ECONOMIC GLOBALIZATION AND TRANSNATIONAL COPORATION

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Abstract:Some authors are still arguing about the terms of globalization despites of the benefits for trade, border disappearance, investments, deregulation, access for capital, information and technology. Transnational corporations represent the main agent of the contemporary economic globalization process empowered with a superior economic force over several national states. The trans nationalization process of the enterprise presents a few motivations and have to fulfill several stages on the road of its expansion. Either the motivation is the seek for resources, new markets, efficiency, or strategic assets, the incentive lays on the benefits brought by a new market in a new state, or of the global competition. To reduce risks, transnational firm is willing to make alliances, resulting in a modified nature of the rivalries shaping both the structure of the competition and the dynamics of it. In this environment is possible to emerge conflicts between transnational corporation and the host state, because of the fiscal laws, natural environment, labor force protection.

Keywords: globalization, transnational corporations, economic expansion, mergers, national state policies.

Introduction

Globalization is understood and defined differently by other scientists. Globalization, in a first sense, presupposes the existence of a single global economy with global macroeconomic policies. Globalization is better for removing borders, increasing cross-border trade and investment, deregulation, global products and global clients, global competition, and global standards, in other words globalization involves the formation of a new global economic order. In the opinion of some authors, globalization has died, stating that there is no global system and no global market but rather regional blocks with liberalized commerce inside them, such as: the European Union, the North-American Free Trade Agreement (NAFTA), the Association of the South-East Asian Nations (ASEAN). Friedman, considered a "guru" of globalization, believes that this globalization is an international system that replaced the Cold War, being an integration of the Capital, technology and information across national borders, in a way that creates the only global market. Globalization is also seen as a first step towards developing less developed countries or developing, through access to markets, capital, information and technology.

Foreign direct investment is defined as an investment involving a relationship on long term that reflects the interest and long-term control of a resident entity in an economy or on an economic entity residing in another economy. These can be done either by a physical person or a company. It should be specified that not all foreign direct investment are made by transnational companies. Transnational corporations are an economic phenomenon in one continue boarding. The difference between TNCs and the transnational enterprise is just linguistic. A TNC is defined as an economic phenomenon made up of a parent company and its subsidiaries abroad.

Data and material

In the opinion of some authors, a transnational corporation believes that is a modern form of the multinational company, enriched with a wider range of markets and with more diversified strategies. Transnational corporations are the primary agent of globalization of the economy with a strong economic force in many national states. TNCs have one considerable impact on global economy registering 2/3 of the world's trade is carried out through the first 500 TNCs; the income from the top 200 corporations in the world equals 31.2% of GDP worldwide; cumulative revenues of General Motors and Ford exceed the aggregate GDP of all Sub-Saharan African countries; The income of the first six Japanese corporations equals GDP cumulative Latin American countries. The largest corporation in the world is active in the electrical and electronics industry but in the top 10 there are 4 in the oil industry and 3 in the automotive industry. The transnationalization of the firm in its expansion is subject to a series of motivations and has to go through several stages. There are 4 major categories of motivation for the process of internationalization of a company, namely: searching for resources, searching for markets, seeking efficiency and looking for strategic assets.

The reason of the companies wanting to become transnational depends largely on the benefits it can have in a new state on a relatively new market. The decision to invest on a the external market is often a combination of factors and not just one motivation in particular. Transnationals want to invest in another market not only from the cost-cutting perspective, but rather in risk reduction. Another reason that a company wants to be among transnationals can be from the cause of global competition.

In this case, the company does not necessarily want to get a profit, but more rather to lower the profits of the competitors or to enter a new market for image reasons. Market entry can be done in two ways, either through an acquisition, either through an empty spot investment (so-called greenfield investment). Advantages and disadvantages exist on both sides of the ways, namely faster transferring technology compared to acquisitions where there is an extra cost of replacement of old or incompatible technologies; empty investments have the advantage that they can start from the beginning to control the problem, unlike where the transfer of ownership is either cumbersome and sometimes incomplete or disrupted by social problems (trade unions) or government interventions; greenfield get rid of some administrative problems, such as authorities' authorizations competition; greenfield may be more expensive than purchases.

Disinvestment abroad refers to the cessation of ownership relationships between mother-firm and a subsidiary, where two categories are distinguished: forced and voluntary. Forced disinvestment is often made by the host state and voluntary by the company in cause. Disinvestment is a stage in the investment process, and the amounts received either from the state or from the state to buyers may be the main source of financing for a new foreign direct investment, on another market. The main cause of a disintegration of TNCs is profitability. In turn, its lack of profitableness is caused by high costs, lack of demand, new competitors on the market. Another important issue for transnational companies is the center-periphery axis and the global-local dilemma. The center-periphery relationship refers to the subordination relationship between certain economic organisms and one central factor, as a power coordinator. The primary role of a TNC affiliate is to contribute to global profitability of the corporation, a role that may sometimes be inconsistent with the profitability of a subsidiary. A subsidiary has to, firstly satisfy the local needs equally to the needs of corporations. Characteristic features and local capabilities is seen as important attributes of the company operating in many countries. First, the corporation must be understood as an interorganizational network, formed of its subsidiaries. Secondly, the environment in which the subsidiary operates is given by the sum of the relationships with others economic actors. For a better deployment of the entire corporation's power, each subsidiary have to know the needs and capabilities of the other subsidiaries and all the information is available in useful time.

A first step for a new subsidiary is integration into the corporation's internal system, that is, an issue of the existence of transactions between the subsidiary and the rest of the firm. These transactions refer to streams of capital, production flows and knowledge flows. The global-dilemma is at the heart of the relationship between the parent corporation and its abroad subsidiaries. It is hoped that all subsidiaries will run their activity the same, but they are on different markets with different laws, and here comes the question of structure. They were classified by structure in their endocentric (home-oriented), polycentric (oriented to the host country), regionally oriented (geo-centered) and geocentric (globally oriented). A high degree of integration of the subsidiary leads to the possibility of subsidiaries participation to the global corporate strategy, so it is appropriate to apply a specific practice. The transnational corporation are known as the transfer price. The transfer price can be defined as price including all prices that are not set as market prices. The prices are the transactions on the market that are divided into: the market price and the transfer price. These transfer pricing is actually a relocation of profits to the best subsidiaries that have a low tax on profit.

The transfer price may be lower than the market price, so it creates great competition with other competitors. The structure of competition between transnational corporations is particular. Strategic partnerships are distinguished from traditional agreements between companies through the fact that designates a mutual relationship to create and share knowledge, in order to develop new technologies, improved production processes and distribution techniques. These partnerships tend to involve fewer stock transactions between partners and suppose a horizon of long-term expectations of those firms. The main reasons why transnational companies are participating in strategic alliances can be reduced R & D costs for each partner, access to new financing sources, sharing technological risks between partners; reducing production costs by using common components and by synchronizing production cycles; streamlining distribution through the use of integrated networks and reducing marketing costs through common advertising campaigns. The most significant sector of alliances is in the aviation industry, where motivation and the main purpose is to increase the efficiency of customer distribution. Alliances have altered the nature of rivalries, remodeled both the structure of the competition and its dynamics. Since 1980, it is known that rivalry between firms is more intense when the number of competitors are high and competitor forces are equally sensitive, and competitors' products are similar. Alliances do not necessarily increase the number of competitors but rather help small companies to have some resources they cannot have. In an alliance it is put the issue of leadership and coordination. It can be done by the model of two theories taken in alliance management, namely engagement theory and control theory. Just as alliances and mergers are seen as having a synergetic effect on firms who makes this "act" of understanding. In most of the time, those who suffer from these transactions are mainly the employees because they are fired in a very large number. The relationship between a transnational company and the host state may be a conflict or conflict complementarity. Transnational conflicts with host states are mostly from the cause of tax legislation, environmental protection, cost and labor protection. There is the possibility that the interests of the corporation are complementary to those of the host state and the conflict with those of the state of origin or with international environmental or force protection standards for labor. In the process of developing relations between TNCs and the host state, we list three defining stages, namely: honeymoon, confrontation and reconciliation. Neoclassical theory generally works on a weak host state where the corporation is manifesting activity for its benefit.

Porter appreciates that we have two microeconomic fundamentals of competitiveness: the sophistication of company strategy and operations, and the quality of the business microeconomic environment. The sophistication of company strategy and operations is correlated with the study National development in the host state. Porter identifies four of these stages: factor-based economy; investment-based economy; innovation-based economy; welfare-based economy. The government can exert influence on TNCs through subsidies, educational policies, regulating or deregulating capital markets, setting local standards, public law acquisitions, fiscal legislation and antitrust competition policy. If we apply Porter's diamond to the situation of Romania, we can say that we are in the phase transition from the factor-based economy to the investment-based economy. The main competitive advantage still remains the cheap labor force.

The institutional approach provides the theoretical foundation for increased state intervention economy. This approach states that nation-states are strong enough both to liberalize and to restrict market activity again and as a result are capable to create a specific competitive climate to which TNCs need to adapt. The neoinstitutionalist approach is an interesting version of the institutionalist approach. Some authors refuse both interest groups and bureaucratic institutions to appropriate explaining the formation of political decisions and, on the other hand, advance the essential role of the electoral incentive. Elected opinion leaders pursue certain policy directions for the purpose of a wins supporters in the political struggle for voter turnout. Policies that a host state can adopt with a regard to corporate transnationals affiliates are enrolled in a matrix comprising ten categories, as following 1) positive discrimination (introduction of market power, discriminatory incentives), 2) bureaucratic control, 3) imposition of conditions (assumption of commitments), 4) social control (trade unions, surveillance mechanisms), 5) measures to promote competition (competition law), 6) interventions to protect national interest, 7) discriminatory policies in favor of domestic capital and local firms, 8) tax, financial and commercial restrictions, 9) measures with direct extraterritorial effect (embargoes on exports) and 10) nationalization. Policies from 1 to 4 are perceived as weak and are adopted more frequently by states such as, for example, economies in transition. The last three policies reflect the excessive power of the state. There are few states who can take such measures at acceptable costs; most states either do not have enough financial power, or the opportunity cost of implementing these policies is too high. Policies 5 and 6 are pro-competitive policies that promote competition and ensure one competitive business environment and balanced market structures. In the category of location advantages, the incentives for foreign investments also come direct. UNCTAD identifies 3 major categories of FDI incentives: fiscal, financial and others. Fiscal incentives can be profit-oriented, to capital investment, to the force of work, sales, value added, to import or export and to some of the categories costs; they refer to tax deductions or exemptions and to the deductibility of some costs.

Financial incentives can occur in the form of government grants, credit to preferential rates, and participation in the share capital. Other types of incentives can be subsidizing the infrastructure or services related to the development of corporate activity, preferential treatment, exchange rate, public procurement. The list is not exhaustive, with incentives ranging from country to country and on a case-by-case basis. These market power inductions have a general feature: they are granted for all companies in a particular sector or for all firms in a country. Harmful to the environment business are the market power inducements given to individual companies, they are called as specific market power inductions, because they are specifically built for companies that benefit. These are incentives granted to a single investor and appear to be the ones several times during the negotiations, a frequent situation being the privatization of state companies through direct negotiation method. Specific market power inductions affect local competition, depending on the incentives offered, such as five years of monopoly, converting debt into equity at an underestimated price, massive public procurement is likely to remove other potential investors.

Conclusions

The impact of foreign direct investment on a country's balance of payments varies on the purpose of the investment, the nature of the activity and the stage of development of the investment project. According to the purpose of the investment, foreign affiliate transactions that are based on local and regional resources is aiming to increase the efficiency of their own activity and implies, in general, more exports than imports. According to the nature of the activity, the impact on the balance of payments varies depending on the value added specific to those activities.

The indirect impact on the balance of payments is, in turn, complex. Transnational corporations can induces national firms to produce goods for which there is external demand, thus contributing to the increase in exports, but they can then turn to local operators who use import goods, thus contributing to increased imports.

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