

The Development of Multinationals. Their Role in the Economic Globalisation Process

Andreia-Simona MELNIC
George Bacovia University, Bacau, ROMANIA

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Abstract: The economic globalisation phenomenon, having evolved very rapidly after the World War II and, especially during the last quarter of the 20th century and the beginning of the 21st century, has determined important mutations in the world of economic units – has accentuated their difference on size, type of activity, form of property, their role and importance, the management policy etc, has set up the domination of commercial economic units in all countries' economies, these economies being stratified during the last decades in a pyramidal structure whose top place is occupied by multinational companies. These international companies have proved to be, over the last decades, the main capital bearer across borders, the most important element in the formation and modification of the different types of capital flows. The main expansion modality of transnational corporations, in different fields of activity, has always been the external capital investment.

The multinational companies are a striking reality of the contemporary economic environment. They are the main subjects of the globalization process, at the global level of economic activity, especially regarding the commercial and financial relations; they are one of the important players in the international business environment. A current characteristic of world economy is the fact that the trans-national companies have turned out to be in the last decades the main trans-national capital bearer, forming and modifying different types of capital flows. The principal expansion modality of multinational corporations, from different activity fields, was and still is the external capital investment. Therefore, sometimes, the concept of investment flow itself is automatically associated with the presence and activity of these firms.

The external direct investment is characterized by the following aspects (elements):¹
- the direct investment represents a longer term capital placement abroad and it can not be assimilated with an immediate, limitative transaction, as it happens in the international trade of goods;

¹ Pop, C. Postelnicu, C.2000. *Tranzacții economice și financiare*. Cluj-Napoca. Editura Presa Universitară Clujeană, p.6

- in the most cases this placement aims at forming a new objective (greenfield investment) or the purchasing of already existing company assets;
- usually, the direct investment is materialized by a transfer of machines, tools, installations, measuring equipment, which causes the growing of fixed capital in use, of technology and know-how in the fields of marketing and management;
- the largest part of this transfer consists in productive capital, which allows the investor to gain controlling rights, totally or partially, as well as the participation right in decision making;
- the internal structure of direct investment is formed of the net capital contribution, the foreign subsidiary profit (gained and re-invested), as well as of national and international capital market loans;
- the main characteristic and, at the same time, the effective force of the external direct investments resides not only in the possibility of the main-firm to influence decisions, but especially in its effective participation in the management of the firm, subsidiary or branch office on the territory of other states.

What is the evolution of foreign direct investments at global level, in time, and what are the factors which have influenced this evolution?

In the Table no.1 there are presented the external direct investments flows (EDI) in 1914, as well as the industrial export values in 1913, for five countries:

Table no.1

The EDI flows and the industrial export values
at the beginning of The First World War (\$)

	EDI – 1914 (from the country of origin) (\$)	Industrial exports – 1913 (\$)
Great Britain	8172000	1928000
USA	2652000	896000
Germany	2600000	1824000
France	1750000	813000
Holland	925000	No data
Total	No data	7227000

Source: Paul Hirst, Grahame Thompson. 2002. *Globalizarea sub semnul întrebării. Economia internațională și posibilități de guvernare*. București: Editura TREI. p.41²

As results form Table no.1, around the First World War, the Great Britain had the most powerful economy in the world. Regarding external direct investments, it is much ahead the principal pursuers - USA and Germany. The biggest part of these investments was directed at mining and infrastructure. Hobson (1914) and Lenin (1916) mentioned the implanting of English capital in Canada, India and Russia, as well as the role played by companies like AEG (Germany), General Electric and Standard Oil (USA). According to Wilkins and Frankol (1914), twenty companies had reached (atinsesera) a significant degree of trans-nationalization: St.Gobain (France), Solvay (Belgium), Nestle and Ciba (Switzerland), Siemens and Hoechst (Germany), Texaco and Westinghouse (USA) etc.

The reasons for the foreign direct investments of the trans-national firms are the following:

- 1) in order not to lose the main suppliers and clients, who have decided to resort to international production, the company intents to follow them;
- 2) the constant need of adapting the products to the specific needs of specific markets abroad and to some characteristics specific to resources and local production capacities;
- 3) the trans-national companies invest abroad, setting up branches, in order to reduce transport costs;
- 4) the firm considers foreign direct investment necessary if this is placed within the global production and marketing strategy so that it can anticipate the competitors' movements;
- 5) getting over the barriers of custom houses established by the countries where the trans-national firms had exported the products.³

During the last years the foreign direct investments (FDI) have been among the most important aspects of world economy and of globalization. This fact implies the setting up of new firms abroad or the acquisition of significant stock holding in foreign firms. The growing of external investments in the past decades is largely due to increased liberalization caused by lower barriers to commerce and investments. An evolution of the FDI flows received and generated per capita in 1990-2001 is presented in Table no.2.

Table no.2

FDI flows received and generated per capita in 1990-2001

State / Region	FDI flows received	FDI flows generated
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² www.biblioteca.ase.ro/downloadres.php?tc=8052

³ Postelnicu, C. 1997. *Investiții directe în străinătate și principalele categorii de investitori strategici*. București:Editura Tribuna Economică, nr.15

	(US \$ per capita)				(US \$ per capita)			
	1990-1994	1995-1999	2000	2001	1990-1994	1995-1999	2000	2001
A. DEVELOPED States	162.9	474.4	1429.2	583.1	249.6	619.9	1480.2	672.9
1. Western Europe	213.7	595.8	2139.9	863.5	310.0	936.2	2619.3	977.2
- EU	212.2	588.0833.5	2147.5	856.7	295.7	904.0	2571.1	968.7
- other West European States	260.6	30.7	1909.0	1072.7	759.8	1921.9	4092.4	1236.9
2. Japan	11.0	509.0	65.5	48.7	205.7	188.6	248.3	299.1
3. USA	143.0		1062.4	435.2	196.4	419.3	58.5	398.6
B. DEVELOPING States	15.6	37.5	48.8	41.4	7.4	14.8	23.4	8.1
1. Africa	6.2	11.9	11.0	21.1	3.9	4.4	2.3	-3.7
2. Latin America and Caribbean	45.1	141.3	185.6	163.7	10.7	36.5	43.3	14.2
3. Asia and Pacific	13.3	28.1	37.5	28.3	7.5	13.5	24.7	9.6
3.1. Asia	13.2	28.1	37.5	28.3	7.4	13.5	24.8	9.6
- Western Asia	13.0	14.1	2.9	17.2	0.1	2.0	6.6	5.6
- Central Asia	9.5	37.5	25.6	47.9	0.0	3.0	0.6	4.0
- Southern, Eastern and South-Eastern Asia	13.3	28.8	40.3	28.6	7.8	14.3	26.2	9.9
3.2. Pacific	56.9	64.3	12.9	28.4	17.3	10.9	5.7	10.7
C. Central and Eastern Europe	17.3	55.9	78.6	80.8	1.0	6.8	12.4	10.9
D. World dispersion of FDI flows (US \$ per capita)	38.5	101.5	245.7	119.6	49.1	108.7	244.6	108.7

Source: The 2002 UNCTAD World Investments Report "The Trans-national Corporations and the Competitive Exports"

In the XXI Century there have been significant mutations regarding foreign direct investments (FDI). The global economic recession and the increased degree of investments uncertainty led to constant cutting down of global foreign direct investments in 2000-2002. The main factor which led to a decline in 2000-2003 was the slow economic growth in the most parts of the world. Also an important contribution to the decline of direct investments is due to other factors such as: the reduced profit of corporations, the reduced rhythm of activity restructuring in trans-national corporations, the reductions from bond market and the negative change of privatization in some countries.

The inflows of global direct investments increased for the first time in the last four years in 2004. The evolution of external direct investments, in 2004, did not unfold homogeneously at level of national regions and economies. Differences at the level of sectors were also recorded. The investments in the service field continued to rise, especially as regards financial services. Services have represented 63% of the total value of acquisitions and mergers between countries in 2004, in comparison with 54% in 2003; 1/3 of the investments in services were in the field of financial services. In the primary field the direct investments, due to the increasing demand for different goods, especially oil, started to rise significantly in some regions, especially in mining and oil related industries in Africa and Latin America.

The global inflow of foreign direct investments (FDI) increased substantially in 2005, the second consecutive year of growth. This fact was caused by the trans-border mergers and acquisitions which reflected the strategic choices of trans-national corporations aiming at increasing corporate profits and at the recovering of stock-exchanges. The global flows of FDI were 29% higher in comparison with 2004, reaching 916 billion dollars, whereas the flows towards the developed countries increased by 37%, reaching 542 billion dollars.

The country which attracted the most FDI was Great Britain, followed by the USA and China. Of all the developing regions, the highest degree of FDI inflow growth was recorded in West Asia (85%), followed closely by Africa (78%) both regions reaching record flows of 34 billion dollars, respectively 31 billion dollars.⁴

An investigation of U.N. Conference for trade and development shows that after the record of 1,833 billion dollars reached in 2007, the worldwide flow of direct investments abroad will experience a 10% decrease, up to 1,600 billion dollars. In 2007, the U.S. were the main destination and origin of these investments. A substantial contribution came from emerging markets – 253 billion dollars – especially due to the expansion of Asian trans-national companies. According to the survey, the multinational companies from the developed countries focused their attention on five destinations for their business: China, India, the U.S., Russia and Brazil. Under these circumstances, the report

⁴ The 2006 UNCTAD Global Investment Report "The foreign direct investments in transitional and developing economies: Their role in development"

underlines the fact that, as compared with 2007, Russia and Brazil have become considerably more attractive. At the same time, the number of companies aiming at an increase of their investments in the following three years has decreased significantly, as compared with 2007. On the other hand, the profits made by the branches opened in other countries have continued to increase, being estimated at 11% of gross national product (GNP), namely a 21% increase as compared with 2006, and the number of employees has also become higher, reaching 82 million persons. The most important productive trans-national companies remain the active companies in the manufacturing and oil fields, such as General Electric, British Petroleum, Shell, Toyota. From another point of view, the report records a higher participation of sovereign funds in ample merger and acquisition operations, the number of this kind of transactions increasing from one in 1987 to 30 in 2007. "There is a tendency based on the structural fragility of financial investments and on the rapid accumulation of reserves created by the surplus balance of trade", the survey states, offering as an example the purchasing of the Kuokwang Petrochemical company in Taiwan, by the IPIC fund in the United Arab Emirates, with 2,4 billion dollars and the taking over of a 12% share in the Standard Chartered British Bank by the Temasek Holding Singapore fund.

The influx of foreign direct investments (FDI) at a global level increased by 30% in 2007, reaching the unprecedented number of 1,833 billion US dollars, according The 2008 Global Investment Report: the Trans-national Corporations and the Problem of Infrastructure⁵, developed yearly by UNCTAD. The 2007 flows broke the record held previously by 2000, by approximately 400 billion US dollars, despite the global financial and credit crisis which started in the latter part of the last year. Nevertheless, the slowing down of worldwide economic growth seems to predict the reduction of FDI in 2008, according to the report.

The 2007 upward tendency was visible in almost all the regions and sub-regions of the world and in all the three economic groups: developed countries, developing countries and transitional economies in the South-East of Europe and in the Community of Independent States (CIS) (Table 2).

The FDI stock has reached 15,000 billion US dollars globally, according to the report. This fact reflects the scale of activities carried out by almost 79,000 worldwide trans-national corporations (TNC), which have approximately 790,000 branches abroad. It is estimated that the sales, the added value and the exports of these branches increased by 21%, 19% and, respectively, 15% in 2007 (Table 3). The FDI inflow in developed countries has reached 1,248 billion US dollars. The US have remained the biggest FDI beneficiary, followed by Great Britain, France, Canada and Holland (Fig.1).

The FDI flux in developing countries has reached the highest level ever (500 billion US dollars) – a 21% increase as compared with 2006. Whereas Southern, Eastern, South-Eastern Asia and Oceania are responsible for half of the total FDI in developing countries, Latin America and the Caribbean Islands recorded the highest increase (36%). The influx in Western Asia has risen lately and exceeded the one in Africa in 2004. Nevertheless, the investments in Africa have also reached an unpredicted level. Moreover the less developed countries (LDC) attracted 13 billion US dollars in the form of FDI in 2007 – again a record number.

The capital outflow from the developed countries increased more rapidly than the inflow, exceeding it by 445 billion US dollars in 2007. The US have maintained their position of being the most important source of FDI. The developing countries have continued gaining importance as FDI sources, with investments reaching 253 billion US dollars, mainly as a result of the external expansion of Asian trans-national corporations. Out of all, the developing and trans-national economies, the first three most important FDI beneficiaries deriving from developing countries were China, Hong Kong (China) and the Russian Federation.

The unprecedented levels of trans-border mergers and acquisitions (M&A), reflecting a continual tendency of company consolidation, contributed significantly to the global FDI increase. In 2007, the value of such transactions reached 1,637 billion US dollars – 21% higher than the preceding record reached in 2000. The trans-border mergers and acquisitions in which investment funds were involved have almost doubled, reaching 461 billion US dollars – another record – being responsible for more than a quarter of the value of these transactions worldwide. A new feature of the global FDI is represented by the emergence of sovereign investment funds (SWF) as direct investors. Although the sums circulated by SWF's in the form of foreign direct investments have remained relatively low, their level has gone higher in the past years.

The mortgage depression which appeared in the US in 2007 affected the money market and created liquidity problems in many countries, leading to higher credit costs. Nevertheless, the capacity of firms to invest abroad seems to have been the least affected. The sudden dollar depreciation has

⁵ The Global Investment Report and its database are available online at <http://unctad.org/wir> and <http://www.unctad.org/fdistatistics>

stimulated the FDI's in the US. The overall tendency of government policies remains as an open door for FDI. The annual Study of UNCTAD as regards the changes operated within the national laws and regulations which could influence the investments and operations of trans-national corporations (TNC) suggests that the national authorities continue to turn the investment climate of their countries into an attractive one for TNC. In 2007, out of 100 changes within policies identified on FDI, 74 intended to transform the economic environment in the host country into one more favourable to FDI, despite the increasing political concerns and debates as regards development of protectionism.

The slowing down of development and the financial disruption in world economy have led to liquidity depressions on the money and credit markets in numerous developing countries. As a result, the activity of mergers and acquisitions has begun to decrease considerably. In the former half of the year 2008, the value of these transactions was lower by 29% than in the latter half of 2007. UNCTAD estimate that, generally, the FDI flow in 2008 will reach approximately 1,600 billion US dollars, representing a 10% decrease as compared with 2007. This estimate is based on the data available for 75 countries regarding the FDI flow for the first quarter of the year 2008. On the other hand, for the FDI flow in the developing countries, there is the possibility of keeping at a relatively stable level.

The UNCTAD study regarding the Worldwide Perspectives of Investments is less optimistic than the preceding analysis and expresses a higher degree of caution concerning the TNC investment plans as compared with 2007.

Table no.3

FDI flows region-grouped and in selected countries, 2005-2007
(billions of US dollars and %)

Region/economy	FDI inflows			FDI outflows		
	2005	2006	2007	2005	2006	2007
Developed economies	611.3	940.9	1247.6	748.9	1087.2	1692.1
Europe	505.5	599.3	848.5	689.8	736.9	1216.5
European Union	498.4	562.4	804.3	609.3	640.5	1142.2
Japan	2.8	-6.5	22.5	45.8	50.3	73.5
United States	104.8	236.7	232.8	15.4	221.7	313.8
Other developed countries	-1.7	111.3	143.7	-2.1	78.4	88.3
Developing economies	316.4	413.0	499.7	117.6	212.3	253.1
Africa	29.5	45.8	53.0	2.3	7.8	6.1
Latin America and the Caribbean	76.4	92.9	126.3	35.8	63.3	52.3
Asia and Oceania	210.6	274.3	320.5	79.5	141.1	194.8
Asia	210.0	272.9	319.3	79.4	141.1	194.7
West Asia	42.6	64.0	71.5	12.3	23.2	44.2
East Asia	116.2	131.9	156.7	49.8	82.3	102.9
China	72.4	72.7	83.5	12.3	21.2	22.5
South Asia	12.1	25.8	30.6	3.5	13.4	14.2
South-East Asia	39.1	51.2	60.5	13.8	22.2	33.5
Oceania	0.5	1.4	1.2	0.1	0.0	0.1
Transition economies (South-East Europe and CIS)	31.0	57.2	86.9	14.3	23.7	51.2
South-East Europe	4.8	10.0	11.9	0.3	0.4	1.4
CIS	26.1	47.2	74.0	14.0	23.3	49.9
World	958.7	1411.0	1833.3	880.8	1323.2	1996.5
<i>Memorandum percentage share in world FDI flows</i>						
%						
Developed economies	63.8	66.7	68.1	85.0	82.2	84.8
Developing economies	33.0	29.3	27.3	13.3	16.0	12.7
Transition economies (South-East Europe and CIS)	3.2	4.1	4.7	1.6	1.8	2.6

Source: The 2008 UNCTAD World Investments Report "The Trans-national Corporations and the Infrastructure Problem"

Table no.4

Selected indexes of FDI and international production, 1982, 1990, 2006, 2007

Item	Value at current price (bilions of US dollars)			
	1982	1990	2006	2007

FDI inflows	58	207	1411	1833
FDI outflows	27	239	1323	1997
FDI inwar stock	789	1941	12470	15211
FDI outward stock	579	1785	12756	15602
Income on inward FDI	44	74	950	1128
Income on outward FDI	46	120	1038	1220
Cross border M&As	..	200	1118	1637
Sales of foreign affiliates	2741	6126	25844	31197
Gross product of foreinfg affiliates	676	1501	5049	6029
Total assets of foreign affiliates	2206	6036	55818	68716
Exports of foreign affiliates	688	1523	4950	5714
Employment of foreign affiliates (thousands)				
<i>Memorandum</i>	21524	25103	70003	81615
GDS (in current prices)				
Gross fixed capital formation	12083	22163	48925	54568
Royalties and licence fees receipts	2798	5102	10922	12356
Exports of goods and non-factor services	9	29	142	164
	2395	4417	14848	17138

Source: The 2008 UNCTAD World Investments Report "The Trans-national Corporations and the Infrastructure Problem"

We can say that foreign investments are, without doubt, a factor of economic growth with the strong impact on economy and society, having an important role in implementation of economic reforms, the creation and consolidation of the market economy system, the realisation of the free market and of an internal environment favorable to economic growth.

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4. <http://www.unctad.org/wir>
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