

TNC – INTERNATIONAL ROLE’S STRENGTHENING OR ADDED COMPLEXITY OF ADAPTATION TO GLOBAL DEVELOPMENT TRENDS?

The current decade is characterized by increase of unpredictability of many political and economic processes important for the global development. Starting from the autumn of 2018 and for many months, no one in Europe can really say when and in what format the United Kingdom will exit the EU, while the configuration of Brexit will undoubtedly have a considerable impact on foreign economic relations of many countries, and not only members of the biggest European integration project. The prospects of D. Trump’s protectionist policy in the United States are rather vague, while the mode of the United States participation in global economic relations in this or that way refers to practically all states. Unstopping political problems in the Middle East and North Africa, growing instability in Latin America do not add certainly either when an attempt is made to assess the current global development trends.

Nevertheless, the issue of global development’s predictability should be solved, and one of the variants, in our opinion, is the analysis of certain groups of international relations subjects, their capabilities, on the one hand, to take part in the forming system of the polycentric global governance, and on the other hand, to adapt themselves to changeability of significant international processes. In our opinion, one of the most promising for research groups of such subjects is transnational corporations (TNC).

According to the definition by UNCTAD, TNC or multinational enterprises (as they are called more and more often) are companies of whatever legal and organizational form, consisting at least of the head enterprise and a subsidiary or a dependent entity, where the head enterprise owns at least 10%, in another country¹. In essence, companies – direct investors and TNC are announced to be synonyms. Such

¹ World Investment Report 2018. Methodological Note. P. 3.
https://unctad.org/en/PublicationChapters/wir2018chMethodNote_en.pdf.

treatment allows to refer most big participants of foreign economic relations to multinational enterprises, and that makes TNC important participants of the global economy.

According to UNCTAD, there are about 100,000 TNC operating all over the world. Gross added value created in TNC foreign departments amounted to about US\$ 7.3 trillion in 2017, or about 9% of global GDP. The TNC contribution to global GDP is even more significant via subsidiaries and affiliations of TNC in their home countries. At the same time, the total receipts of foreign departments only exceeded US\$ 30.8 trillion (that exceeds the global export of goods and services by nearly 37%), and total employment in these TNC entities reached 73.2 mln people.² Compared to 1990, the contribution of foreign TNC departments to global GDP increased 1.7 times, the number of employees increased 2.7 times, and the amount of accumulated foreign direct investments (FDI) increased 14 times. The accumulated FDI amount by the end of 2017 in the world equaled approximately US\$ 31 trillion, including annual FDI flow exceeding US\$ 1.4 trillion (that's about 7% of all investments into fixed capital in the world per year).

TNC as subjects of international relations

The growing TNC contribution to global GDP and transborder flows of goods, services and capital have been generating animated discussion on turning TNC into important international relations subjects for several recent decades already. When globalization is characterized, it's not rare to see even the *scales of biggest business empires* compared to certain states³. In the current decade, talks on mega-regional trade agreements also provided a lot of space for forecasting the growing TNC weight in transforming global regulation of international economic relations. At the same time, the evolution of TNC strategies, their bigger than before flexibility as a result of

² World Investment Report 2018: Investment and New Industrial Policies. Geneva: UNCTAD, 2018. P. 20. We'll mention in passing that UNCTAD gets the latest data based on its own econometric models, so the presented figures turned out to be considerably lower than the figures calculated the year before.

³ See e.g.: Global Governance: Opportunities and Risks / [Department of Global Problems and International Relations of the RAS]; executive editors V.G. Baranovsky and N.I. Ivanova. Moscow: Institute of World Economy and International Relations of the RAS, 2015. P. 83.

new information and communication technologies development and the going on in the production sector scientific and technological process allow companies to adapt more successfully to negative aspects of investment climate in this or that country. In essence, globalization did not slow down as a result of the latest global economic crisis (“great recession”) as much as changed its character, opening new opportunities for the TNC role’s strengthening⁴.

The state’s role and traditional world order’s blurring scenarios are even separately reviewed in some long-term forecasts, when the said role and world order are replaced by network world order models with TNC and other non-state subjects and not governments being the most significant ones⁵. Special academic research is dedicated to “creative destruction” of the modern political world arrangement under the impact of big business, and at all levels – from global to national⁶.

Big companies can really influence the global development on the whole and economic prosperity prospects of certain countries. In particular, ***TNC can have an impact on countries*** via such tools as transborder value creation chains. It’s well-known that such chain stages differ greatly in the contribution to added value making up, forming the so-called “crooked smile” when primitive production stages turn out to be the most unprofitable for countries – FDI recipients⁷. At the same time, exactly TNC after all take decisions about localization of their enterprises. In this connection, multinational companies can have a strong impact on nation-states, especially small countries, regularly presenting demands to improve the investment climate. Actually, we’re speaking about the impact of transnational business on national laws in the economic sector. As some states are trying to get their profits from this process, such phenomena as off-shores and competition of jurisdictions (for example, by setting up

⁴ There are many works on the new globalization features. We can quote to illustrate: Kheyfets B.A. Globalization Is Not Ending, It Is Becoming Different // The Contours of Global Transformations: Politics, Economics, Law. 2018. No. 1. P. 14-33.

⁵ See: Prospects of Economic Globalization / [A.S. Bulatov et al.]; ed. by A.S. Bulatov. Moscow: KnoRus, 2019. Chapter 1.

⁶ See: Lebedeva M.M., Kharkevich M.V. The Role of Business in Transformation of Political World Arrangement // The Contours of Global Transformations: Politics, Economics, Law. 2018. No. 1. P. 34-51.

⁷ See in detail: Smorodinskaya N.V., Malygin V.E., Katukov D.D. The Network Arrangement of Global Value Chains and Special Features of National Economies Participation // Social Sciences and the Modern Times. 2017. No. 3. P. 55-68.

special economic zones with especially privileged management mode) originate provoked by transnationalization of business.

The *loss of national foundations by many TNC* also certifies in favour of private business' growing independence from nation-states. The share of foreign shareholders even in the biggest companies grows no matter the wavelike dynamics of long-term foreign portfolio investments in stock. Expansion of foreign investors presence on local stock markets as well as striving of the leading TNC to place their shares publicly at the biggest stock exchanges abroad led to foreign portfolio investors having a considerable (and often dominant) part of shares of many world-known companies. For example, in the end of 2017, the Swiss had only 34.5% of Nestle shares, while natural persons and legal entities from the United States had 32.3%, and representatives of the EU had about 20%⁸. This process did not leave out even very big countries. Thus, in 2018 foreign shareholders owned about 40% of capital in the biggest German TNC Volkswagen, including over 20% of voting shares. In Daimler, the second in the Federal Republic of Germany company in the amounts of foreign assets, foreigners owned 67% of capital, the figure for Siemens that followed it was 70% (and in both cases investors from the United States were just slightly behind the Germans in the total share), etc. Foreigners more and more often occupy a considerable share in managerial bodies of the biggest TNC.

Thus, it is already possible to speak not only about origination of competitive national business in noncompetitive countries (when thanks to FDI production is transferred to countries with lesser costs and care for investment climate improvement in their home countries leaves the list of TNC priorities) but also about gradual isolation of super-big business from the national society. Some “second-level” TNC are also becoming global in their essence. Regional integration projects' deepening, especially in the EU (to a lesser extent in North America and still rather weakly in other regions of the world), leads to formation of the multinational character sometimes even in case of comparatively small regional TNC.

⁸ Here and below corporate annual and financial reports posted on the Internet were used for references to statistical information on certain TNC.

It's not accidental that such a phenomenon as *companies generated by transnational companies* originated. To be more exact, we're speaking about companies that too quickly (within 1-3 years after setting up) engage in FDI. At the same time, there is still no one single term for them – they are called international new ventures, global start-ups, born global or early internationalizing firms⁹. It's important that such companies at first sight disprove the basic ideas of the Uppsala school of the internationalization process about stage-by-stage internationalization of business¹⁰. Many companies generated by transnational companies have no nationally brought about by ethnic, cultural and historical proximity priorities in FDI geography (including as a result of language and education factor when attracting foreign members of the board of directors). Really, there is no special conflict with the Uppsala school ideas as the stage-by-stage character of foreign expansion with psychological distance manifestation as a background (“neighbouring effect”), related to teaching foreign economic activities, is typical not for companies but people employed by them. In the environment of accelerated internationalization, top management has more and more opportunities to set up companies immediately focused on transnational character of business by people who have already managed to get the necessary for that education and/or experience in other TNC. The things that were very rare even in developed countries in the 1970s (when Swedish scholars offered the respective theoretical concept), is now present even in emerging countries (for example, in the information technologies sector in India). At the same time, such companies in contrast to “classical” TNC, are more often not referred to big and especially super-big business.

Limits of TNC international autonomy

Speaking about the TNC growing role in the global economy, loss of transnational business ties with national foundations, we should not forget that the *state does not*

⁹ See e.g.: Arte P., Barron A. Early Internationalisation of New and Small Indian Firms: An Exploratory Study // Progress in International Business Research. 2017. P. 525-558.

¹⁰ Johanson J., Vahlne J.-E. The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership // Journal of International Business Studies. 2009. No. 9. P. 1411-1431.

intend to “die.” Considerable scales of several hundred leading TNC, really turning into global companies as to business encompassing, do not cancel regional or in the best case biregional (for example, with the emphasis on Europe and North America) character of the rest tens of thousands of TNC. Many investor companies are represented only in 2-3 neighbouring states. And what is more, the changing under the globalization impact world creates difficulties not only for governments but also for business that should know how to adapt quickly to new trends. At the same time, the loss of national foundations does not allow TNC to effectively exert influence on the ruling elites of countries from the inside.

A vivid illustration of the TNC limited power in international relations is the “sanctions war” between Russia and the West as a result of the events in the Ukraine. Notwithstanding evident losses of Western companies, political confrontation led to limitations in the FDI field as well, curtailing the trade turnover between Russia and the EU. Thus, while in 2013 trade in commodities with the EU-28 amounted to US\$ 417.6 billion (49.6% of foreign trade turnover of Russia and 9.6% of foreign trade turnover of the EU, without taking into account trade of member states with each other), in 2018 the figure decreased down to US\$ 294.2 billion (42.7% of Russian trade turnover and 6.4% of EU trade turnover). As a result, Russia moved from the 3rd place to the 4th place among the EU trade partners¹¹. At the same time, big European TNC, to which the main volume of accumulated in Russia FDI was referred, could not seriously affect the “sanctions war” and soften it, one nation-state – the United States – performs solo there. On the contrary, the events of 2018 show that the U.S. protectionist flywheel is set in motion – the so-called sanctions were imposed on Russian private business empires. And what is more, O. Deripaska and V. Vekselberg, owning the biggest (together with Lukoil, Severgroup and Evraz) Russian private transnational business empires (En+ Group and RENOVA respectively), have to adapt to limitations not only in North America but in Europe as well.

¹¹ The author’s calculations are based on the Federal Customs Service of Russia (<http://www.customs.ru>) and Eurostat (<https://ec.europa.eu/eurostat/>) statistics.

The referendum on Britain's exit from the EU turned out to be an even heavier blow for European business. Difficult talks in the so-called Brexit format as well as the very idea of the referendum, are more subjected to the logic of British intra-political struggle and not economic interests of the United Kingdom or their partners in European integration. As a result, British companies can only "vote by their legs," transferring their offices to Ireland or the continent. It's not accidental that GDP growth in Ireland amounted to 7.2% in 2017, and 6.8% in 2018 against 2.4% and 1.9% respectively on the average in the EU (in the Euro zone). GDP dynamics slowed down in the United Kingdom in 2016-2017 to 1.8%, and in 2018 the figure decreased to 1.4%¹².

There are also *many other global in their importance events that TNC can have no impact on*. It's known from the history of the 20th century that certain TNC financed state coups in a number of emerging countries, making money as go-betweens in trade during big wars, however, on the whole, transnational business flourished mostly in the years when foreign trade was liberalized and there was relative easing of tensions in international relations. In that connection, formation of a nearly continuous instability belt in North Africa and the Middle East led to reduction of many TNC activities that could not be fully refocused on other regions. It was especially noticeable in case of countries where TNC are only forming. The events of the current decade had the biggest impact on TNC from the Arab monarchies of the Persian Gulf that had to launch geographical diversification of direct investments by looking for more stable places of capital application in comparison with neighbouring countries. The losses of capital investments in Libya amounting to hundreds of millions (in dollars) were also noticeable for Russian TNC though they were less than losses of a number of European TNC (on the whole, the annual FDI inflow to Libya decreased from over US\$ 3 billion in 2007-2009 down to insignificant figures)¹³. The most vivid example is the Tatneft company that in the current decade had considerable assets in three foreign countries – Libya, Syria and the Ukraine.

¹² European Economic Forecast. Winter 2019 (interim) // European Commission Institutional Paper 096. February 2019. https://ec.europa.eu/info/sites/info/files/economy-finance/ip096_en.pdf

¹³ COMESA Investment Trends Report 2018. Lusaka: COMESA Secretariat, 2019.

As the future U.S. sanctions regime is unclear, the prospects for including such a big country as Iran in FDI flows are unclear. Venezuela can become a new instability hot point. Even doing business in more sustainable developed countries creates new problems for TNC because geopolitical instability increases in the world. For example, the current migration boom in the EU brought about by the events in Arab countries will in prospect create tensions on labor markets and in the society as a whole. And taking into account low qualifications of many coming migrants and difficulties of their cultural adaptation, that will not help to improve the business environment for European companies.

New trends in the TNC world

We should not forget that the TNC world is heterogeneous. Companies have to adapt not only to the consequences of new political processes but also to transformation of economic rivalry. Thus, in the 2010s experts paid more attention to *TNC fully or partially controlled by the state*. According to UNCTAD that made up a special database of such companies, there are about 1.5 thousand TNC in the world controlled by states, and there are many of them both in developed and emerging countries. Though they make only 1.5% of all TNC, they have nearly 10% of all foreign subsidiaries and affiliations (approximately 86,000)¹⁴.

Notwithstanding large-scale privatization projects in a number of countries, in our opinion, the importance of TNC controlled by states is to grow in the next years. First, this is related to sale of non-controlling interests to private persons. It's enough to remind that Gazprom, Sovcomflot, Rosneft, Atomenergoprom, Russian Railways are among the top 10 Russian leading non-financial TNC, and the state controls 100% of stock only in three of them, with only 50.23% of PJSC Gazprom and a little bit over 50% of PJSC Rosneft. The two biggest Russian transnational banks – Sberbank and VTB – also belong to the state only partially as well as 21 more banks from the global top 25 transnational banks with the state interest¹⁵. Second, the share

¹⁴ World Investment Report 2017: Investment and the Digital Economy. Geneva: UNCTAD, 2017. P. xi.

¹⁵ World Investment Report 2017. P. 34.

of TNC controlled by states is higher in emerging and post-socialist countries, and their importance in FDI engagement is constantly growing.

Besides, isolation from national foundations in case of TNC takes place not only because of internationalization of the joint stock and top management, but also because the importance of “transshipping points” grows in transborder investing (off-shores and other jurisdictions with favourable taxation laws or foreign economic activities regulation). As a result, a considerable number of *migrant TNC* originates. For example, in case of traditional singling out exactly transnational and not multinational companies, Russian VypelCom (now VEON) or Swedish IKEA should be referred to Dutch TNC as their actual headquarters were really moved to the Netherlands several years ago. It’s also fairly difficult to tie companies that originated as a result of giant mergers to one country. An example well-presented in academic literature is Royal Dutch Shell, a Dutch-British oil and gas company with more than a century-long history. However, there are also many new companies, for example, Italian-American Fiat Chrysler Automobiles that originated only 5 years ago on the basis of two independent TNC (besides, it is registered in the Netherlands and its headquarters are in the United Kingdom).

The number of such companies will noticeably increase in future both among the leading TNC and at the “second level.” In the latter case it may be brought about by emigration of the company owners. Thus, if we take Russian migrant TNC, it’s possible to single out both TNC with the Russian business segment but headquarters abroad (Yu. Shefler’s alcohol producer SPI Group and A. Beskhmel’nitsky’s milk producer Food Union), and business structures belonging to emigrants and individuals with double-triple citizenship. There are Soviet people among the latter who started their business abroad (for example, L. Blavatnik with his Access Industries or A. Bronstein with his Solway Investment); successful Russian businessmen who left in the 2000s (for example, V. Iorikh); Israeli citizens with Russian passports (R. Abramovich, etc.).

Further *increase of importance of TNC from emerging countries* should be expected, it will lead to another transformation of TNC types. At the same time,

revival of certain TNC types can't be excluded – those that are disappearing in developed countries now. This is related, in particular, to inevitable change of geographical and sectoral priorities, for example, increase of Chinese and other Asian TNC interest to agrifood and mineral resources in economically backward countries. We should not forget about specific features of “multi-Latinos” and originating African TNC either.

Increase of foreign expansion by Chinese, Russian and some other TNC from emerging and post-socialist countries will most likely lead to a new spiral in protectionism in the EU countries and the United States. It can't be excluded that Western countries will, like now, try in every case to politicize prohibitions introduced by them or on the contrary camouflage them under more general regulation measures (be it sanctions imposed by the United States at will on certain countries or the so-called energy packages in the EU, formally intended to improve the terms and conditions for consumers). However, sooner or later this will make to change regulation of transborder investment activities at the international level, refusing from the present-day axiom of liberal regime for FDI and low investment risks in most developed countries. This is related to the fact that TNC in emerging countries objectively demonstrate domination of another transnationalization model in comparison with investor companies from the leading economic powers. Chinese, South Korean and many other Asian TNC are trying with the help of capital export not only use their advantages on larger scales but also overcome their flaws and shortcomings thanks to buying foreign assets in the leading countries (especially for access to technologies and qualified personnel).

Finally, the rise of exactly Chinese TNC will lead to not only another increase of importance of investor companies controlled by the state but also origination of *new forms of relations between FDI and other foreign economic relations*. Thus, Chinese foreign expansion is already now supported by granting long-term credits to emerging countries by the People's Republic of China. As a result many African, Asian and even Latin American countries, getting financial assistance from China, at best create a foundation for expansion of Chinese TNC in the near future as Chinese

companies already now are studying the specific features of doing business in respective states as well as building the required expensive infrastructure. However, the use of the “debt exchanged for assets” pattern can’t be excluded in the next decade when countries won’t be able to service the rapidly growing foreign debt to be paid to China. Kirgizia is a demonstrative example in the post-Soviet area¹⁶.

Concluding assessment of TNC prospects, it’s necessary to mention the inevitability of “*classical*” *TNC blurring* (though this classics is only 3-4 decades old – TNC looked different in the 1950-70s) for several more reasons. First of all, the growing popularity of transborder strategic alliances of independent TNC as well as the becoming universal fashion to analyze the ways to increase competitiveness of national economy in the logic of transborder value creation chains certify that both businessmen and authorities are ready for further TNC borders blurring.

Finally, direct investment funds, actually having no citizenship, do not disappear anywhere, sovereign funds are strengthening, and they on the contrary are even not independent from nation-state’s interests typical for “classical” TNC. Natural persons’ investments into foreign real estate go on growing – because of growth of a number of representatives of “middle classes” in emerging countries and increasing dynamics of international tourism. As a result, scholars specializing in international business research will have to study many problems in TNC analysis. At the same time, popularity of network principles in transnational business arrangement and increase of flexible forms’ importance in foreign investment expansion create prerequisites for more active TNC impact on the forming system of global polycentric governance.

¹⁶ See in detail: Kuznetsov A.V. The Limits of Russian and Chinese Business Interaction in the EAEU Countries // The Contours of Global Transformations: Politics, Economics, Law. 2017. No. 5. P. 15-29.