

Transnational Corporations and their role in the Economic Development

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Abstract- *This paper analyses the role of transnational corporations in a country's economy within the global economy. Over the last two decades of the twentieth century, in the world economy, there has been a rapid increase in the number of corporations. The increasing number of corporations has come as a result of large investments and adequate business plans in line with market requirements. The bigger the company is, the bigger the field for action. This has in some way even determined the merging of various companies, which then have extended their influence on the world's major markets. Corporate empowerment has raised many other issues related to their economic activity such as: the issue of workers' rights, the elimination of double taxation, the issue of monopolies by these corporations, the insurance of the capital of these corporations, up to eventual bankruptcy. Thus, all these issues raise dilemmas regarding the role and impact of corporations on the development trends of a country. The aim of this paper is to identify the impact of transnational corporations on the development of a country's economy. For the elaboration of the paper several scientific methods have been used, including the literature review and the analytical method for analysing data from the field.*

Keywords- *transnational corporation; company; economic development; international trade*

1. INTRODUCTION

Transnational Corporations represent a rather widespread and increasingly common notion in the global economy. But their study is becoming more and more complex, including the economic, legal and political aspects. In this regard, it is very important to determine the legal framework for regulating the TNC as well as their impact on political flows and international relations. This paper focuses on analysing the economic aspect of the impact of transnational corporations on the globalization of the world economy. The fact that some TNCs have become economically more powerful than the countries where they operate shows that their economic power is crucial for the development of these countries.

2. DEFINITION OF THE TERM TRANSNATIONAL CORPORATION

Transnational corporations (TNCs) are one of the most important actors in the global economy, occupying a more powerful position than ever before. In their persistent battle to increase profits, they have increasingly turned to the developing world, a world that holds many attractions for them (Madeley, 1999)[6].

The last two decades of the twentieth century have been decisive in the rapid development of large companies by creating powerful conglomerates (mergers of large companies into one) - transnational corporations. These conglomerates have had a large spatial scope and have thus dictated the economic developments in the world

market. During this period we have a strong development of information technology, Internet distribution, which affects the daily social life. This intense development, particularly of the Internet, has an impact on the economic and political trends in the world. Nowadays many financial transactions are made without the presence of either party, the communication is much faster, the order of goods and other equipment is done faster and easier and thus time is saved and production costs are reduced. Technical and technological changes have contributed to improving the quality of people's lives. Based on these innovations, the great economic integrations in different regions began to emerge, which also determined the creation of a new world order, especially in international economic relations. The international trade exchange between the countries, also led to the improvement of many relations on international political affairs. "In the contemporary world, international relations are indispensable and very necessary" (Simpson, 1990, p. 15). Creating common trade areas, creating customs unions, signing free trade agreements, gave space to creation of conglomerates, which dictate the global economy in general. These conglomerates or transnational corporations dictate the trend of globalization and as such have a major role in shaping economic systems based on liberal economic relations.

Transnational corporations are an important element in international economic relations since they govern the globalization process of the world economy. Conglomerates dominate the major industries, control a

significant portion of the research potential and have an impact on the structure of the economy and politics in the world by applying different methods of sometimes even unfair competition.

According to UNCTAD¹ "Transnational corporations (TNCs) are incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates. A parent enterprise is defined as an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity capital stake. A foreign affiliate is an incorporated or unincorporated enterprise in which an investor, who is resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise (an equity stake of 10 per cent for an incorporated enterprise or its equivalent for an unincorporated enterprise)" (UNCTAD, 2002b, p. 291)

A Multinational or transnational enterprise is an enterprise that engages in foreign direct investment (FDI) and owns or controls value-adding activities in more than one country (Dunning 1992, p. 3).

It can be said that transnational corporations are the main bearers of economic globalization. They have a huge role in global economic liberalization because their economic power allows them to dictate some of the rules on trade field that they cover. In general, the term "transnational corporation" refers to a corporation with affiliated business operations in more than one country. A more specific definition evaluates an enterprise or a TNC if "it has a certain minimum size, if it owns or controls production or service abroad and whether it includes such activities in a unified corporate strategy" (Wildhaber, 2004, 79-80)[9]. "Transnational Corporation is a group of economic entities that, regardless of their legal form or business sector, operate in two or more countries, with a placement system that enables one or more placement centres to guide particular policies and the common strategy. These entities are linked by ownership links or in some other way so that one or more of them may have a significant impact on the business of others, especially when it comes to the distribution of knowledge, resources and responsibilities" (Report on the Special Session, 1983, 12). According to another definition, a TNC is "a bunch of corporates of different nationalities united with ties of joint ownership and responsible for a common management strategy" (Robinson, 2002)[7].

¹ United Nations Conference on Trade and Development. UNCTAD is a permanent intergovernmental body established by the United Nations General Assembly in 1964. UNCTAD headquarters are located in Geneva, Switzerland, and have offices in New York and Addis Ababa. UNCTAD is part of the UN Secretariat.

3. THE IMPACT OF TRANSNATIONAL CORPORATES ON THE ECONOMIC DEVELOPMENT TRENDS

Transnational Corporations exert a great deal of power in the globalized world economy. Many corporations are richer and more powerful than the states that seek to regulate them. Through mergers and acquisitions, corporations have been growing very rapidly and some of the largest TNCs now have annual profits exceeding the GDPs of many low and medium income countries. This website explores how TNCs dominate the global economy and exert their influence over global policymaking (<https://www.globalpolicy.org>).

Transnational corporations are among the world's biggest economic institutions. A rough estimate suggests that the 300 largest TNCs own or control at least one-quarter of the entire world's productive assets, worth about US\$5 trillion ("Everybody's Favourite Monsters," The Economist, Survey of Multinationals, 27 March 1993). TNCs' total annual sales are comparable to or greater than the yearly gross domestic product (GDP) of most countries (GDP is the total output of goods and services for final use by a nation's economy). Itochu Corporation's sales, for instance, exceed the gross domestic product of Austria, while those of Royal Dutch/Shell equal Iran's GDP. Together, the sales of Mitsui and General Motors are greater than the GDPs of Denmark, Portugal, and Turkey combined, and US\$50 billion more than all the GDPs of the countries in sub-Saharan Africa (Greer and Singh)[3].

According to analyst and theorist Jon Marchall: "The corporation is an artificial, invisible, intangible creation that exists through law and being a creation of law it possesses those characteristics that are given to it by the act of establishment, they are expressed clearly and are important for its own existence. These characteristics are set to achieve its goals for which it was created as immortal; it is characterized by an individuality through which uninterrupted continuity is ensured, in the form of a single individual, which is composed of many different individuals." From this definition alone, we conclude that the main purpose of the corporation is profit and only profit for the shareowners or individuals that constitute it as a single one, and in no other way their existence is justified.

Given this principle of corporations where profit is their basic principle, otherwise they do not conduct economic activity, then it is justified that each country has an interest in creating legislative conditions to have as many corporations and subsidiaries as possible in its territory. This is because if their return is positive, they immediately notice the impact on the country's development trends regarding the employment of the population as well as the payment of chain-related obligations ranging from property tax, profit tax, tax on corporations, tax on wages.

Their operation is related to other institutions in the country such as health insurance, pension insurance, financial institutions such as banks, etc., and all this is related to the strengthening of the economy of the country where those corporations operate.

Currently, we are witnessing the fusion of many companies in the world with the aim of creating a strong multinational corporation that owns assets in very large amounts - in some cases having more financial capital than many sovereign states' GDP - there are some cases in the world which determine the orientation of the international market development such as:

"Industrial and Commercial Bank of China" - ICBC - Corporate assets amount to \$3,125 trillion. The Corporation was established in 1984 as a Limited, Industrial and Commercial Company. Now the corporation has become specialized in financial operations related to foreign currency exchanges, money market and investment securities transactions, individual consumer products and financial services, corporate brokerage services, asset management, credit and financing in commerce, etc.

The "JP Morgan Chase" corporate assets have a value of \$2.435 trillion. The firm has its beginnings since the year 1799, making it one of the oldest financial institutions in America. It was named after John Pierpont Morgan, being an icon in New York for more than 150 years. The actual body is the result of the merger of JP Morgan, Company Inc. and Manhattan Chase Corporation. Today, JPMC is one of the largest investment and financial services companies on the planet. Since 2014, its properties have been estimated at nearly \$2.435 trillion.

Wells Fargo's corporate assets are worth \$1.543 trillion. It was founded in 1852 by Henry and William Wells Fargo. Initially, the company served as a banking, investor and postal unit, becoming synonymous with the old West in America. In 1888 they became transcontinental by delivering the nation's first express service.

The Hague-based Royal Dutch Shell's assets amount to \$ 357.5 billion. In 1985, America's Shell Chemicals merged with Shell Transport in Britain and Royal Dutch Petroleum in the Netherlands to establish what is now known as the Royal Dutch Shell. The company is the leader in the research and development of petrochemical and alternative energy sources. Almost all the time it has made huge investments in massive Chinese and Russian oil fields.

In the world there are also manufacturing corporations that dominate international markets and have established development strategies. "The formulation of the strategy at the beginning should present the ambitions by which the goals of the company are defined in the near or far future" (Mustafa, 2010, p. 49). Ex. multinational automotive corporations, around 14 major corporations dominate the automotive industry around the world, each of these 14 corporations is home to some of the smaller companies operating within the larger corporation. The largest automobile corporations are: Daimler is composed

of Mercedes Benz and Smart; Ford is comprised of Ford and Lincoln; The FCA consists of Fiat and Chrysler; NISAN consists of Nisan, Datsun and Infiniti; The Honda consists of Honda and Acura; Renault is comprised of Dacia, Renault; Hyundai consists of Kia, Hyundai; Toyota consists of Toyota, Lexus and Daihatsu; BMW Group consists of BMW, Rolls-Royce and Mini; TATA consists of Jaguar, Land-Rover; Geely consists of Volvo, Geely; PSA consisting of Citroen, Peugeot; GM consists of Chevrolet, Opel, Holden, Cadillac, Vauxhall; Volkswagen consists of Bugatti, Volkswagen, Bentley, Porsche, Lamborghini, Audi, Seat, Skoda.

If we analyse the activities of these 14 corporations that dominate the global automotive market, then we conclude that their economic power is too great and their impact on the development trends of the world economy "rapid economic growth is not an arithmetic issue, and it does not happen by itself" (Horvat, 2007, p. 144) is colossal and unimaginable for any economy. "The economy in the world in general and the countries in particular consists of two poles, the producer and the consumer" (Bundo, 2010, p. 118)[2].

Though, corporations alongside being of great importance for the economic development of a country such as job opportunities, payment of taxes, etc., they also have social responsibility towards the country where they operate, they are accountable to the business community and have responsibility towards the community where they conduct business. They should respect some fundamental principles such as:

- Respect the law and anti-corruption fight;
- Respect human rights;
- Respect workers' rights;
- Protect the environment where it conducts corporate activity, etc.,

TNCs' influence over countries, particularly those in the less-industrialized world, has not been manifested solely in sheer economic power or manipulative price transfers. Such influence has also been reflected in corporations' willingness and ability to exert leverage directly by employing government officials, participating in important national economic policy making committees, making financial contributions to political parties, and bribery. Furthermore, TNCs actively enlist the help of Northern governments to further or protect their interests in less-industrialized nations; assistance that has sometimes involved even military force. In 1954, for instance, the US launched an invasion of Guatemala to prevent the Guatemalan government from taking (with compensation plus interest) unused land of United Fruit Company for redistribution to peasants. (Multinational Corporations and the World Economy, 1980, p.130)[10].

The effect of TNC presence and activities in developing countries on economic development cannot be comprehensively determined. Much of the effects will, for example, depend on the given country, industry, and firm-specific characteristics, on government policies of the

host economy or on the kind of investment undertaken (Dunning 1992, p. 263).

The effects on economic development can therefore vary a lot. TNC activities in developing countries do not only imply a transfer of foreign capital to the host economy but also, for example, the transfer of technology and management knowledge or the exploitation of the labour force or corruption which constitute positive respectively negative effects of TNC activities. Accounting for all direct and indirect effects would increase the complexity to a point where an empirical analysis is impossible. But

the primary limitation for the assessment of TNCs activities in the world economy is constrained by the availability and quality of data (Schaub, 2004, p. 7)[8]

In addition to the importance they have for economic development, such as generating new jobs, they also have a responsibility towards the country where they develop their business activity as well as the business and social community in that country. It is important that they respect some of the fundamental principles that we are presenting in the following table:

Table 1. The Ten Principles of the UN Global Compact

1.	Human Rights	Business should support and respect the protection of international human rights.
2.	Human Rights	Make sure they are not complicit in human rights abuses.
3.	Labour Rights	Business should uphold the freedom of association and the effective recognition of the right to collective bargaining.
4.	Labour Rights	The elimination of all forms of forced and compulsory labour.
5.	Labour Rights	The effective abolition of child labour.
6.	Labour Rights	The elimination of discrimination in respect of employment and occupation.
7.	Environment	Business should support a precautionary approach to environmental challenges.
8.	Environment	Undertake initiatives to promote greater environmental responsibility.
9.	Environment	Encourage the development and diffusion of environmentally friendly technologies.
10.	Anti-corruption	Business should work against all forms of corruption, including extortion and bribery.

Source: <http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html>

4. CONCLUSION

The role and importance of Transnational Corporations in the global economy is becoming increasingly pivotal for the development of many national economies. Their economic power is very large, often even larger than the countries where they operate. For this reason, each country seeks to attract investments from these corporations, but on the other hand, caution must be taken to regulate their action by laws and other legal acts. Attracting these Foreign Direct Investments is emerging as the key to economic development, especially for small countries. Transnational Corporations have a major impact on world economic trends. We consider Transnational Corporations to have legal subjectivity in international law, as they are increasingly entering multimillion transactions. The development of Transnational Corporations has influenced the regulation of inter-state relations, inducing the economic development and the intensification of global economic relations.

Corporations should respect the legal acts of the country where they conduct their economic activity. In some cases international conventions require respect for more rules than the laws of specific countries themselves. This situation is especially present in human rights protection, environmental protection, etc. In these cases we consider that transnational corporations should focus more on international conventions rather than on the laws of third world countries.

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