

THE CORE OF GLOBALIZATION: THE STATES OR THE MULTINATIONAL CORPORATIONS?

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Abstract: The process of globalization has reconfigured the role of the national states. Despite the fact that states have tried to remain as independent as possible, the development of multinational corporations has produced significant changes in the global economy. The aim of this paper is to analyze the current role of national states and of multinational corporations in a globalized world. In order to achieve this purpose, the article analyses representative papers on the subject, as well as international statistics regarding the increasing importance of multinational corporations. In the context of globalization, countries are no longer the main drivers in the distribution of financial flows and trade worldwide, this role being taken over by multinationals. However, in a global world multinationals and states should work together, the first ones having the control of the world economy, and the others coordinating the global policy.

Keywords: globalization, national states, multinational corporations, economy, politics.

JEL Classification: F23, F60.

INTRODUCTION

The term globalization has gained a great emotional force. The term has different meanings corresponding to different authors. But nevertheless, globalization generates great contradictions. The impact of globalization has been, and still is, the subject of considerable ongoing debate, to the extent that produces both winners and losers, not only in each country but also between countries. Some consider globalization a process beneficial to the world economy, while others view it with hostility and fear that globalization erodes the sovereignty of nation states, causes uneven growth among nations, threatening the living standards.

Globalization produces a jump of some economies to the global market for the manufacturing processes. Such confrontations occurred worldwide on various internal aspects of political, social, and ethical nature. The global economy is becoming dominated by multinational companies and financial institutions, which operate in global markets beyond national borders, internal political purposes of states or national constraints.

Both the national states and the multinational corporations are of major importance for the global economy. Analyzing the evolution of multinational corporations in the last decades and their economic power, compared with the economic power of the national states, this paper tries to answer the question: Who is the core of globalization: the states or the multinational corporations?

A SHORT REVIEW OF THE LITERATURE

For the last decades, globalization has been a long debated phenomenon. If certain issues regarding globalization have been clarified, there are others that cause serious disputes among scholars. One of issues that have generated disputes is related to the core of globalization, whether it is represented of the national states or of the multinational corporations.

For hyperglobalists (Ohmae, Friedman) the development of multinational corporations and of the global production networks defines a borderless economy, in which the power of governments is eroded. Ohmae (2005), staunch supporter of the global economy, believes that national states are subject of a major challenge, resembling with some local authorities of

the global system. In his opinion, in a globalized world, they are designed to ensure, at a local level the public services imposed by the global economy. Basically, nation states must provide the necessary infrastructure for multinational corporations to conduct business at the lowest possible cost.

In contrast, the skeptics (Hirst, Thompson, Gilpin) do not consider that the activities of multinationals or the internationalization of production define a more integrated global economy. While Gilpin (2004) does not deny the crucial role of multinationals in the global economy, he believes that states are still the main actors, the role of the national economies into the international economy being an essential one. However, Hirst and Thompson (2002) go further, stating that the national states are fundamental in ensuring the governance of the global economy. In order for the multinationals to benefit of free trade regimes and common commercial standards, national states must work together to achieve common international regulations. Consequently, in this regard, the national states accomplish a vital role.

Both the statements of hyperglobalists and those of skeptics tend not only to evade the complex interrelation between corporate power and state power, but also the way in which globalization enhances the structural strength of corporate capital. As globalization transforms production conditions in which wealth is created and distributed, it changes the context and tools that allows the power and authority of the states to be exercised. In this way, the globalization of production leads to an awkward balance between advanced capitalist states and multinationals, the role and functions of the national governments being forced to adapt to the new world economic order.

At the same time, Brailean (2004) argues that globalization leads to a pronounced polarization of wealth, to the existence of wealth without nations and of nations without wealth. The economy is the locomotive of globalization; it has become global in a sense that policy it is not yet. As a result of the development of deregulation, the liberalization of markets and the capital movements, slowly but surely the link between states, territories, population and wealth has been disappearing. Therefore, in the last years, significant erosion of national sovereignty, of the fundamentals of taxation and of economic and social policies has been taking place. At least in economic terms, the space war been won. Multinational corporations continuously change their international strategies, develop extensive global networks, use resources, capabilities and the market potentials of different countries and geographical areas, absorbing these to their unique global strategy. Also, Stiglitz (2002) believes that the reason why multinational corporations fulfill a critical role in the globalization process is related to the fact they coverage the entire globe, bringing at the same level the market, the technology and the capital of developed countries with the production capacities of developing countries.

Anthony Giddens (1990) on the other hand, though convinced of the enormous economic power of multinational corporations, believes that there are two key issues in which the power of states exceeds that of the multinationals. Thus, all national states have a well-defined territory and monopoly over the means of violence within their territories. No matter how great the economic power of multinational companies is, they are not military organization and therefore cannot be considered as political and legal entities, leading to a particular territory. Therefore, for Giddens, multinationals are the dominant agents of the global economy, while states are the main actors in the global political order.

States have achieved their power in the twentieth century, which completed a process begun many centuries ago. However, the forces of globalization that transcend national borders have made the notions of territoriality to go into the background. States continue to be important actors, but they are increasingly defied by uprooted corporations that operate throughout the world.

It is undeniable that multinationals` horizon goes beyond the classical definition of national identity. With globalization, multinationals no longer target the national market, but the global market. However, multinational corporations have not become "stateless" entities. Despite the degree of internationalization of a company, it works in territories belonging to national states. Therefore, a multinational, no matter how strong it is, in remains in close contact with national states.

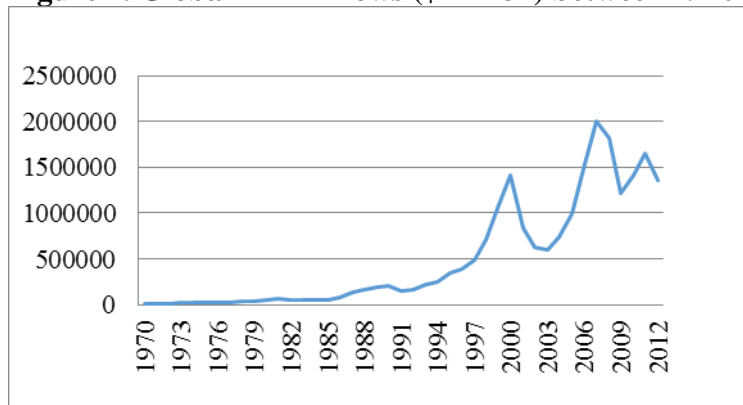
MULTINATIONAL CORPORATIONS – AGENTS OF GLOBALIZATION

The existence of multinationals is closely connected to the process of globalization, multinationals being the "most visible" side of globalization. The global economy appears as a result of intensified activity of multinationals and as a cause of their powerful internationally assertion. In these inter-relationships are involved all international companies, regardless of their geographical location and economic dimensions.

Multinationals are not a new and recent phenomenon, but in the last decades multinationals have experienced an unprecedented development. The period that runs from 1985 to present it is characterized by the advent of new technologies for processing and transmitting information. Transnational companies have become aware of the need to respond better to local needs, to integrate the systems of national economy. If an earlier stage factors were created by the corporations, in the current stage the focus is on the factors created by the host nation, labor and government policy. The main trend of the development of transnational company is turning into a different type of corporation. Until now, a corporation was the supplier of capital, management and technology to foreign subsidiaries. But now more and more multinational companies have started to become "orchestrator" of international production within a complex system of international relations. In this context, a multinational needs specific resources, a particular type of managerial skills (belonging to a culture or another), a specific kind of information resources and technology.

The development of multinationals is closely related to the expansion of foreign directs investments, since the late 80s. As we can see in figures 1 and 2 global FDI inflows and outflows have increased significantly in the last four decades, especially in the last two decades.

Figure 1. Global FDI Inflows (\$ million) between 1970 -2012



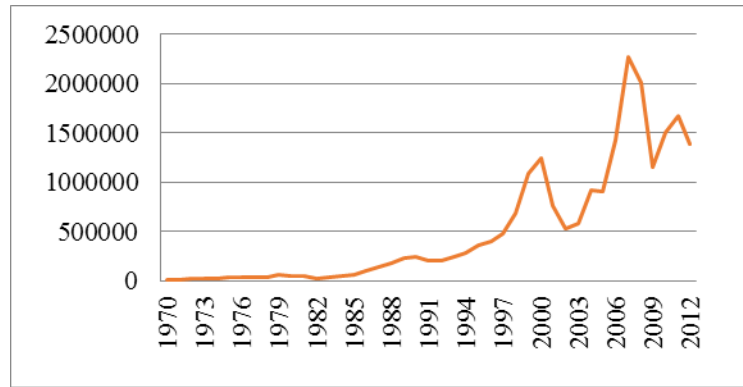
Source:

UNCTAD

database,

<http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx>

Figure 2. Global FDI Outflows (\$ million) between 1970 -2012



Source: UNCTAD database, <http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx>

The last 20 years have seen a rapid growth in the number of multinational companies operating in the global economy. As their number increased, the role they play in the production and global trade also increased. Contemporary multinational activities concentrate mainly in advanced industrial countries. Multinationals are little more than large firms. There are companies that organize their work differently than traditional firms.

According to Gilpin (2004) multinational corporations and foreign direct investment are essential elements of the global economy. Moreover, the increasing role of multinationals affects the functioning and organization of the global economy. Global companies and their strategies are the motor of the trade flows and of other economic activities in the world. Most of the investments of these giant companies are directed to highly the capitalized and tech sectors of the economy. In addition, multinational corporations are the main channels of the propagation of technological flows, both in the developed and the developing states. Having the control of a substantial part of the international investment and the global markets, multinational corporations have become key players in the global economy.

The network of multinationals and their subsidiaries around the world form an integrated system, with economic, social and ethnic common values, playing a decisive role in the global economy as a whole and in the economy of each country.

Multinational corporations are, without doubt, the main agent of the contemporary globalization of the economy, having the economic force of many national states. In an attempt to synthesize the impact of multinationals on the global economy, Voinea (2007) considered the following:

- Two-thirds of world trade is carried out through the top 500 multinationals; therefore it remains only a third of the world trade to be conducted according to the classical theories on trade at market prices;
- 40% of the world trade, controlled by multinationals, is actually intra-firm trade;
- The revenues obtained by the first 200 corporations of the world equals 31.2% of world GDP;
- Multinationals control 90% of global technological licenses;
- The revenues earned by General Motors and Ford exceeded in 2007, the aggregate GDP of all countries in sub-Saharan Africa; the revenues of the first six multinational equaled the cumulated GDP of Latin America; the top 10 multinationals in the world have higher revenues than the 100 underdeveloped countries taken together.

THE ECONOMIC POWER OF STATES COMPARED TO THE ONE OF THE MULTINATIONALS

In the context of globalization, countries are no longer the main driver in the distribution of financial flows and trade worldwide, this role being taken over by

Rank	Country/ Corporation	PIB/Revenue s (\$ billions)	Rank	Country/ Corporation	PIB/Revenues (\$ billions)
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multinationals. States have become simple global players, losing the control of the human resources, of multinationals and of the financial sector. Under these circumstances, corporations have taken the control of the world economy from the national states.

As we can see in table 1, in 2012, from the first 100 global economic entities, 48 were multinational corporations. This is the case if we compare the GDP of states with the total revenues of multinationals. This result proves that the economic power of the multinational corporations is similar to the one of many national states.

However at a closer look, we can see that among the top 50 economies of the world, in 2012, 10 were corporations. Also, there is no multinational corporation among the first 24 economies of the world. Moreover, these results do not give a right indication of relative size, as the large economies of the world are much larger than the largest corporations. For instance, the US economy is 32 times bigger than the largest corporation, China`s economy is 17 times bigger than Royal Dutch Shell, that is the is the bigger corporation from the list.

On the other hand, it is obvious that some corporations are bigger than important economies of the world: Royal Dutch Shell is bigger than the economy of Argentina, Wal-Mart Stores and Exxon Mobil are bigger than Austria`s, Venezuela`s and South Africa`s economy.

Table 1. Top 100 global economic entities, 2012

1.	United States	15684,80	51.	Chevron	233,9
2.	China	8358,30	52.	Pakistan	231,2
3.	Japon	5959,71	53.	Glencore Xstrata	214,4
4.	Germany	3399,58	54.	Portugal	212,4
5.	France	2612,87	55.	Irland	210,3
6.	United Kingdom	2435,17	56.	Iraq	210,2
7.	Brazil	2252,66	57.	Algeria	207,9
8.	Russia	2014,77	58.	Kazakhstan	200,4
9.	Italy	2013,26	59.	Peru	196,9
10.	India	1841,72	60.	Czech Republic	195,6
11.	Canada	1821,42	61.	Japan Post Holding	190,9
12.	Spain	1520,61	62.	Samsung Electronics	178,6
13.	Australia	1349,35	63.	Ukraine	176,3
14.	Mexic	1177,96	64.	E.ON	169,8
15.	South Korea	1129,60	65.	Phillips 66	169,6
16.	Indonesia	878,2	66.	Romania	169,3
17.	Turkey	789,3	67.	ENI	167,9
18.	Netherlands	772,2	68.	New Zealand	167,3
19.	Saudi Arabia	711,0	69.	Berkshire Hathaway	162,5
20.	Switzerland	632,2	70.	Apple	156,5
21.	Sweden	525,7	71.	AXA	154,6
22.	Norway	499,7	72.	General Motors	152,3
23.	Poland	489,8	73.	Daimler	146,9
24.	Belgium	483,7	74.	General Electric	146,9
25.	Royal Dutch Shell	481,7	75.	Petrobas	144,1
26.	Argentina	470,5	76.	EXOR Group	142,2
27.	Wal-Mart Stores	469,2	77.	Vietnam	141,5
28.	Exxon Mobil	449,9	78.	Valero Energy	138,3
29.	Sinopec	428,2	79.	Ford Motor	134,3
30.	China National Petroleum	408,6	80.	ICBC China	133,6
31.	Petroleum	399,6	81.	Han Hoi Precision Industry	132,1
32.	Austria	388,3	82.	Allianz	130,8
33.	BP	384,3	83.	Nippon Telegraph&Telephone	128,9
34.	South Africa	381,3	84.	ING Group	128,3
35.	Venezuela	369,8	85.	AT&T	127,4
36.	Columbia	366,0	86.	Fannie Mae	127,2
37.	Thailand	314,2	87.	Hungary	125,5
38.	Danemark	303,5	88.	Pemex	125,2
39.	Malaysia	298,4	89.	GDF Suez	124,7
40.	State Grid	274,7	90.	PDVSA	124,5
41.	Singapore	268,2	91.	Statoil	124,4
42.	Chile	265,7	92.	CVS Caremark	123,1
43.	Toyota Motor	263,3	93.	BNP Paribas	123,0
44.	Hong Kong	262,6	94.	McKesson	122,5
45.	Nigeria	257,3	95.	Hewlett-Packard	120,4
46.	Egipt	250,2	96.	JX Holdings	119,5
47.	Philippines	250,0	97.	Honda Motor	119,0
48.	Finland	249,1	98.	Lukoil	116,3
49.	Greece	247,6	99.	Nissan Motor	116,0
50.	Volkswagen	234,3	100.	Verizon Communications	115,8
	Total				

Source: Fortune Global 500, Fortune Magazine, accessed on April 2014 at <http://money.cnn.com/magazines/fortune/global500/index.html> and World Development Indicators Database, World Bank, accessed on April 2014 at <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>

Nevertheless, compared to the year 2000, the economic power of multinationals has increased in the last decade and the revenues of the corporations have reached the GDP of states significantly. To illustrate this, we consider the analysis of De Grauwe & Camerman (2002) that found, that in the year 2000, the US economy was 200 times bigger than the biggest corporation; Japan was 100 times bigger and China 20 times bigger than the largest corporation, that at the time was Wal-Mart Stores. At the same time, the authors found that in 2000, of 100 global economies, only 37 were corporations and 67 were countries and that among the 50 economies, only 2 were corporations. If we compare the data from 2000 with the data from 2012, we can say without a doubt that multinational corporations have evolved in the last years, becoming larger compared to national states.

However, for the moment it is obvious that states and governments remain key actors on the global stage, but they now share the responsibilities with different international organizations, among which multinational corporations.

CONCLUSIONS

Globalization it is not a new phenomenon, but last decades have been marked by a tremendous development of globalization, related to an unprecedented expansion of multinational corporations. In this context, roles have changed on the global stage. Corporations have taken the control of the world economy from the national states.

Compared to the economic power of states, the economic power of multinational corporations has increased significantly. If this trend continues, it is very possible that there would be more than 3 multinationals in the first 50 economies of the world. Also, it is very likely that in the future there would be at least one multinational corporation in the first 20 economies of the world.

Consequently, national states alone cannot control the global economy and they are forced to share this role with the multinational corporations. In a globalized world, multinational corporations should focus mainly on the economic issues and the states on the political problems.

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