNCs was developed during the period between the two World Wars. TNCs of this generation were engaged in production of military equipment and weaponry for the leading European countries as well as for the USA and Japan. During this period the investment pattern was gradually changing: countries of the Western Europe (and first of all England) lost their position of creditors and exporters of capital; and American capital was penetrating the Western Europe to ever increasing degree. The characteristic feature is that the share of direct investments was 25% of the total sum [10].

The third generation of TNCs started to develop after the end of the Second World War and the collapse of the colonial system (1945–1960). This period was connected with an increasing role of foreign production divisions and not only in developing countries but in the developed countries as well. Foreign production divisions specialized predominantly on production of the products which had been earlier produced in the parent country of the respective TNC. With a course of time TNC branches crossed over to servicing the local demand and local markets. If earlier international cartels had acted on the stage of the world economy and now national companies came to existence. These companies were sufficiently large for implementation of independent foreign economic strategies. It was during 1960-s that the very term "transnational corporations" appeared. Starting from the 1960-s the rapid increase of TNC number and importance was taking place under the influence of the scientific and technical revolution. Introduction of new technologies and simplification of manu-

facturing operations which could be performed by low-skilled and uneducated personnel gave an opportunity to implement spatial separation of separate technological processes. The policy of liberalization of international economic relations, emergence of new independent states on the world political stage and an increasing consumer demand were the factors giving international corporations an opportunity to actively conquer the world markets in the beginning of 1960-s. Activities of TNC during that period of time was predominantly focused in the sphere of nuclear power, electronics, tool engineering, space industry.

The fourth generation of TNCs was formed during 1970-s – 1980-s in conditions of accelerated scientific and technical progress and actively developing world economic relations conditioned by an increasing level of competition in the world market. Development of transport communications and information communications contributed to implementation of these opportunities. The process of production could be painlessly divided and separate technological processes could be located in those countries where national factors of production were cheaper. Spatial decentralization of production started its development on the planetary scale in conditions of management concentration. This stage is characterized by a great number of amalgamations, fusions and takeovers which led to concentration of production and capital in TNC-leaders working in the sphere of big international business. During 1990-s the increased financial sector globalization and integration of financial markets led to emergence of huge transnational financial conglomerations.

The fifth generation of TNCs started its formation in the beginning of the 21st century in conditions of accelerated economic integration processes. Based on the modern science and innovation business TNCs of the fifth generation has appeared to be the main generators and spreaders of scientific ideas and concepts. The main peculiarity of TNC development consists in creating networks of production and global scale implementation. The number of foreign TNC branches is increasing much quicker than the number of TNCs themselves [8]. The main role in choosing places for creating subsidiary

companies belongs to analysis of production costs which are often lower in the developing countries. And products are sold better where the demand on these products is higher – i.e. predominantly in the developed countries. On this stage transnational corporations pursuing their private economic interests represent a synthesis of subnational as well as supranational interests reinforced due to the great financial capital. Such corporations gravitate toward using the state apparatus of separate countries and subjects of interests of internal corporations in their own interests. And that is the main contradiction of interests between TNCs and the national state. This contradiction has a dialectical nature and takes various forms (from direct opposition to quite a constructive and mutually advantageous collaboration).

In those cases when interests of a TNC objectively coincide with interests of certain national states it can provide significant and even decisive advantages to these states in their competition with other countries. But in the modern world the role of TNCs is being increased and the role of national states is being decreased. And due to this fact interests of the state are subordinated to more powerful interests of transnational corporations.

Interests of TNCs and interests of less developed states (Ukraine is one of these states) are more contradictive. In this situation interests of great international corporations often contradict to interests of the state. One can name the following main points of the negative influence caused by transnational corporations on the developing countries:

1. In the internal market of the country TNCs create a powerful competition to local companies and do not give them an opportunity for development.

2. Free transfer of TNC financial capital can undermine stability of national currencies and create a threat to national safety of developing countries.

3. By means of concentrating their interests in a country TNC can inoculate ideology which contradicts to development of the national business and they can also suppress development of national interests of the country.

The mentioned directions of negative influence prove the necessity to regulate activities of TNCs. In our opinion four levels of regulation of TNC activities can be distinguished: supergovernmental level, intergovernmental level, governmental level [6] and public level (Table 1).

The main tools of supergovernmental regulation include multilateral international agreements (depending on the number of participating countries these agreements may be universal ones, regional ones and subregional ones). It should be noted that adopted documents do not give a practical influence on activities of TNCs and their branches because not all countries give their consent to apply TNC standards on their territory.

Intergovernmental regulation may include bilateral investment agreements concluded between interested states. Up to date conclusion of agreements between the accepting country and the home country is the most widespread method of regulating TNC activities. Ukraine has signed approximately 73 bilateral agreements

Table 1

**Main levels, subjects and tools of regulating TNC activities**

No	Level of regulating TNC activities	Subjects of regulation	Tools of regulation	Purpose of regulation
1	Supergovernmental regulation	Supergovernmental political and organizational institutions	Codes of conduct, Multilateral international agreements	Organization of world economy organization
2	Intergovernmental regulation	States	Bilateral investment agreements	Improvement of positions in the world economy
3	Domestic regulation	Public authorities	Legislative framework of a separate country	Solving macroeconomic problems
4	Public regulation	Voluntary associations of individuals	Public opinion, traditions, upbringing and education	Improving welfare of individuals

concerning investment protection. Unlike such states as for example the USA, Japan and Great Britain Ukraine does not have a model (typical) agreement. And in fact absence of such an agreement proves absence of a unified and clearly manifested approach of the state to the key provisions and notions in the sphere of investment protection and investment tribunal.

In the most cases governmental regulation is presented as investment legislation aimed at definition of foreign investor legal status (natural person or legal entity). But the most impressionable point in case of unilateral regulation of TNC activities consists in the fact that thanks to their organizational structure TNCs can evade control of a single state. And that is why legislation of accepting countries is evidently an insufficient tool for regulation of TNC activities. Problems of domestic regulation of TNC activities include first of all aspiration of the most influential countries to expand their domestic legislation on foreign branches of their companies and in the next place an insufficient number of national legislation institutes in accepting countries.

Public regulation tools include national traditions, upbringing, education and public opinion as the most important point. The most transnational corporations consider that consumers live in the global environment where their tastes and cultures are homogenized and can be satisfied through a proposal of standardized global products. It is confirmed through success of transnational corporations which have reached maximal profit in the long run never focusing their attention on buying preferences. And that gives transnational companies an opportunity to sustain a stable brand image on a global level as well as to use the plenitude of advantages related with the scale effect. In fact, therein also lies the main contradiction of this strategy: the standardized global strategy loses the sight of segments which are still distinguished through their unique social, cultural and legal markers not to the full extend meeting real needs of consumers. But in some cases the public opinion does not give an opportunity to use this strategy. The community call on TNCs to adapt their products, prices, channels, strategies to community's interests; and that is related with peculiarities

and differences of the national culture, purchasing ability, preferences for products as well as with needs and desires of consumers.

Opening the post-Soviet economic space, world integration trends, growing of China as a great manufacturer and consumer as well as liberalization of international trading has opened wide opportunities for TNC expansion on the territory of all continents. Trading, production, monetary and financial relations as well as scientific and technical relations between present-date TNCs are continuously becoming deeper and thanks to that the global nature of their business is reinforced. So, it is arguable that TNCs are formed in close interrelation with globalization of the world economy, and that inherently TNCs are a product of this globalization.

The foregoing premises give us an opportunity to argue that a transnational corporation is a component of world economy subordinated to laws of its development and having a reverse influence on the world economy; it is a product of globalization processes. The mentioned interrelations between TNCs and the process of globalization are intergovernmental confirmed through researching stages of TNC evolution.

Up to date the role of TNCs is reinforced and the role of national economies becomes weaker. And that leads to contradiction of interest between transnational corporations and the states. This contradiction may have a negative influence on the economic situation in the state. And that is the reason why there is a necessity to regulate TNC activities.

So, TNCs came to existence as a result of globalization and then they started to control this process and to accelerate it for maximization of their own economic interests. The fact that the modern process of transnationalization has acquired many new features has a significant influence not only on the world economy but also on the economies of countries where corporations are located. Our further researches include analysis of positive and negative influence of TNC activities on the national economy as well as analysis of recommendations concerning regulation of these activities.

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**ЕЛЬВИНА ЛИМОНОВА**

Дніпро

### **ПРИЧИНИ, РОЗВИТОК ТА РЕГУЛЮВАННЯ ТРАНСНАЦІОНАЛЬНОГО БІЗНЕСУ**

*У статті досліджено вплив транснаціональних корпорацій на процес глобалізації, визначено що основною рушійною силою глобалізації є транснаціоналізація світової економіки, виділено п'ять поколінь транснаціональних корпорацій та розглянуто їх особливості, а також проаналізовано основні рівні регулювання діяльності транснаціональних корпорацій.*

*Ключові слова: транснаціональна корпорація, глобалізація, транснаціоналізація, наддержавне регулювання діяльності ТНК, міждержавне регулювання діяльності ТНК, державне регулювання діяльності ТНК, суспільне регулювання діяльності ТНК.*

**ЭЛЬВИНА ЛИМОНОВА**

Днепр

### **ПРИЧИНЫ, РАЗВИТИЕ И РЕГУЛИРОВАНИЕ ТРАНСНАЦИОНАЛЬНОГО БИЗНЕСА**

*В статье исследовано влияние транснациональных корпораций на процесс глобализации, определено, что основной движущей силой глобализации является транснационализация мировой экономики, выделено пять поколений транснациональных корпораций и рассмотрены их особенности, а также проанализированы основные уровни регулирования деятельности транснациональных корпораций.*

*Ключевые слова: транснациональная корпорация, глобализация, транснационализация, надгосударственное регулирование деятельности ТНК, межгосударственное регулирование деятельности ТНК, государственное регулирование деятельности ТНК, общественное регулирование деятельности ТНК.*

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