

# MULTINATIONAL CORPORATIONS IN THE ARCHITECTURE OF GLOBAL ECONOMY

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## **Abstract:**

*In the business profile of the beginning of 21<sup>st</sup> century, the relations and interdependencies are expanding on a global scale; at the moment, much more than before, the production, capitals and people are becoming more and more interconnected; the business entities considerably extend their activities, becoming more global than international. More and more companies, many of them achieving sales figures higher than the GDP of some countries, consider every corner of the globe as a feasible source of raw materials, cheap labour force or market opportunities.*

*The consolidation of the role of multinational corporations in the global economy has led to numerous debates on the international stage. However, even though MNCs stands for a significant force in the global economy, ‘the protagonists’ remain the nation- states. The national economies are regarded as the main cells of the global economy.*

**Key words:** global economy, multinational corporations, nation state, international business

**JEL classification:** F00

## **NATIONAL AND TRANSNATIONAL IN THE GLOBAL ECONOMY - INTRODUCTORY CONSIDERATIONS**

During the post-war period and in the first years of the 21<sup>st</sup> century, there are brought into discussion a series of aspects regarding the role and importance of the nation-state in a more and more dynamic and interdependent global economy; its ‘non-state actors’ acquire a growing influence and become significant when coming to ‘the game rules’. During centuries, the state identified itself with an economic force, and not only; the state actors continue to play the most important role in the sphere of international relations, but during the recent decades, the power balance tends to lean more and more towards the transnational actors, especially those of multinational corporations type. G. H. von Wright states that ‘the nation-state erodes itself... the erosive forces are transnational... the transnational forces are mainly anonymous, and therefore, difficult to identify.’ (Wright, 1997, p.49)

The majority of analysts agree with the idea that we face a transformation regarding the power of the states; this transformation does not produce itself in the sense of diminution, but it is a reconstruction of power around the consolidation of both internal and international relations. (Weiss, 2002) There are more and more voices claiming a transition from the nation-state to the global community, as well as an erosion of the state roles as a dominant international actor. (Florea, 1982)

During the last decades, ‘the architecture’ of the international business profile has significantly modified; the scaffolding is represented by the extraordinary globalization of production, being based not only on exporting raw materials or manufactured products, but also focusing on the organization of production outside the national borders. (Toffler, 1983) The world continues to be divided into national states, but, once the multinational corporations have appeared, the world’s classification into political entities mutually exclusive interconnects with a network of economic institutions. Alvin Toffler states that in this matrix, the power that the national state used to have once as a dominant force in the world’s arena, now diminishes substantially, at least relatively speaking. The transnational corporations, through the proportions they have acquired,

took over some of the attributes of the national state, when referring to the power report on a world scale; the development of the transnational corporations have not strengthened the role of the national state; on the contrary, they have diminished it. (Toffler, 1983, p.436)

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The UNCTAD's have shown the fact that the magnitude of the corporatist phenomenon in the world economy follows an ascending trend. Thus, in 1983, the incomes achieved by the biggest 200 multinational corporations were the equivalent of 25% of the global GDP, and in 2005, they were equal to 29,3% of the world GDP; this rise is extended proportionally if one takes into consideration the new value created inside these companies. (Roach, 2007)

A suggestive image can be also seen when referring to the comparison between multinational corporations and national economies. Sarah Anderson and John Cavanagh have analyzed the corporatist phenomenon, reaching to a series of conclusions that offer a perspective towards its amplitude and extension; thus, from the world's 100 biggest economic entities, 51 are global corporations, while 49 are national economies. (Anderson, Cavanagh)(1) 200 giant corporations, many of them bigger than many national economies (for example: Wall Mart is larger than countries like Israel, Poland, Greece; General Motors is larger than Denmark; Toyota is bigger than Norway; Ford is bigger than South Africa etc) are controlling more than ¼ of the world's economic activity. In 2000, ExxonMobil registered about 63 billions USD, more than the GDP of countries like Hungary, New Zealand, Pakistan etc. According to the same report, the combined sales figure of the first 200 multinational corporations was, in the same year, higher than the GDP of 182 countries of the world (except for The United States of America, Japan, Germany, France, Italy, Great Britain, Brazil, Canada and China). Yet, far from creating the global village, these corporations give birth to a global economic apartheid, to some real production networks, consumption and capitals that generate benefits only for about 1/3 of the world population. (Anderson, Cavanagh)

In conclusion, it can be said that these economic entities are real forces that cannot be ignored anymore nowadays. The process of the rising integration of contemporary economic relations, present during the last decades of the 20<sup>th</sup> century and the beginning of the new millennium, had as a premise the expansion of the multinational corporation, and therefore, the intensification of the investment, technological and informational tides between the issuing countries and the receiving economies, leading inevitably to the activation of the structures generating the socio- economic progress, and thus, to the creation of the new world economic system. (Dambischi, 2004)

## **THE INTERNATIONAL BUSINESS ENVIRONMENT**

Any business activity takes place in a milieu mostly shaped by politics; the implication/intervention of the state is almost omnipresent, irrespective of the domain where affairs are developed. In some areas, the countries encourage the free rivalry, and they self-restrict their intervention over the market; in other regions, the states become business entities themselves, and they forbid competition. In some areas, the markets are dominated by oligopolies or business cartels; in others, the big companies are forcedly divided into smaller companies. However, it is appreciated that the international business environment is the most favorable to creating richness by MNCs. (Goldstein, Pevehouse, 2008)

In the complexity of developing contemporary systems there occur tendencies of crystallization of entities that surpass both cultures and borders. 'Over the planet there are thrown so-called networks that tighten it as if they would protect it from disintegration. One belongs to the instantaneous communication, another one is related to unlimited information, another relates to the financial side or the global economy; a network refers to ecology, another regards both the security

and political institutions, all of them overlapped on the old network of scientists and on the ancient one of the universal ideal.’(Malița, 1998)

The changes from the post-war period regarding the structure of the world economy have created new conditions focused on the development of the global economic circuit of values. These modifications were the result of the changes recorded on the world political map, as well as the effects of the technological revolution. Another factor leading to the development of the global economic circuit was represented by the intensification of the international economic interdependencies, generated by the mutual relations between the world states. This economic circuit reflects the place occupied by every country when referring to the international division of work. (Dicționar Economic, 2001)(2) On the other hand, the multidimensional universe specific to the contemporary period is mainly the result of important activities conducted by some multinational companies. These are economic structures whose bases are to be found inside a determined state, and which own, administer and control (to a higher or lower extent) branches that work in other countries, displaying both facilities and employees. Inside this strategy that is directly focused on the global environment and global market, there are different international transactions belonging to trade, cooperation or implantation methods, all of them helping to the development of global opportunities.

The main trends identified for the global business profile can be classified as follows (Wall a.o., 2012)

- ✘ *The dynamic growth of trade and investments.* In 2003, the world exports of good and services had a doubled value compared to that of 1980. During the same period, the direct foreign investments rose fourth times. During 1978- 2003, the global exports of goods and services recorded a rising rate of 5% annually. The developing countries strengthened their position regarding global exportation, recording higher rates of GDP than the rich countries.
- ✘ *The rapid growth of cross- border fusions and acquisitions.* Starting especially with 1990, the acquisitions and over-border fusions knew a pronounced growing rhythm (despite a decline registered during 2000- 2002); most of them could be seen in the financial services system, insurances, telecommunications and mass-media. During 1990- 2002, for example, the value of these services rose from about 150 billions USD to almost 600 Billions USD. As a result, the largest MNCs extended their profits abroad with up to 20%, the hired labour force up to 19%, and the sales figure up to 15%.
- ✘ *More liberalized market on a global scale.* This fact has direct consequences over the development of goods, services and capitals at a global level.
- ✘ *More globally dispersed value chains.* The liberalization of markets lead to the intensification of the global competition, which, together with the rapid technological changes induce pressure to the large companies in order to select the best locations for market and production. As a result, MNCs are more and more stimulated to choose other locations for certain production/ activities sectors in the low-cost regions. In other words, MNCs are engaged into a continuous race for rising the competitive advantages in terms of costs, resources, logistics and markets; being somehow forced to reconfigure their geographical localization of activities.
- ✘ *Tripolarization.* ‘The old bi-polar global economy dominated by North America and Europe has turned into a tri-polar economy, through the presence of South-East Asia on the international stage. These three regions concentrate about 80% of the total value of the world exports and about 84% of the added value in the processing industry. The projections for the next decades show that countries such as China, India, Indonesia, South Korea, Thailand and Taiwan will be placed in top ten. This will lead to MNCs’ attention regarding these regions.
- ✘ *The proliferation of the regional trading arrangements.* The last decades have been marked by a proliferation of the regional commercial blocks, based on preferential treatments concerning the goods and services trade. This has generated an internalization tendency, meaning that MNCs tends to locate the productive capacities in the integrated spaces, thus

avoiding either the protectionist or discriminating borders, and benefiting from the other associated advantages.

- ✘ *Growth of bilateral investment and trade treaties.*
- ✘ *The increase of sovereign wealth funds.* This one can refer to investment resources, separately managed from the official resources; these funds have been stored by the governments as a result of the price increase concerning the exporting industry (for example, energy, food and other main products). Generally, these funds are invested in high-risk projects that may have consistent incomes in the future.
- ✘ *Growth of 'defensive techniques' to combat global insecurity.* Many analysts focused their attention on the parallel between the rapid growth of the formal, legal relations between countries and the proliferation of the illegal ones (including activities associated with the international terrorism). It is supposed that some features of globalization are meant to generate such consequences; it is mainly about the erosion of the nations' power and control, as well as the development of new communicative methods, more difficult to detect.
- ✘ *Changing area patterns of international costs.* MNC is mostly interested in the cost of the labour force (both the salaries and non-salaries, contributions to social insurances, the leave payment etc).
- ✘ *Globalization as a multidimensional process.* Globalization is seen by specialists from at least four perspectives:
  - the economists focus themselves on the growth of international trade, of capital circuits and of the MNC's predominance over the global and aboriginal activities
  - the political analysts consider globalization as a process that generates the undermining of the nation- state and shapes new governing forces
  - the sociologists see globalization as the occurrence of a global culture; moreover, they take into consideration the global companies as dominating forces over the media industry
  - the experts concerning international relations tend to focus on the amplification of the global conflicts and on the consolidation of the international institutions.

## THE MULTINATIONAL ACTIVITY IN A GLOBAL CONTEXT

The dynamic of the business environment, strongly stimulated on the one hand by the radical political changes from the states that used to have centralized economies, and on the other hand by the magnitude of the economic liberalization all over the world, significantly developed the opportunities for the multinational corporations. The quickness with which these economic forces are spreading is emphasized by the fact that in 1997 UNCTAD estimated the existence of about 45,000 MNCs, having approximately 280,000 office branches, while in 2009 their number got to 82,000, having over 800,000 branches. (UNCTAD, 1998, 2012) At least 12% of these branches were present in the developed countries. China was hosting more than 280,000 branches, representing over 36% of the world total and approximately 69% of the total of the branches implanted in the developing countries. MNCs concentrates a significant part of the industrial investments, production, trade and labour force.(Cherunilam, 2012)

While developing, a company has the tendency to surpass the local, regional and national restrictions of the business environment through the extension of activities in the global economic space. Among the most important factors that generate the irreversible engagement of a company in the global economy, in various rhythms but more and more dynamic, there can be identified the following aspects(Ciobanu, Ciulu, 2005)

- the increasing diversification of markets, products and technologies;
- the increasing influence of the financial or legal issues on an international scale;
- the emerging of the ecological restrictions in the economic universe.

The multinational corporations agree to invest in other countries the moment they have identified the existence of certain *advantages*:

- *comparative*: the technological development, the dissimilarities regarding the profit rate and the risk level, the differences concerning the transport costs or the disparities from the financial domain; (Fatehi, 1996)
- *competitive*: the enlargement of the perspective regarding the business profile, the possibility of locating the production capacities, the direct knowledge of the market requests, the projection, production and the efficient marketing or providing superior products in terms of quality/ price; (Porter, 1990)
- *strategical*: the owning of an acknowledged technology, the distinction between products, the owning of a famous brand, the managerial expertise, expert knowledge, the establishing of relations stipulated by contract, the creation of own organizational structures. (Andreff, 1996)

The impact of multinational corporations can be analyzed differently. As it has been stated above, some surveys compare these entities with the national economies. UNCTAD, in World Investment Report (which offers one of the most comprehensive annual images towards the circuit of foreign investments and the situation of transnational corporations) analyzes the corporatist phenomenon according to a series of factors such as: the volume of the economic resources held abroad, according to the transnationality index or the sales volume.

Starting with 1995, UNCTAD calculates a composite index, index of transnationality (TNI) according to the share of economic resources abroad out of the total of active resources, the share of sales abroad out of their total, the share of the employees abroad out of the total of the corporation's employees. This index can be calculated the same as an arithmetic average, as follows: (UNCTAD, 1995)

$$\text{TNI} = (\text{economic resources abroad} / \text{total economic resources} + \text{sales abroad} / \text{total sales} + \text{employees abroad} / \text{total employees}) / 3$$

This index offers an image about the magnitude of the activities developed by a company on the international market.

Other indicators used by UNCTAD when analyzing the business internalization are (UNCTAD, 1995):

- *total assets of foreign affiliates*- these are the tangible resources in the intangible ones existent in the operational unities outside the origin country; they quantify the investment force of a multinational corporation, and a high concentration of these abroad can reflect a much higher attraction of the international business environment in comparison with the domestic one (under the aspect of the given facilities, costs or the market absorption capacity).
- *sales of foreign affiliates*- represent the net value of the sales made by the branches abroad (the sales gross value diminished by the added value tax and other taxes); they may include the intercompany exports as well, meaning the exports made by the mother company towards the branches. This indicator also reflects the intensity of the concentration of companies towards the national or international markets.
- *employment by foreign affiliates* - we refer here to the number of employees hired on the basis of a labour contract, either full time or part time, in the operational unities abroad. Generally, this indicator is connected with the amount of the economic resources abroad, but it also depends on other factors, such as the nature of the company's activities, the differences indicated between the costs of the labour force etc.
- *the network- spread index*, NSI, offers an image over the dimension of transnationality; it is related to the number of countries where the corporation was implanted. A high value of this index reflects high implantation costs, but also good knowledge regarding the external market, the capacity of valuing the opportunities provided by the international markets and so on. A limit of this index would be the fact that it does not offer an image regarding the implication degree of the corporation in the host economies. In order to make a comparison with other indicators, such as the transnationality index, NSI calculates the reference of the countries where the company has office branches to the total of the potential countries where it could be implanted. This potential number is

given by the total number of countries that benefit from this or that are investment sources, less the origin country.

If we analyze the expansion of the corporatist phenomenon at a global level through the indicators mentioned above, there can be seen a tendency of amplification in the last decades.

**Table no. 1. Corporatist phenomenon at a global level**

Item (bil. USD)	Years				
	1990	2005-2007 (pre-criză)	2009	2010	2011
Sales of foreign affiliates	5102	20656	23866	25622	27877
Value added of foreign affiliates	1018	4949	6392	6560	7183
Total assets of foreign affiliates	4599	43623	74910	74609	82131
Exports of foreign affiliates	1498	5003	5060	6267	7358
Employment by foreign affiliates (mii)	21458	51593	59877	63903	69065

Source: \* \* \* *World Investment Report, 2012*, [www.unctad.org](http://www.unctad.org)

## CONCLUSIONS

The large multinational corporations represent nowadays true economic, political, even cultural forces, impossible to ignore in the contemporary business environment. The big corporations have an impact over billions of people's lives, most often in a complex and vague manner. The concepts of multinational corporation, global corporation, transnational corporation are mixed when speaking about international affairs; they depict the same reality, that is a company that owns and manages branches in at least two countries.

Some analysts consider the expansion of the multinational corporations as a positive force, generating progress, working places, low prices, quality products etc. Some others accuse these entities of exploiting the workers, controlling/ influencing the adopting process concerning public politics, destroying the environment and degrading the cultural values. Irrespective of the position we are placed on, we are sure about one fact: the global corporations have become an important presence in the global business profile, and their position continues to improve/ consolidate in the future as well. From this point of view, the issue that comes out focuses less on the role of the corporations in the modern economy/ society, but mainly on their adapting to the major purposes of the society, be they economic or not. These entities have created new mechanisms and have determined transformations in the contemporary competitive milieu. In the same time, they have seriously brought into discussion the role of the nation state and even opened the way to the erosion of its position in the sphere of international business.

It is out of question that the multinational companies and their investment measures have a major impact upon locating the economic activities in the world, upon the international trade pattern and the national growing rates of both economy and productivity. Irrespective of the development level of every country, MNC represents important technological sources, capital, knowledge; their activity has a major impact towards the global distribution of richness.

MNCs has a relatively long history in the global economy; the corporatist power has risen considerably towards the end of the 19<sup>th</sup> century. At present, the multinational corporation occurs as a real global economic system, a complex mechanism that has dispersed components all over the world, but which are interconnected, evolving and transforming themselves permanently. This evolution and transformation is an active response to the dynamic and changes of the global business milieu, focused on the main objective that is of valuing the competitive advantages and maximizing the profits.

Scale economies have contributed to the expansion/ growth of the multinational corporations; their dominant feature remains though the transnational mobility in terms of identifying the low-cost production opportunities.

The magnitude of the corporatist phenomenon is quite difficult to evaluate; in most cases, we speak either about comparisons made with the national economies or about a series of indicators used by the international institutions. An image of the internalization tendency, of concentrating the activities outside the origin country, is given by the analysis of the value of the economic resources from the branches abroad, by the number of employees in these branches, as well as by their sales figure.

Starting with 1995, UNCTAD analyzes the corporatist phenomenon on the basis of the transnationality index, which incorporates the external dimension of a company's activities.

The transformations from the global business profile have considerably increased the opportunities for the multinational corporations; the CMN's expansion was encouraged by the following aspects: the renunciation at the totalitarian regimes, the centralized governing in many countries from Central and Eastern Europe, the tendency to follow the economic liberalism. Another factor can be considered the growth of the private sector in almost all developing economies; other factors are: the rapid technological changes that transform the organizations and the international location of production, the market globalization, the extension of the arrangements regarding regional integration etc.

At present, it is difficult to believe that a company would still develop and prosper only if one refers to the national business profile. The feature of the global business environment tends to become more and more complex; as more and more countries tend to get industrialized, they offer both opportunities and threats in the global business milieu. The world has the tendency to become a global market that will allow the companies to produce and sell wherever they wish; globalization reduces the distances, transforms time and widens the borders.

## ENDNOTES:

- (1) Sarah Anderson, John Cavanagh - Top 200: The Rise of Global Corporate Power, Global Policy Forum, <http://www.globalpolicy.org/component/content/article/221/47211.html>
- (2) DICȚIONAR DE ECONOMIE, Editura Economică, București, 2001, pag. 237

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