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THE ROLE OF TRANSNATIONAL CORPORATIONS IN THE DEVELOPMENT OF FOREIGN INVESTMENT IN THE WORLD ECONOMY

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Abstract: *The article analyses the important aspects of the process of transnationalization of the world economy in the context of globalization and the world economy, which is widely covered in modern literature. In particular, the empirical and theoretical foundations of the transnationalization process, the factors influencing it, the role of transnational corporations in the world economy, especially in the inflow of foreign investment, have been central.*

Keywords: *world economy, transnationalization, corporations, developed countries, investment*

INTRODUCTION

Globalization is a process of integration resulting from the growing mass trade and cultural exchange in the world. This process can be called a regularity that dramatically increases the production and consumption of goods and services in the world economy. The largest companies are no longer national companies but operate at the level of affiliates or transnational corporations (TNCs). As globalization accelerates over the last half century, large companies operate in more than one country as a result of the free movement of capital, goods and services, resulting in increased foreign trade. On the one hand, this leads to a further enrichment of multinational companies in developed countries, such as McDonald's and Starbuck, on the other hand, the distance between less developed and developed countries increases.

MATERIALS AND METHODS

The methodological and theoretical basis of the research is the concepts and theoretical provisions covering transnationalization processes, scientific research of

foreign economists on globalization and management of transnational activities, world experience, scientific-theoretical and practical views of local economists and experts on this topic, etc.

RESULTS

In order to be able to assess the recent phenomenon called globalization, it is first necessary to understand this phenomenon over time, along with its characteristics, causes and consequences. In fact, the historical meaning of globalization is not a new concept. This process, called globalization, is a term that has been in use since the early twentieth century. The socialist revolution in Russia in 1917 and the subsequent break-up of countries such as Eastern Europe, China and Cuba after World War II slowed this process. Although globalization has accelerated again since the 1970s, with the collapse of bureaucratic regimes and the transition to capitalism in the above-mentioned countries, capitalist capitalism has spread around the world on a larger scale and around this time began to deepen.

Thus, the current state of globalization is the result of this development process. In the last decades of the twentieth century, as international relations changed, the two-century-old system of industrial relations also entered a new stage of development. The countries involved in this process are undergoing a very serious transformation. One of the main levels of globalization is the political factors that have come to the fore, especially with the collapse of the USSR and at the same time the socialist camp. As globalization expands toward post-socialist countries, common Western goals such as international terrorism, water, and global warming can be expected to replace common Western goals in the fight against communism and fascism in the past.

In a limited (economic) sense, globalization is the acquisition of the ability to freely and consistently move the factors of production (capital, labor, entrepreneurship, knowledge and goods) and the trade in services around the world. Globalization in the broadest sense is a phenomenon in which universal political, social and cultural values transcend national barriers and become local norms and routines. As with any new process, there are pros and cons to globalization. Proponents see globalization as a multifaceted, broad, all-encompassing process that transforms the world. This group makes globalization manageable and predictable from its own point of view due to its qualitative advantages such as knowledge, skills, abilities, innovation and creativity. Globalization, arising from its basic

dynamics, is the best tool for improving the welfare of man and society by creating favorable conditions for the free flow of goods and factors of production on the economic platform. However, the uncertainty and even danger of this process from the point of view of non-professionals, which will be carried out on a global scale, should not be overlooked. The international mobility of labor, especially in the example of the migration of knowledge, which is its new form, is a component of globalization, and many factors contribute to the optimization of the structure of global production and the specific benefits of globalization for certain countries. That is why the process of globalization will deepen and develop, regardless of the will of any state, producer or consumer, in short, anti-globalists. International production is carried out at local enterprises operating on a contract basis, as well as at enterprises located abroad. As a result, foreign companies not only prevent the decline in production, but also save initial investment and simplify the management structure (as contractors are responsible for the phases of production). This production has a direct international character. For example, the production of cars (different brands) is distributed among the enterprises of seven countries, and each country is responsible for its own production phase. There is another type of production. The head office is in a developed country, but the assembly of parts and components is in another country. It is developing rapidly as one of the main tools in the struggle for international production markets. Several factors have contributed to the practical realization of globalization. The first of these is economic liberalism. Globalization and neo-liberal policies have reduced the role of states in both economies and business. On the one hand, many bilateral and multilateral international agreements have resulted in lower customs tariffs, the elimination of non-tariff barriers, and the simplification of export and import procedures. It should be noted that global production, which emphasizes multilateral cooperation, has benefited more from globalization than from international commodity trade, which is sensitive to changes in national income. It is not in vain that the World Trade Organization (WTO) has been fighting for several years for the adoption of a code on foreign investors. Thus, the function played by international commodity trade in the 1950s and 1960s is now being performed (after the 1990s) by physical, financial and human capital.

Before moving on to the role of TNCs in the inflow of foreign investment, it is necessary to answer what TNCs and foreign direct investment (FDI) are. According to Richard Caves, a professor at Harvard University, TMK is a company that

oversees and manages manufacturing facilities (plants or service companies) in at least five countries. It should be noted that the definition consists of two parts: first, it must control and manage enterprises operating in at least two countries. Second, these enterprises must be managed by the same company. In general, according to Helleiner, TMCs are formed under the influence of a number of factors, including the following:

- Internationalization of production and capital on the basis of the development of productive forces;
- Expansion of capital abroad, establishment of enterprises and branches abroad;
- High-income efforts;
- Fierce competition leading to the concentration of production and capital at the international and national levels;
- Declining importance of geoeconomic boundaries.

The emergence of international companies is directly related to foreign investment. In the world practice, an international company is considered as a form of structural organization of a large company that makes direct investments in different countries of the world. The outcome of an international company's foreign direct investment may be different. In this case, a foreign enterprise in which the direct non-resident investor has less than 50% of the shares, a firm in which 50% of the shares pass, or a foreign branch owned entirely by him may be established.

According to the Organization for Economic Co-operation and Development (OECD), Foreign Direct Investment is an investment in an enterprise in another country for long-term profits. According to another definition, foreign direct investment is defined as financial or technological resources that a country can add to its economic power in a short period of time by providing other countries to pay for it in various forms in the future. In the European Union (EU), according to Directive 1988/361 / ees, adopted in 1988 for the free movement of capital and entered into force on 1 July 1990, capital movements consist of thirteen parts:

1. Direct investment;
2. Real estate investments;
3. Transfers related to documents normally auctioned in the capital market;
4. Transfers related to the documents of participation of collective investment companies;

5. Transfers related to documents and other instruments normally auctioned in the money market;

6. Transactions on current accounts and deposits in financial institutions;

7. Loans related to commercial operations or services provided by a person sitting in the community;

8. Commercial debts and loans;

9. Letters of guarantee, other guarantees and pledges;

10. Transfers related to the implementation of insurance agreements;

11. Physical import and export of financial prices;

12. Other capital movements.

Foreign capital according to the Organization for Economic Cooperation and Development:

- The foreign investor's share in the company's earnings, which is not distributed and re-invested;
- Receipt of shares and debt documents (short, medium and long-term debt documents) from the parent company by a foreign investor in cash or in kind;
- Loans provided by a foreign investor to the company;
- Non-cash machine and production fees received by a foreign investor from the company;
- Covers commercial and other loans provided by a foreign investor.

As can be seen from the above classification, wealth acquired in foreign countries can have either financial or real (physical) quality. An international portfolio investment is when a firm buys a financial instrument (such as foreign borrowing and stock prices) from another country's money and capital markets in order to earn interest, dividends and capital gains for more than a year. If the party carrying out this operation is a foreign state, an official international organization, it is also called medium and long-term official foreign capital movements. This is the case, for example, with long-term loans from the International Monetary Fund and the World Bank, or interstate debt relations (whether one country buys another country's official bond or lends it directly). Only trade bonuses, financing bonuses, treasury bonuses, deposit certificates, term bank deposits, export loans, pre-financing loans, correspondent openings, etc. with a term of less than one year. Financial flows with private and official characteristics, such as, are short-term capital movements. Material investments obtained or created in foreign countries,

such as buildings, territories, factories, production facilities, supplies, are called foreign direct investments.

Reasons for the emergence of transnational corporations and its history

The reasons for the emergence of transnational companies are as follows:

- Demand from a foreign country;
- To protect against competition from other companies;
- To obtain information on the markets of countries with cultural differences;
- Easy access to foreign markets and improvement of the global network;
- Reduce investment costs and risks by finding financial resources;
- Maintain control;
- To take advantage of tax benefits;
- To make a profit;
- Take advantage of cheap labor;
- Stimulate.

The development of transnational corporations is in fact a very long stage. The beginning of this process must be sought in firms founded by states in the 1500s and 1800s during the period of Mercantilist Capitalism and Colonialism, which aimed to obtain the natural resources and agricultural products of other countries. Between 1800 and 1875, the necessary infrastructure for the establishment of transnational corporations developed, and firms took over the supply and consumer markets by acquiring other firms, and an oligopolistic market structure emerged.

Railways, telegraphs, steamships, telephones became the basis of modern mass production and distribution of the "Industrial Revolution" of the late nineteenth and early twentieth centuries. From that time on, the rapidly evolving companies needed a new management hierarchy, which was the basis of modern transnational corporations.

Although there are various opinions in the modern economic literature about the evolution of transnational corporations and the rapidly expanding path of expansion, it is generally accepted that this process has gone through the following stages:

1. The first stage is the period until the end of the XIX century and the beginning of the XX century, ie before the beginning of the First World War (1914);
2. The second stage is the period from the 20s to the 40s of the last century;
3. Third stage is the period from the 50s of the XX century to the 70s;
4. The fourth stage are 70-90s of the last century;

5. The fifth stage covers the period from the 90s of the XX century to the present day.

Common features of transnational corporations

Transnational companies are companies that continue their investment activities in more than one country, where production decisions are made centrally, and in various ways influence the decisions of their affiliates. Just as International Business Machines can be a company with factories, offices and different functions in different countries, it can also be a company like Boeing that carries out export operations across national borders.

Another definition: large companies that, with their head office in a particular country, operate in one or more countries through self-coordinated divisions, small companies, and decisions made by the center in accordance with general company policies.

According to the latest UNCTAD report, there are currently about 65,000 transnational corporations around the world operating in various sectors of the economy. Many transnational corporations are headquartered in the United States, the European Union, or Japan. Although by 1993 all of the top 100 transnational corporations were in developed countries, in 2007 the list already included three Korean, one Chinese, one Hong Kong, one Malaysian and one Mexican companies.

The share of transnational corporations in international trade is very large. For example, in 2008 the output of the largest transnational corporations accounted for 4% of world GDP, 9% of assets, 16% of exports, and 11% of the workforce.

In addition, transnational corporations are the largest foreign direct investment entity in the world, investing $ 1.4 billion a year in the 2000 developed countries. This trend continued until the 2008 global financial crisis. By 2007, 1979 billion. It has reached the US dollar.

DISCUSSION AND CONCLUSIONS

Transnational corporations are intensifying the process of globalization. The investment provides economic support to the regions, as well as the interaction of developed countries and poor countries in international markets.

There are many definitions of foreign direct investment in the economic literature. According to one of them, foreign direct investment is financial flows caused by global production. Another common definition in the economic literature

refers to foreign direct investment as investments made in a foreign country with a sufficient shareholding to have a say in the long-term management of the company. The International Monetary Fund (IMF) defines direct foreign investment for statistical purposes as "an international investor owning more than 10% of the capital of any local company."

In terms of subject matter, foreign direct investment is more important. There are two main reasons for this. First, as a quantitative measure, foreign direct investment has a large share in other types of foreign investment. In fact, portfolio investments and short-term capital movements are also expressed in large numbers, but this situation is temporary. Second and more importantly, the FDI is a desirable form of capital export because it stays in the host country for a long time, increases investment reserves, and creates new jobs. Highly liquid international portfolio investments and short-term private capital movements based on relatively short-term dividends and interest income are very sensitive to economic and political changes in the country and leave the country in the face of the slightest negative expectations that is considered one of the importance. For example, the crises created by international capital movements in the form of portfolio investments in Mexico in 1994, Asia in 1997, Russia in 1998, Turkey in November 2000 and February 2001, led to a decline in demand in the real economy. led to a narrowing of trade. Also, during the Asian crisis, foreign trade banks withdrew billions of dollars in loans from the region in a matter of days, while foreign direct investment maintained its level, and in some cases even increased optimistic expectations. For this reason, in the past, some countries, especially those with speculative and short-term restrictions on capital movements, have been extremely liberal in their foreign direct investment and have enacted liberal laws in this regard. There are differences between international portfolio investments and short-term capital movements and foreign direct investment, both in the country they go to and in the global context, in terms of the results they produce. Full liberalization of financial markets without adequate infrastructure is dangerous in many ways. In particular, short-term foreign private capital movements (hot capital) in developing countries can increase the impact of external shocks. This is because the spontaneous liberalization of financial markets may necessitate the elimination of legal regulations aimed at controlling the inflow and outflow of hot money into the country. As is well known, the vast majority of short-term loans and contracts are derivative contracts related to currency risk management. These speculative funds are not used for fixed capital investments such

as building a factory or creating a new business area. At the same time, companies do not make long-term investments using tools that can be withdrawn with an immediate decision. Even the risk posed by such hot capital may make a developing country less attractive for long-term investment. The potential negative impact on economic growth and development is clear. For this reason, some economists even recommend that developing countries allocate the same amount of reserves to short-term foreign loans in order to reduce the risks of such capital inflows.

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