THE ROLE OF TRANSNATIONAL COMPANIES IN ECONOMY

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Abstract: The transnational company (TNC) represent an engine of the economical growth.
TNCs can bring efficiency for the national monetary politics, acting at two levels: they take advantage of the low rates of national interest and they borrow in order to finance projects abroad, or they borrow from abroad when the national interest rates are high. The role of transnational companies is also significant in the area of currency markets. TNCs influence the balance of payments of a country through: identifying the transactions related to the TNCs activities and their reflection in the credit or amount balance of payments. The TNCs impact upon the competitive environment of the home–state is not always nocive.The corporation contribution to the competitive process includes the reduction of prices, the product differentiation, advertising, introducing new products due to the research and development activity. The labour force market represents another aspect under which is manifested the role of transnational companies in economy. One of the main objectives of TNCs is represented by the formation and the qualification of the personnel, developing the abilities and performances by organizing training courses, seminaries and informational visits.

The transnational companies (TNC) represent an engine of the economical growth, in the conditions in which they act in a stimulant and permissive economical system, having not only a quantitative contribution – by means of the assets and indirect effects package – but also a qualitative one, as agents of integration and management of some economical activities. At the same time, the transnational companies influence the elements which determine the process of economical growth through the contribution towards the formation of the capital, the transfer of technology, the human resources development, the international exchange expanding and the long term economical growth.

The activities of transnational companies have effects upon traditional instruments of macroeconomical management.

The impact of demand management politics upon unemployment and production is lower than at the beginning of the postwar period, partially because the growing incomes in a country can be orientated towards the exterior with the purpose of financing TNCs investments in other parts. Also, TNCs as global financial actors, can bring efficiency for the national monetary politics, acting at two levels: they take advantage of the low rates of national interest and they borrow in order to finance projects abroad, or they borrow from abroad when the national interest rates are high.

The role of transnational companies is also significant in the area of currency markets. This way, although it exists the possibility for the speculators to initiate an attack over a currency, the pressure upon a certain currency change can become irreversible when the TNCs (and the institutional investors) abandon that currency, even as a measure of caution.

Although the capacity of TNCs to transfer the production could lead to diminishing the countries' capacity of placing a tax upon capital, of reducing the tax base and of gradually transferring tax towards less mobile factors, like the labour force, in reality this problem revels two key aspects : the pressure upon governments to reduce taxes over the capital in order to retain and/or attract transnational companies and their ability to reduce to the minimum the fiscal obligations through the practice of transfer costs.

The practice of transfer costs implies the under invoicing or the over invoicing from TNCs through intern transactions, which determines an artificial growth of the profits in the countries with low taxes and a corresponding reduction of these in the high taxes countries. The most complete description of the phenomenon belongs to the American IRS, which considers that the transfer cost refers to the direct transfer of profits by imposing abnormal or incorrect prices. As a matter of fact, the prices at which the market transactions are made can be divided in two big categories. The first category is represented by the market prices which results from the free expression of offer and demand, and the second category are the transfer costs, in which all the other prices that are established as market prices are included.

With the purpose of fiscality reduction for all the corporations, the transfer costs is the most frequently compared with the re-localization of profits at the most appropriate branches. In this way, the transnational company sells products or services, with the help of a branch in a lower profit tax country, and at a higher price than the market price, towards the branch in a higher profit tax country. This thing determines a diminution of profits in a country, and an increase in another country, with the purpose to pay a lower tax, which affects the branch that has to pay the transfer cost, because this one diminishes her taxable profit as well as the one that could be reinvested inside the branch. In this situation, the need for identifying other financial sources appears, and ensuring those from the interior of the system determines the growth of the branch dependence, creating the premises of future use of transfer costs.

Also, the transfer cost can be lower than the market price. In this way, a corporation can ask a branch to apply prices below the market level, with the purpose of growing the branch competitiveness on the local market, creating in this way a temporary competitive advantage at the branch level, with negative effect for its local competitors as well as for the branch itself, because it can be created the impression that the transfer cost substitutes the competitiveness. This situation proves to be harmful when changing the strategy of the corporation, and also increases the level of dependence of the branch upon the corporation, taking into account that its temporary competitive advantage results from the interior of the corporation, but outside the capacities of the branch.

At the same time, we can also encounter the situation in which it can not be established if the collected price is the same as the market price. A situation like this is represented by the multiple processing of a product, its fabrication from different elements, each one made in different countries and assembled in another country.

Another method of applying the transfer cost is represented by collecting ground rent taxes (royalties).

This means, first of all, that due to the different regulations of these taxes by the fiscal legislations, lower taxes will be paid for repatriating the profits in the shape of ground rents, and not in the shape of dividends. Ground rents which are included in the costs of the branch contribute to taxable profit reduction, and also, they are being collected as a sales percentage, offering the mother-company the possibility of repatriating profit even when the branch suffers losses.

Second, this method means obtaining a pure profit for the corporation which is not registered as such, by selling the activity results from the branches in the countries in course of development, branches which normally do not spend on research and development. At the same time we should remember that the profits made by patent marketing represent monopoly profits, and we are unable to establish a market price, as a comparison element for identifying the transfer cost.

The practice by which the TNCs transfer currency positions of their branches represent another variant of the transfer cost. This method, that initially appeared in the banking system, is being known under the name of "transfer parching".

Therefore, the transfer costs represent a very efficient tax dodger practice of the corporations, which is based upon an internal and integrated system of relations inside the corporation.

Although there are stimuli which encourage the transnational companies to explore transfer cost mechanisms, and the high commerce levels inside the company offer considerable occasions to do such things, still, the activity of the companies is limited due to the fear of actions conducted by the national fiscal authorities, and also by the fact that, practicing transfer costs can clash with accountancy and control internal systems.

Another aspect manifesting the role of transnational companies in economics is represented by global competition. Although commerce plays an essential part, transnational production is also important, this one imposing global competition inside national markets, aspect which compelled many firms to be producing at the world frontier of productivity or determined them to step out of business. Global competition has a determining role upon national and corporation agenda, long term strategic choices which many national firms are facing.

Expanding and activity intensification of TNCs on the foreign markets has produced the first form of global competition. After the '70s, productivity growth of European and Japanese firms has lead to a direct competition between these and the American firms. In the conditions in which expanding and activity consolidation of TNCs was registered on the main world markets, this situation was seen in the FDI flows.

Although global competition is different between departments and between countries, the growth of transnational production has lead to its geographical intensification and expanding. Therefore, in the majority of OCDE states, the global competition ideology can be found in the institutional agenda of firms, unions and governments.

Also, the transnational companies influence directly or indirectly the balance of payments of a country. The impact of foreign direct investments upon a balance of payments is determined by a series of factors like: purpose of the investment, nature of the investment, nature of the activity and development stage of the project of investment.

Moreover, a series of factors specific for each country (market size, technological gap, development stage, other advantages of location) influence decisively upon internal activities of TNCs branches.

Identifying the transactions related to the TNCs activities and their reflection in the credit or amount balance of payments represent direct effects of TNCs activities upon the balance of payments of a country.

The conflictual environment between the home-state and origin state, under the aspect of the impact of the transnational company activity upon the balance of payments of both countries is based on a series of factors like: the interests of the origin state do not necessarily correspond with the interests of the corporation, because the capital of the transnational company can belong to shareholders from several countries, and the country in which the corporation has its residence (the origin country) is not represented at all in the shareholders' structure.

Table 1

Direct effects of TNCs activities upon the balance of payments of the home-state

CREDIT +	AMOUNT -
goods and services export complementary for ensurances and shipment	goods and services imports complementary for ensurances and shipment
	payments owed to foreign capital: dividends (for "subsidiaries" and "associate enterprises"), divided profits (for "branches"), interests for loans inside the firm and other payments, like license taxes and ground rents
direct investments in the country	
loans from exterior markets for investment financing	interests paid for these loans

Table 2

The conflictual environment between the home-state and the origin one regarding the TNC impact upon the balance of payments

Problem	Objective of the home – state	Objective of the origin – state
capital investments	obtained from the origin state	obtained from the home – state and from other external sources
profits	reinvested	repatriated
licence taxes and ground rents	no payment	entire payment
exports	of the branch towards another branch and towards the mother – company	of the mother – company towards the bracnches

Source: adaptation after Walters and Blake

The analysis of the relation between the branch level of integration and the payments made by this one towards the home-state, leads to the following conclusions: the branches which play the part of global innovator (in the technological flow) or of strategical actor (in the capital flow) have a positive impact upon the balance of payments of the country in which they conduct their activity; the branches of transnational companies which play the part of implementation (in the technological flow) or of redistributive actor (in the capital flow) have a negative impact upon the balance of payments; the branches completely integrated with a high level of exports as well as imports inside the firm, have a variable impact upon the balance of payments, but, considering that, these ones are more likely to use the transfer cost practice, their impact can be considered as negative; the other types of branches have an unsure direct impact, but they can perform a significant indirect impact.

The effect of the activity of transnational companies upon the balance of payments should be analysed, according to Dunning, in close relation with a possible situation in the lack of activity of transnational companies, proposing "measuring the net effect" by means of the difference between the real external transactions owed to the TNCs activity and the external transactions which could have taken place in the lack of their activity, a disputable and conjunctural situation, whose correctness depends upon validating the economical scenarios created in the absence of TNCs.

We present some of the most relevant examples, under the aspect of diversity, regarding the effects of TNCs upon the balance of payments.

In Singapore, the net contribution of TNC with the balance of payments is positive, due, mainly, to active goverment politics of support of their activity in the departments considered priority. The surplus registered in the services department is significant, Singapore lately becoming an ideal location for research and development activities of many transnational companies. Also, in the manufacturing department, the branches in Singapore of American corporations make a double amount of exports into the USA compared to the amount of imports from the same country.

General positive effects of TNCs upon the balance of payments of six asian countries, among which Thailand, the Philippines and Indonesia, were questioned by the Asian financiary crisis, which was determined by a deficit too large of the account current.

In China, the effect of TNCs upon the balance of payments has been positive (according to a study belonging to "Economist Intelligence Unit", 1996), given to the massive amount of foreign investments. Although the net commercial effect of TNCs was substantially negative, still a tendency of growth of the local suppliers contribution is being registered. It is being estimated a growth of the balance of payments deficit because of the growth of the amount of payments owed to the foreign capital, but the investment flows continue to maintain themselves large, allowing the finance of deficit.

According to recent research, interesting aspects regarding the effects of TNCs upon the balance of payments have been emphasized, in contradiction with other previous research.

The frequency and intensity of export activity are maximal for the firms with majoritary foreign capital, compared to the ones with local capital. The value of exports exceeds 75% of the business amount in 46% of these firms. The activity of most foreign firms is orientated towards exports in the traditional departments, like furniture and clothing, due mainly to the low cost of the labour force, as well as to the fact that, at an aggregated level, the weight of foreign value in the business amount is minimal for the foreign firms.

At the same time we notice a marginal inclination towards export of foreign investments in the metallurgical industry and that of means of transportation, which can be considered of medium or high complexity. This fact is determined by large scale practising of transfer costs, emphasized by the medium level of profitability on branch according to the type of property: -17,8% for the foreign firms in the metallurgical industry and -8,9% for the foreign firms in the means of transportation industry. Moreover, of the foreign firms which have mainly export activity, 25% export in loss.

The weight for imported materials is higher for foreign firms than for local ones, and in the clothing and shoe industry more than half of the foreign firms import raw materials in proportion of 100%.

Regarding the activity of a transnational company on a certain market, it must be analysed starting with establishing the differences between the distinctive and circumstantial features of a corporation. The distinctive features include the advantages of property and self analysis, and the circumstantial features are those that would apply to any firm which would have the same market share as the corporation.

The TNCs impact upon the competitive environment of the home–state is not always nocive. In this way, the penetration of a transnational company on a national market with a limited number of competitors in relation to the market capacity can increase the level of competition on that market. The corporation contribution to the competitive process includes the reduction of prices (in case the corporation is more effective than the local firms), the product differentiation, advertising, introducing new products due to the research and development activity. Also, the emergence of a transnational company on a national market can determin the improving of local firms performances, by stimulating the competition.

In Kenyan soap industry the emergence of foreign firms has lead to the vanishing of selling, in towns, of home made soap, the local firms being compelled to acquire mechanical production and assembling lines and to variate the range of products, by subcontract or licence agreements. Also, the penetration of TNCs in Kenyan shoe industry has lead to competition growth on the market and to change in technological lines of the local firms.

The emergence of TNCs in Brazilian clothing industry has brought a new product on the market, but determined a stagnation in the demand for cotton products and the vanishing of some local firms that could not adjust. As a change, other national firms have been compelled, in order to benefit from the new technology, to make joint-ventures with foreign parteners.

The penetration for Pepsi Cola and Coca Cola on the Indian market did not lead to the vanishing of local productors of refreshment drinks, moreover, the whole industry in this area has had its benefits from the advertising campaigns of the two TNCs.

Also in Romania, the TNC investments in the area of refreshment drinks have had a stimulating effect upon the competition. In this way important local productors have appeared like European Drinks, Leader, the development of Dorna range. Also the multiplication effect of the Coca – Cola investment has been of 10:1.

Numerous studies tie the possibility of engaging effects emergence in the local economy due to TNC activity to the size of this activity; the productivity of local firms grows proportionally direct with their exposal at the TNCs competition, this one being measured through the market share of TNCs.

In Mexico and Uruguay the entrance of the transnational corporations on the market has had a positive effect upon the national companies' productivity, when the difference between the TNC and national firms productivity was not too big. Thus, the investments made by the transnational companies that do not hold a dominant position on the world market or which come, as residence state, from countries in the course of development, create an increasing possibility of production of engaging effects. Considering that this kind of transnational companies have their activity in departments in which labour is the intensive factor, and the technological contribution has a smaller importance than in the case of TNCs whose residence states are developed countries, the chances of local firms under the aspect of competitiveness are higher.

The engaging effects do not reduce themselves to technological improvements and to productivity growth, more and more statistics exist which reveal that TNCs branches oriented towards export act as catalysts of developing the export capacity of local firms, by opening the access towards foreign markets.

In the situation in which TNCs penetrate in activity departments unexploited by local firms or there is a large difference between the competitive power of TNCs and of local firms, and the competition coming from importers or other TNCs is insignificant, the transnational corporation branch which emerges on the market in these conditions registers a dominant position. Thus, there are deficiencies in the good functioning of the market, that branch produces over profits, in detriment of the customers' well – being and of dynamic growth in those activity departments.

The local competitional environment is being affected by horizontal and vertical restrictions, and the strategical alliances, the mergers and acquisitions tend so oftenly to have an anticompetitive character. In the opinion of the ex European commissioner on matters of competition, Karol Van Miert, the countries in the course of development and the countries in transition can be submitted to major risks from two reasons.

First of all, the rushed denationalization of many industrial units determined by the need of these countries for financial resources and for competent management, leads to the transformation fo the state monopoly (the state monopoly implies an unseen maximal limit of the monopoly price, due to election motivation of the decisional factors, while the private monopoly does not have such limit of price).

Second, the lack of authority in the organism in charge of respecting the competition in these countries and the expanding of the corruption phenomenon, are two of the determining elements for which the respective organism do not fulfill their part.

The labour force market represents another aspect under which is manifested the role of transnational companies in economy. The studies made in this way reveal that the change produced in the labour force are not to be ignored, evan though are less intense than those corresponding to international economical flows.

The liberation tendency of the labour force creates new international flaws for her. One of the main objectives of transnational companies is represented by the formation and the qualification of the personnel, developing the abilities and performances by organizing training courses, seminaries and informational visits.

Thus, inside most of transnational companies, the responsibility for training the top management personnel or the potential persons who will occupy these positions belongs to the organization mother, while training the other employees belongs to the enterprises of the country in which they activate, and a decentralization for the responsibility appears.

The effects of transnational companies upon the labour force are sometimes seen as being harmful. Their capacity to organize production at a transnational level increases the corporatist power compared to the power of workers, determining a wage and work conditions quality reduction. At the same time, through technology transfer towards TNCs abroad, the superior quality work places are lost in favor to countries with low wages, thus, the workers in the developed economies have a lower material gain from the technological innovation.

Still, from studies made in OCDE countries, as well as in the countries in the course of development, results the fact that TNCs pay over medium wages, although they are often criticized because they offer bad wages and conditions in some industries, especially in those of clothing and shoe business. In some cases, but not in all, the wages and conditions are compared to those in internal firms, generally, the case in which the worst wages and conditions have been reported do not aim the TNCs branches, but internal firms in countries in the course of development which produce under contract with TNCs.

TNCs, in order to benefit from reduced wages, have transferred the production in departments like clothing, shoes and sport articles, from OCDE countries towards the economies in the course of development, and in the postwar period, from countries with medium income towards countries with reduced income. Recently, this pressure has become more spread, West–European TNCs firing workers in their origin countries, while they were expanding their force of labour and activities in low wages countries. For example, in the '90s, the Swiss and Swedish producers ABB have reduced 59.000 work places in Western Europe and North America, while they were offering 56.000 in other places, mainly Asia and Eastern Europe.

R. Lawrence has compared the activities of American multinationals in 1979 and a decade later, finding that, although the wags in the countries in the course of development represented 28,5% from the medium wages for the same activities in the OCDE countries, the work productivity was only 40,3% of those in OCDE countries. The unequal levels of productivity obviously limit the possibilities of transferring the activities in countries with low wages.

Also, TNC tend to be on the first step of technological innovation and demand the access to technology and to qualified personnel, as well as to main markets. In the case of production technology development, in order to allow its usage by the workers with low wages in countries in the course of development, TNCs hold a dominant position regarding the re-localization of the production in countries of this kind. In this way, production globalization can lead to increase in the wage differences between qualified and unqualified workers, in the same country or in different countries.

TNCs zero costs production transfer, would have the establishment of global wages as an effect. But, taking into account that abroad production transfer assumes some costs, this is not entirely true, but, in case a relocation costs reduction would appear, the global competitive powers could be determined in wages establishment.

Although a global wage convergence could be registered, without totally eliminating wage differences, still, the balance of power between the force of labour and the multinational capital, in the conditions of the globalization, inclines without any doubt in favor of the latter.

Adopting the measures of free competition must be the main objective in the politics of every state without neglecting the solving of the problems related to the balance of payments, to the competition and social environment. Thus, the research result from the managers of transnational specialized in consultancy was even more peremptory: the pro-competitive politics are the only ones which have a positive impact upon the national market. Promoting free competition should follow first of all, ensuring the conditions that this liberation is good for the national economy, which does not assume the sudden and entire liberation of the markets. For example, transforming a state monopoly in a private one is not liberation, but only a proof of the state's weakness. Also, adopting restrictive and discriminatory measures by the state, is but an attempt to hide the same weaknesses of the state. Nothing stops a state to adopt a series of measures which will mean protecting, at least from social reasons, of the national firms which are not competitive on the external market, protection which should be based on the strategy of developing the advantages specific to the firm and on a predictable ending. Another measure of promoting the competition is represented by temporary protection of some local firms, with the purpose of their growth of capacity to face the competition of the TNCs, in the moment when quitting this protection from the state. Enforcing the law regarding the control of strategic alliances, of mergers and acquisitions, of practicing transfer costs and any other challenges (vertical and horizontal restrictions, market arrangements etc.) that the transnational company can impose, volunteer or not-volunteer, towards the competition environment in the home-state, represent a series of measures of promoting the free competition.

The transnational company, by its nature, follows to excessively use its power and abuse its position on the market. The purpose of a transnational company is not creating a competitive environment, on the contrary, obtaining a dominant position on the market, especially in the situation in which it will face weak reactions from the home-states on whose territory it activates. If the politics adopted by the home–state are against the corporation, the created economical environment is a non co-operant one, of mutual distrust, which could often lead to a coil of retail measures or even to processes of retiring of investments, motivated not by the simple environment, but by the fact that environment does not allow the corporation to obtain the bankable profits.

In conclusion, ideally for creating a competitive environment, the state must normally use the power it has, through politics of free competition promotion, in order to compel to corporation to restrain from an abusive behaviour on the market.

The big dilemma of the future of the relationship state – corporation, added to the problem of the future national states, is whether these global answers must be given on grounds of a co-operational relationship between the national states, or on grounds of subordination of the national states to a over national state authority.

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