THE EXPANSION OF THE TRANSNATIONAL AND MULTINATIONAL CORPORATIONS IN THE GLOBAL ECONOMY

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Abstract:
The phenomenon of transnationalisation and multinationalisation evokes just the differences between the two types of corporations. It can be said that a transnational company is above geographical boundaries, wich from the perspective of revolutionary technological communications and transport have been dimmed, but above the borders represented by language, culture, mentalities and technology. The transnational company operates spot transactions because it is listed on the various first rank Stock Exchanges and the financial, technical, image and brand results recorded by this, are public information that it is measuring the success or unsucces of the transnationalisations phenomenon.

By comparison, the multinational company is listed either at stock exchanges of secondary importance, or it is a group or family bussines which has the active abroad. At the same time the multinational corporations effectively produce without to generate significant resources for the development of it's own research activities, so, having failed to impose an uniform structure and culture regardless of the assets location. Another significant difference is at the financing access. The transnational company is standing in attention of the rating firms having a low-risk investment that it allows to access the financing at low cost. In most cases, multinational society has limited financial funding in the country of origin, sometimes exclusive relying on the raised funds of the branches which it controls.

Key words: *multinational company, transnational corporations, foreign investment, macroeconomic environment, foreign capital.*

Clasificare JEL : *F21, F23, F43, F62, F63*

1. General considerations

Through their special significance in the global economy the transnational corporations are rightly considered in the economic literature, as key organisations of economic activities and markets, as well as the agents of value creators that allocate on a global scale a large part from the resources needed to support the process of economic growth.

The literature offers numerous approaches in relation to the motivations that lie at the origin of the decision to invest in abroad of the trasnational companies (TNCs) . Synthetic, the motivations of investment in abroad of TNCs in the form of foreign direct investments (FDI) as they have been identified by various authors in the period 1960-1990 can be grouped as following:

- FDI in search of new markets;
- FDI in search of resources;
- FDI in search of efficiency;
- FDI in search of strategic assets;
- FDI in search of technology;
- Combat competition.

John Dunning is one of the researchers who have studied the phenomenon of FDI and the expansionist motivations of companies, being the author of the OLI paradigm (Ownership, Location, Internally) that represents a matrix of assessment of direct investment intention , on the basis of three categories of benefits that FDI can offer for TNCs compared with the exports of the same products.[3].

In essence, the theory shows that there is a a net advantage of internal exploitation within the company, of the advantages which it holds in front of competitors (patents, trademarks and trade secrets, human capital,etc), but in a foreign location because there are factors of production (input) that allow the increasing the efficiency, economies of scale, high profitability, that lead to improving or maintaining of market share against competitors.

Generally, the theories developed over the period 1960-1990 have tried to explain the behavioral model of multinational American companies, which were in a unprecedented expansion in that period through foreign investments, before the revolution caused by the introduction of the Internet on a large scale in the 1990s, that prompted a homogenization of the tastes and preferences of consumers, the unprecedented liberalisation of markets, especially in services and the transition to the market economy of the former Communist countries. Moreover, the growing number of treaties of mutual guarantee investments, for avoidance of double taxation, waiver of tariff barriers and other measures for the protection of domestic markets, were the factors that have removed some categories of the expansionist motivations of TNCs applicable to 70s. [6] In addition, the countries in transition have promoted intensive FDI through incentives generous tax . Starting in 1990,of the process of transition to market economy included former Communist countries in a separate category of "countries in transitio" or "emerging markets". By adopting EU legislation in matters of economic policy and Home Affairs, the motivations related to the overcoming of trade barriers, the speculation of permissive legislation in the field of environmental protection or the labour market disappear, and the motivation related to the cheap cost of labor becomes relative.

Synthesizing, the main expansionist motivations of TNCs are the following:

- ensuring access to a market of over 100 millions;
- servicing this market with affordable price products at a quality that does not affect the brand and reputation of the mother company ;
- the acquisition of assets with sure profit;
- relocation of activities intensive consuming of manpower and of other resources which are cheaper to than the country of origin ;
- more lax standards for a period of time in the field of environmental protection;
- incentives offered by the Governments of host country;
- combating competition.

2. The role of transnational and multinational companies in the process of economic development

Although the assertion of multinational and transnational corporations as engine of economic growth and as integrator agents of the development represent an irreversible and incontestable reality, however, they have become a critical factor for each of the features of the new global economy which are the following:

- the increased role of investment in national and non-national plan resulted from the private sector;
- the development and transmission of new information and production technologies, often through networks controlled of transnational corporations;
- the participation at the globalized activitie of industries and the strengthen of the regional economic links focused around of the power centres

In this sense, we can notice that one of the most synthetic expression of globalization is currently the magnitude which it acquired the organization of production on regional or global fundamentals and the integration based on new functional criteria of activities whithin it. The Flows of financial and non-financial resources – which make possible the international production are the foreign direct investments, and the operators that generate the majority of these flows, and at the same time the organizers of production abroad, are the transnational corporations.[8]

The technological developments particularly rapid triggered at the beginning of the '80s and mainly the revolutionize of the telecommunications, the development of the services in general, the change of competitiveness reports at the global level and the multiplication of the economic power centers, are factors that increased the inclination of firms to the relocation of productive processes of material goods and in large measure of services.

Taking into consideration the evolutionary process of transnational corporations, we can see that more than a third of fixed private capital productive in the wolrld it is currently owned by them. The international production has become a structural feature of the curent world economy. At the same time, the integrative vocation was intensified by the qualitative mutations incurred in the strategies of transnational corporations, consisting in the increase of functional integration of the activities in the context of the transnational regime complex.

The reports of UNCTAD and OECD recorded for the period 1990-2008 an increase from 37,000 to 70,000 of the TNCs number and from 170,000 to 690.000 of its subsidiaries. The increasing of TNCs number and their subsidiaries reflects the fact that, all countries, including those in developing and in transition, have realised the support that these TNCs can offer them in the process of economic development. In turn, host Governments have understood that should offer a stable macroeconomic environment for the TNCs, but also an attractive tax legislation and a permanent support from the central and local authorities. [5] The expression of this optical changeis is evidenced by the fact that, in 2004, 102 countries have adopted in total 27.131 measures, which in the overwhelming majority have meant the reducing of the entry and exit barriers for foreign capital but also the trend of liberalization of the markets and homogenization of the national laws.

Besides the simplification of bureaucracy and the reduction of administrative barriers, the interested countries in attracting of the foreign investment have made significant changes in the levels of taxation for the purpose of reducing the fees and taxes for stimulating of the investments. Romania is one of the countries that has significantly changed the system but also the level of taxation since 2005, through the introduction the flat tax of 16%, what has diminished both the income tax from 25% to 16% but also the tax on wages, in particular in the case of big salaries, from about 40% to the same 16%. However, the taxpayer must always be evaluated in his whole, because even if, for example, a tax on the profit of 16% is apparently less than a tax of 24%, in reality, according to the categories of deductible expenses, I mean according to the tax base, the difference between the two values can be relatively small. From this perspective, often the developed countries operate discounts on fees and taxes however accompanied by changes in the list of deductibilities. Also, the international treaties have a major role in the establishment of an attractive tax regime for foreign investment, the bilateral mutual protection and guarantee of investments and also the bilateral agreements to avoid double taxation.[4]

The number of agreements of mutual guarantee investments has continued to increase but in a smaller measure compared with the '90s reaching in 2004 at 2.392, most between developing countries and between them and the developed.

In terms of agreements to avoid double taxation, we can observe that their number is constantly increasing. At the end of 2004, there were 2.559 of such agreements, developed countries being in this case first in the ranking.

The TNC_s have had and still have an extremely important role in the process of economic modernization, because due to the multinational activities that they held can ensure transfer of know-how, can assist the Governments with their experience from other countries, accelerating the process of liberalization of markets especially in the key sectors such as: energy, banking and insurance, transport, agriculture, health, etc. At the same time, in terms of uniform policies that they apply at the level of branches, provide the employees access and management to top technology assuring them the acquiring of new abilities. The major challenge which had to withstand the Governments of countries in transition was to succeed to conclude partnerships with TNC_s.[1]

Their natural tendency is to try the monopolisation of the market especially those in the phase of training or those lacking in local competition, and to impose unduly high prices for similar products to those sold on developed markets but at lower values. There are certain advantages related to the presence of a TNC through FDI in countries like Romania if we were to mention only the access to technology, organizational culture, modern management and not at least the access to finance. But all these can become insignificant in the face of aggressive behavior of the mother company, as happened for example in the case of Romtelecom company, the romanian landline operator. After the acquisition of a majority of shares by the company OTE of Greece in 1998, it has followed a period of 5 years along which the foreign investor has achieved a minimum investment. Speculating its monopoly position and the absence of anti-monopoly regulations, Romtelecom continued to increase the rates without any justification and to export indirectly capital through the artificial growth of prices of imported equipment for the purpose of investment.

In many cases this scheme is used in order to maximise profits, thus avoiding the specific mechanism of market and the national laws through the so-called (transfer pricing). This is a technique widely encountered with which TNCs set arbitrarily the prices for the transfer of goods, services, technology and loans between their branches from various countries, which differ considerably from the prices which companies that do not belong to them they would pay for the same products. [7] Thus, these companies will reduce the prices in countries where the taxes are high and they will grow in countries with lower taxes. In virtual mode, any transfer between the branches of a TNC may be classified as a transaction and appreciated properly. Thus, we can meet the costs for consultancy services, management, licensing, brand, research-development, etc.

Through their integrated financial accounting system, these transfers can take place anytime between branches, avoiding the taxation of profits. On the other hand, these TNCs exerts a constant pressure on Governments of the countries target to reduce fees and taxes, as a tool for attracting investments or to maintain of operations in that country. If the Governments try to limit the effects of these policies through a control of contracts management, consultancy or the right of use of the mark, there is a possibility for TNC_s to import the necessary subassemblies of production, raw materials or other goods at artificially high prices and to sell the finished product at artificially low prices, especially in the case of exports. [2] The European legislation provides the mechanisms of control of the transfer prices but the lack of corresponding information of the Tax Administrations make difficult the dialogue in real time with homologous organizations in the countries of origin of the TNCs. But all these negative aspects must always be weighed carefully and put into balance with the real positive effects induced by their presence. It is the responsibility of the authorities to organise so that, on the one hand to facilitate the positive activities of TNCs, and on the other hand to limit their natural inclination to maximize profits through unorthodox means. Despite all the negative aspects highlighted, FDI made by TNCs contributes inter alia to the economic growth of the country's target,through the expansion of base production, creating jobs and through the multiplier effect on the horizontal. Also, the competition exerted by these can lead to improved the performance of local firms and the quality of products. Furthermore, in the case of FDI in integrative areas such as construction of means of transport and electrical or electronic equipments, the TNCs can determine the providers to locate geographically in the same region generating positive cascade effects. On the other hand the pessimists can argue that this competition can lead in practice to the the disappearance of local firms. Thus, it is important that TNCs do not activate isolated but to unite their activities with those of local firms they are integrateing in the economy of the target countries. In this process, the role of local authorities and professional organisations may be decisive.

3. Conclusions

We can apreciate that and the developed countries with mature economies apply policies on attracting of the foreign investments, especially of the big corporations not only because they will create or maintain jobs, but also to relaunch the competitiveness sector's. The Investment promotion policies include fiscal facilities but less visible granted on the basis of local autonomy by the local public authorities. Practice has shown that, in the most cases, the foreign investment which is not connected to the local economy does not produce profit, or better said, produce as much profit is necessary in order not to attract the attention of the tax authorities of the country concerned. The repatriation of invested capital and dividends is made by the imposing of a higher price for the raw materials, sub-assemblies, components, imported as necessary in carrying out of the company actvity.

The Technological progress affects in a great measure the geography of FDI. The new economy based on information technology allows the dispersion of activities around the globe and their coordination in a uniform manner. A special emphasis is put on the possibility of interconnection, on the existence of so-called industrial clusters. The new organizational methods which are based on the new technologies allow a more efficient management of the global operations, through the relocation of functions for obtaining such a gain of efficiency.

The fierce competition forces the firms to specialize on core competencies, so more and more, the TNCs externalize at certain times of their existence, the activities become unprofitable or focus them in a single location. Fierce competition leads to a narrow specialisation of activities what default assumed the existence of a functional network of quality providers.

This dependency of suppliers higher than in the past represents a key chain of FDI, that often, causes the firms to invest in locations as close as possible of industrial concentration similar to their core activity causing the creation of so-called the industrial clusters.

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