THE TRANSNATIONAL COMPANIES' IMPACT ON DEVELOPING ECONOMIES DURING THE GLOBALIZATION PROCESS

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Abstract

Economic reality worldwide is marked by the evolution of globalization. This process entails effects that are perceived differently at national economy levels, function of their degree of development. We will proceed by attempting a survey of aspects pertaining to the relationship between globalization and developing economies, stressing on internationalizing Transnational Corporations and its effects.

Key words: Globalization, Transnational Corporations, internationalization, competitive advantage, economic openness.

JEL Classification: F1, F13, F15, F21, F63

1. Globalization – Concept and approaches.

Regionalization, globalization and the world economy are concepts that are real in today's world. Specialists claim that the concepts of globalization and world economy are approached differently: sometimes they are synonymous and other times globalization is considered to be a step towards world economy.

As it was analyzed since the early days of its existence, it became clearer that globalization is a non-biased phenomenon, with no historical precedent, considering its scale and evolution. Although it has some negative aspects, the positive ones are more important due to the fact that they ensure welfare and equilibrium.

Globalization was the result of the intensification of competition on all known levels: economic agents, countries and regions. The market liberalization in the developing countries has taken its toll, by affecting the domestic economy. But the fact that consumers had access to cheaper products and in large quantities surpassed the negative implications.

The globalization's supporters see this process as an evolution, while the skeptics see the growing differences between the rich and the poor and it represents an "attack to welfare and democracy". In the same time they accuse the developed countries of unfair treatment towards the developing countries, because they forced the developing countries to adopt policies for economic liberalization, which the

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developed countries didn't adopt. Some analysts consider that when the globalization's objectives are set, the developing countries will always lose, or at least their economic growth is really small.

The globalization's effects are different in proportions and orientation which leads to differences and even conflicts. The anti-globalization movements across the world that gather thousands of protesters are known to everybody. Former UN Secretary Butros Butros-Ghali said that "we are living in the middle of a world evolution…Our world is under the pressure of two gigantic opposite forces: globalization and disintegration."

Globalization is the answer to a major concern: the increase of world population while the resources, mostly nonrenewable are harder to find. To most nations, globalization is a process that they cannot get away from. Moreover as shown earlier it is a phenomenon that it's imposed by other countries.

The principles of this process are established by the big economic powers. For example in the USA the process is implemented by the political and economic elite. In this global context the United States give the tone on the financial markets and in the international trade due to the fact that they have all the necessary means to exercise their super power status.

The contemporary economists believed that the world should be an organized system, under global governance and to encourage the competition between the main global actors: EU, USA, and Japan. These countries increased their connectivity, thanks to the technological progress, mainly in the communications area, but today they have to work with other possible candidates to this geo-political status, mainly the BRIC Countries (Brazil, Russia, India and China)[2]. The top developed countries play an important role in establishing the global developing strategies, but the developing countries cannot be ignored, especially these days when their role in the global economy is growing. So, it is fair to say that the anti-globalization movement is a response to the international organisms' attitude that disadvantages the developing economies while supporting the developed ones. Moreover, the terrorist threats, around the world, present in the last years only show the cracks in this type of developing policy that generate big losses. The solution to these problems is, of course, a set of measures that need to be thought and implemented at a global level.

It is quite visible that globalization is a highly controversial process. Especially in the past few years, when the world economy had to deal and still does, which added another reason for the anti-globalization protesters to be mad about. So, it can be stated that the global economy has changed beyond recognition. Even the economic processes' cyclicality is modified in such a manner that the revival after the economic crises is no longer prolonged for big periods of time, but the resources needed for finding the necessary solutions are huge. The specialists claim that any type of economic growth must not be done uncontrollably due to the fact that it requires large amounts of natural, human, financial and informational resources. Due to the fact that a part of these resources are non-renewable and exhaustible their misuse can

[2] F. Bonciu, G. Baicu – Economia mondială sub lupă. De la crize acute la crize cronice

lead to natural catastrophes. This is the reason why the economic development should be based on scientific research doubled by an efficient resource usage. Unfortunately this type of research requires large amounts of capital, which is inaccessible to developing countries. As a result, while some countries are recording a strong economic growth, others are fighting for survival.

The optimists claim that globalization through its nature will improve the economic and social situation for every state, but in different proportion. On the other hand the pessimists state that the gap between the rich and the poor will widen even more, without any chance of improving this situation. All in all this process must be carried out with precaution in order to contain the possible negative effects.

2. The developing countries and the Transnational Corporations (TNCs)

The globalizations process is highly supported by the transnational corporations, which represent the main forces for globalizing the economic life.

From an economic point of view, the corporations represent the most important factor of progress and they are considered to be the main effect of an authentic global economy.

Kenichi Ohmae (Kenichi Ohmae is a business and corporate strategist who developed the 3C's Model) considered that these corporations have become the engine of a connected economy and concentrated in North America, Europe and Japan.

At a global level, the size of business has become an essential expressed by the creation of subsidiaries in different parts of the world. The development of these corporations, beyond the borders of the central headquarters, generates an operational synergy meant to reduce their vulnerability and to strengthen them for the economic shocks.

TNCs represent the main actor in the international trade, since the sales recorded by the subsidiaries are more than double than the world exports. So they have the power to modify the structure of the production factors in many countries as a result of the human capital's movement as well as technology in different parts of the world, which constitutes in a new base for tangible assets.

The development's dynamics is based on a well thought strategy regarding the capitalization of the opportunities provided by the global economic space. And so, the corporations have guided their investments towards real potential areas.

Good examples for this type of attitude are the developing countries. They ensure a proper economic, social and political climate for development. Theoretically, these countries have a lot of advantages from the corporate investments, materialized in high development levels, the increase of employment, the improvement of living standards and, last but not least, the improvement of the balance of trade and the balance of payments. For these reasons the developing economies have become more appealing for the foreign investors since the beginning of the current economic crisis, fact shown by the growing percentage of FDI Inflows for these regions.

Table 1: FDI flows by region, 2008-2010
(Billions of dollars and per cent)

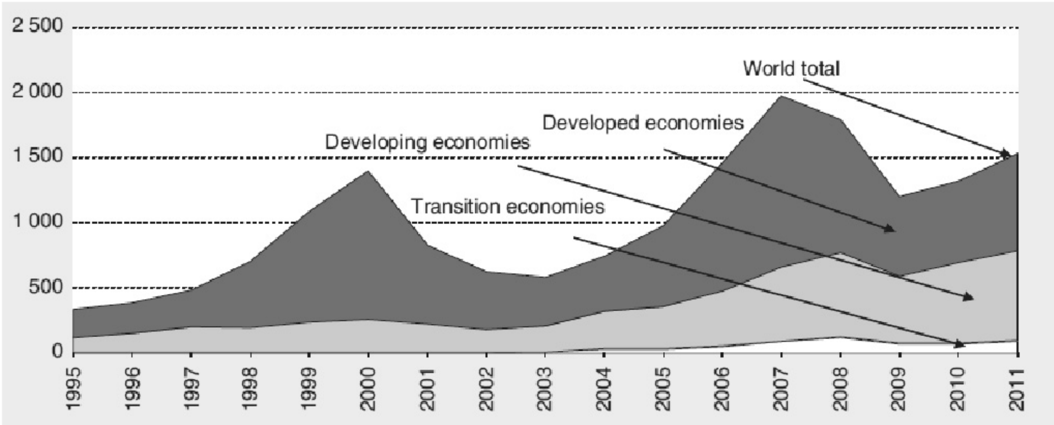
Region	FDI Inflows			FDI Outflows		
	2008	2009	2010	2008	2009	2010
World	1744	1185	1244	1911	1171	1323
Developed economies	965	603	602	1541	851	935
Developing economies	658	511	574	309	271	328
Africa	73	60	55	10	6	7
Latin America and the Caribbean	207	141	159	81	46	76
West Asia	92	66	58	40	26	13
South, East, South-East Asia	284	242	300	178	193	232
South-East Europe and CIS	121	72	68	60	49	61
Memorandum: percentage share in world FDI flows						
Developed countries	55,3	50,9	48,4	80,7	72,7	70.7
Developing economies	37,7	43,1	46,1	16,2	23,1	24,8
Africa	4,2	5,1	4,4	0,5	0,5	0,5
Latin America and the Caribbean	11,9	11,9	12,8	4,2	3,9	5,8
West Asia	5,2	5,6	4,7	2,1	2,2	1,0
South, East, South-East Asia	16,3	20,4	24,1	9,3	16,5	17,5
South-East Europe and CIS	6,9	6,0	5,5	3,2	4,2	4,6

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics) and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

In the same time, trading with the developing countries is considered to be a difficult situation due to the fact that most of these countries have big commercial deficits and have problems regarding the economic liberalization. This openness involves the liberalization of economic policies, opening the national markets for allowing all types of foreign direct investments. In fact, these investments represent the only source of financing the developing economies worldwide. More than this, for the last years the foreign direct investments have been the most stable source of financing, compared with the portfolio investments and the financial loans, due to the fact that they are less affected by economic crises.

Admitting the importance of foreign direct investments, the governments open the markets in order to facilitate trade, the informational exchange, as well as people and capital flows.

Figure I.2. FDI inflows, global and by group of economies, 1995–2011
(Billions of dollars)



Source: UNCTAD, based on annex table I.1 and the FDI/TNC database (www.unctad.org/fdistatistics).

The corporations' investment behavior is highly influenced by the short and long term changes in the business environment. The downturn periods and the economic boom ones affect the evolution of all aggregate indicators; any change suffered by the global business or political environment will be reflected with the same intensity and in the same direction towards the economic performances and capital flows' orientation.

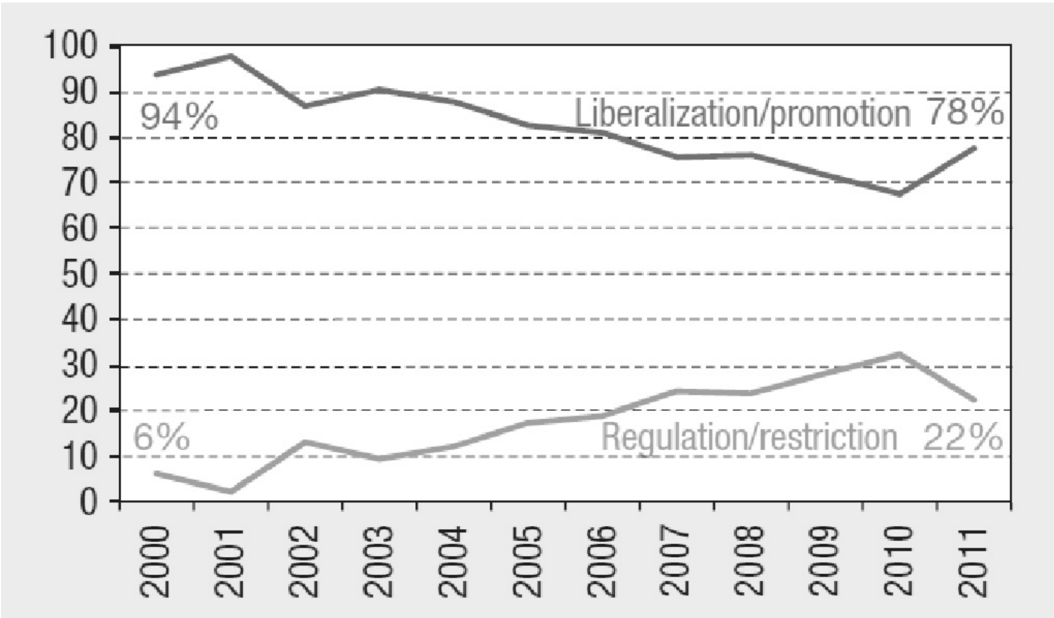
The statistics regarding the FDI regulations show us, that between 1991 and 2000, worldwide, there were 1.185 changes made to the regulations regarding the FDI, out of which 1.121 created better conditions for the investments[3]. For the next period 2001-2009 there were 1.651 changes made, out of which 1.411 referred to the liberalization or the promoting of FDIs.[4] In 2011 a minimum of 44 countries, worldwide, managed to adopt 67 new regulation regarding the FDI sector: 52 referred to the promotion, liberalization and facilitation area, while 15 represented new restrictions and/or regulations.[5]

[3] F. Bonciu Investițiile străine directe înainte și după criza mondială, Editura universitară, București 2011

[4] F. Bonciu Investițiile străine directe înainte și după criza mondială, Editura universitară, București 2011

[4] UNCTAD, World Investment Report 2012

Figure III.1. National regulatory changes, 2000–2011
(Per cent)



Source: UNCTAD, Investment Policy Monitor database.

In the common situation when the developing countries (Romania included) adopt a development channeled towards economic openness, those countries should record economic growth due to a more efficient resource usage. But the reality showed us, and continues to do so, that in the absence of major foreign direct investments, supported mainly by transnational corporations, the export value continues to be modest because of the low level of product competitiveness on the global market. This competitiveness is highly influenced by the level of technology in one economy. Unfortunately, the international technology transfer is controlled by the big corporations, which, as we showed, at the international level are the only economic agents that have the necessary capital. Even if the developing economies solve the capital issue, the domestic activities still remain an advantage for the transnational corporations in front of the national economic agents.

Initially the corporations invested in those sectors where the cost difference for the production factors was the most important, but gradually their operations spread to the majority of the economic sectors and production factors, drawing them into a global competition, that most of the times had negative effects on the developing countries.

Corporations increase their efforts in order to create global production networks especially through mergers and acquisitions. In fact a global market for buying and selling the companies has appeared which means that industries are consolidated or restructured at a regional and global scale.

Beyond the advantages that the developing countries have, from the globalization process and the TNCs activities, on must not forget about the negative effects regarding the social or ecological side of development.

TNCs create their subsidiaries only in specific areas that offer competitive advantages, due to the fact that they are interested mainly in maximizing the profits and the dividends. Moreover the corporation will maintain the activity in that area as long as it has those competitive advantages. The moment those advantages are no longer present and due to a high level of mobility, the corporation will relocate that subsidiary to another are where it is profitable for the activity. But the area from where the corporation left will record an economic decline visible mostly in an increasing unemployment rate, social tensions, that can evolve into conflicts and a general reduction of the living standards. The employees that have the financial power will follow the company, but the rest of them will remain there living with the hope that someday, maybe another corporation will make an investment and they will have a job again. If we talk about the shareholders, they are not limited by the space, because the distance between them and the company is not important, but the dividends are.

A global labor market offers to corporations to employ the intellectual elite with a decent financial and material effort. On the other hand the social effects of globalization appear as a result of the complexity's increase of all the technological processes and the ways of conducting the economic activities that requires new ways of professional training, a long life learning process. This involves permanent efforts, intellectually and financially and a lot of persons can not afford that type of effort. In the same time the advanced technologies have reduced the time and space barriers that people have to overcome when they need to travel from one place to another in order to get to work.

Another major problem in the developing countries is the environmental pollution. The TNCs, with high rates of profit in mind, export the polluting technologies in those countries where the legislation is a loose, not thinking about the consequences and proving that we are living in a period of social and ecological disintegration.

It is a well-known fact that today 20% of the world population utilizes 80% of the global resources. So, the more developed the world economy gets, the more necessary becomes the fact that we need to contain the economic growth in order to maintain an optimum equilibrium with nature, but keeping the production at viable values.

The best way would be promoting a sustainable economic growth at a global level, with an important ecological side. These principles should be adopted not only in the developed countries, OCDE Member states, but in the developing countries by supporting them in creating the necessary legal framework that will ensure a sustainable economic progress based on clean techniques and technologies. But unfortunately, these objectives are hard to attain due to a decreasing state influence over the corporations.

3. Conclusions.

Globalization is a process that changed forever the way everybody thinks, acts and participates to the economic life. Of course, as any other change, it has some good parts and some bad parts. Unfortunately, the Transnational Corporations which are the engine of globalization, in their race for bigger profits brought for the developed countries, the negative aspects (increased poverty, pollution, social exploitation). But as history showed us, the state governments came up with different regulations that will ensure a better business climate for all the economic agents.

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