

TRANSNATIONAL CORPORATIONS AND EXPORT COMPETITIVENESS OF HOST COUNTRIES

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Abstract:

A feature of the current global economy and, undoubtedly, one of the main actors in international business is the transnational corporation or society (TNS). At present, transnational corporations are the main actors in the process of globalization of the economic life. Transnational corporations are viewed as entities whose activity is done through subsidiaries located in different countries and regions of the world. These companies have generated new economic mechanisms have changed status quo, generating extra territorializing of production activity, distribution, exchange and consumption. As local and national economic spaces open to global economy, it is increasingly clear that these companies become coordinators of international economic relations.

Key words: *transnational society, globalization, exports competitiveness, foreign direct investments.*

JEL classification: *F10, F23, F60*

Transnational companies are the main sources of capital, technology and market access to almost every country. Their activities have a strong impact on the global distribution of wealth and economic activity between national economies. They bring benefits to both consumers and economies worldwide.

Undoubtedly, the main reason that urges firms to globalize their activity remains maximizing profits. More precisely, at the foundation for the decision of corporations to operate across borders lie three factors, namely: the need to purchase natural and human resources cheaper, the possibility to penetrate certain markets, where exports could provide higher margins of profitability, and the third factor is conditioned by increasing efficiency of all operations of a company with a global vocation.

In recent years economic opening of many developing countries, has included them as a strong potential market among investment locations taken into consideration by the international business community, by transnational corporations. The Interest posed by these countries for investors is primarily dependent on the masses of consumers whom they can address, but also on reduced costs of inputs, primarily labor being able to ensure the price competitiveness of products or services.

Export competitiveness is important and challenging, but should be seen as a means pursuing an aim exactly - development.

Transnational companies (TNS) can help increase export competitiveness, especially in developing countries. Therefore, attracting export-oriented transnational corporations is itself a competitive activity.

Increasing importance of transnational corporations in increasing export volumes in host countries derived from additional capital and technology, the managerial know-how implemented, but also access to regional and global markets where transnational corporations act. However, local resources may be supplemented by other resources that will allow extending the types of products consumed domestically or exported, leading to increased competitiveness and economic advantages to the host

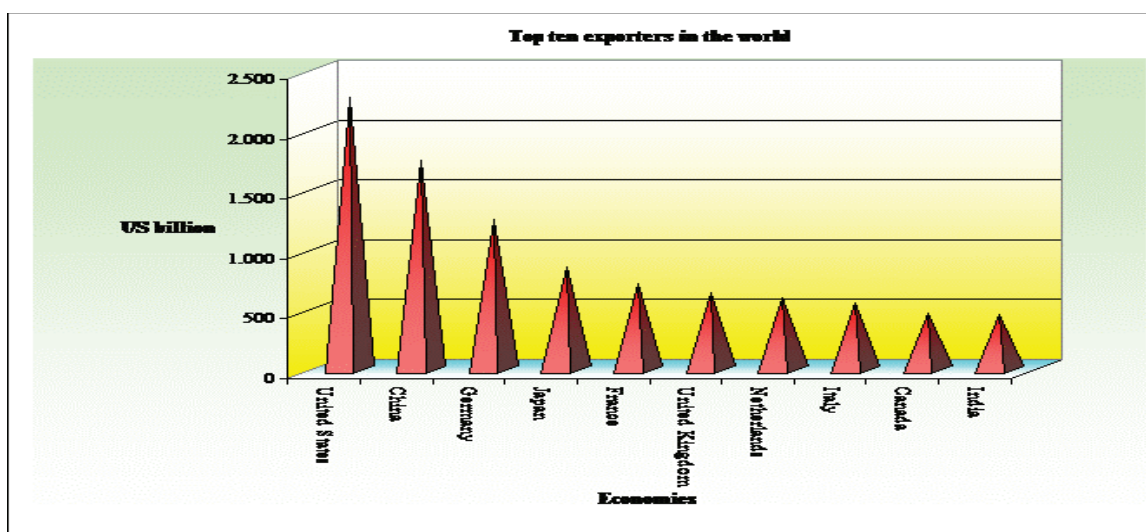
economy. For countries facing reduced domestic investment due to financial constraints, transnational corporations can lead to increased exports by mere capital injection for natural resources and cheap labor. Thus, transnational companies take on the risk of launching new products for export. This was, in fact, the role of transnational corporations in developing exports to developing countries and those in transition. Lately, this role focused mainly on exports of products that incorporate high technology, for products whose demand is growing globally: electrical and electronic products, appliances, cars etc.

Development of international production systems that have a key role in enhancing export competitiveness of economic agents in host countries, reflect transnational corporations' response to dramatic changes in the global economic environment: increasing technological progress, economic policy liberalization, increasing competition. Transnational companies are constantly seeking advantages: low cost, markets, abundant resources, etc.

Change of strategies and specific production systems of TNS opens new opportunities for economies of host countries as they can go into technology intensive and export-oriented activities, which otherwise they might not address, and could not become part of the international production system. In addition, increased demand raises barriers for smaller and newer providers in developing countries, which have the advantage of experience and competitiveness which modern manufacturing system requests.

Improving export competitiveness has significant consequences. Developed countries, particularly the United States, Germany and Japan are the main traders. However, especially developing economies such as China, India, Mexico, Brazil, South Korea, Singapore, and countries in Central and Eastern Europe, Poland, Czech Republic and Hungary are the ones that have won more in the market share, these countries are now part of the category of largest exporters in the world. In 2004 China surpassed Japan and moved from the 4th to the 3rd place, and in 2007 became the second world exporter. One can notice that the increasing trend of Chinese exports and China's dynamics of economic development have been maintained¹. In other words, there are dramatic changes in world trade aspect and many developing countries are among the main winners.

Chart No. 1



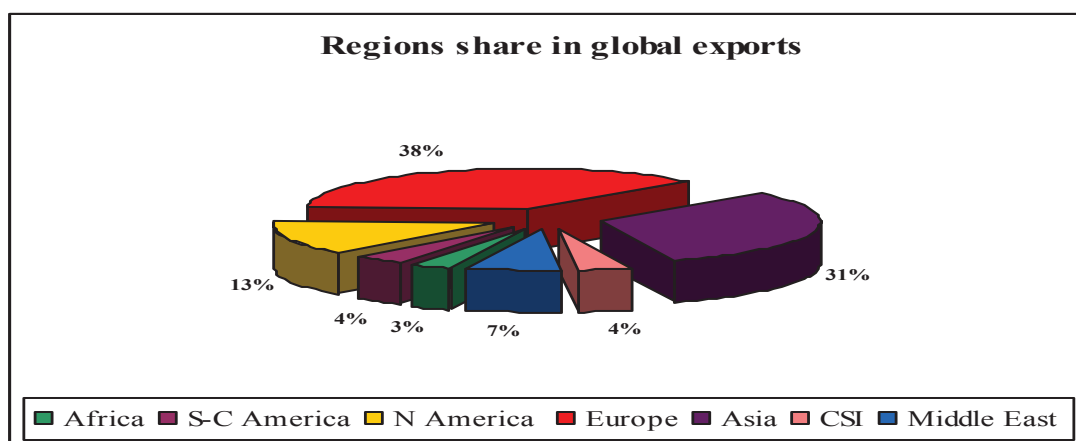
Source: based on WTO - World Trade Report 2012. Trade and Public Policies: A closer look at non-tariff Measures in the 21st Century , p.28

¹ Voicu Iulica, Talmaciu Iuliana – The influence of globalization upon the international economic environment, mainly the asian one, <http://feaa.ucv.ro/AUCSSE/0038v3-044.pdf>

Export growth in these countries is directly related to the expansion of international production systems, especially in electronic and automotive industry. Foreign subsidiaries of transnational corporations own currently more than half of exports of some of these countries. However, such systems tend to focus on activities, regions and countries. It is possible that export dynamism that the "winners" are experiencing to spread to other developing countries, as international production tends to grow. But so far, most of the export activities related to transnational companies - especially in the most dynamic sectors of the economy - is concentrated in a few countries, especially in East and South East Asia and areas that have links with North America and the European Union. However, transnational companies are significant players in many countries that are not major world exporters.

An analysis conducted by the World Trade Organization during the period 1948-2011, shows that the share of total world exports in the Asian continent has increased spectacularly, so that today it achieved 31% of world exports. It also notes a decrease in the share of North America from 28.3% in 1948 to 13% in 2011. However, the World Trade Organization forecasts for 2012 an increase in world trade by only 2.1%, Europe being most affected by the financial crisis and rising oil prices.

Chart No. 2



*Source: based on WTO - World trade 2011, prospects for 2012,
http://www.wto.org/english/news_e/pr658_e.htm*

Many of the mentioned developing countries have registered not only a large increase in market share, but also a change in the export structure: from products incorporating low-technology products to products that require a high technological level. Asian countries increased their share of participation in all main markets (North American, Japanese and European), while those in other parts of the world have advanced particularly in a regional context. Countries of Central and Eastern Europe gained mostly European markets and Latin American states were directed more towards the North American market¹.

In each of these countries, transnational companies have played an important role in the growth of exports. But regardless of how big the involvement is of transnational companies in exports of these countries, it varies considerably. China, India, Brazil, Ireland, Mexico managed to rank among the most powerful exporters relying on foreign direct investment. But each country has its specific advantages that allowed them to be linked to global production systems.

The advantage of China is the size of its economy and population, in Ireland and Mexico it is about access to major markets. In Ireland, a special role was played by national policies to attract foreign direct investment with a high level of technology.

¹ www.unctad.org

Because of this, Ireland is one of the most globalized countries in the world, mainly due to capital flows and foreign investment, and high-tech industries.

Improving export competitiveness is important and challenging, but not an objective itself. It is a means that leads to "development promotion". Thus, questions arise about the benefits resulting from the association with transnational companies, from improving trade balance and ending with the modernization of export operations and support over time. Although foreign direct investments help increase exports subsidiaries of transnational corporations turn also to imports. Therefore, the question that arises is how the host countries will be able to make the most of the presence of transnational companies. It all depends on the strategies promoted by transnational companies, on the one hand and the policies of host countries, on the other hand.

Thus, "... by opening their economies to the world market, developing countries have certainly increased their chances of successfully competing in the export of finished products, but at the cost of acceptance of increased dependency of financial services and marketing provided by large firms in developed countries".¹

Transnational companies can help increase a country's competitiveness is by investing in high value added industries, which were not previously invested in, either by passing, within an industry, from low-productivity activities with low technology level and more work built on activities that require high productivity, high technology and intelligence. This underlines the importance of ensuring the sustainability of export-oriented TNS subsidiaries. If these subsidiaries will be included in host economies, they will evolve making connections with national companies. Where such links are created, exports taking place will not only be beneficial for the host country, but will also bring greater national added value and contribute to strengthening the competitiveness of national enterprises.

The success of national industrialization strategies of many countries (especially Asian) who have combined efforts to attract transnational corporations to export development, is a model.

It seems that the export activities of TNS can be further exploited. Technologies change. Processes and functions are divisible and internal and external boundaries of firms are moving. Reducing transportation costs allows expansion of distances that can be covered. New activities will join galloping globalization, including many developing countries.

The challenge for states who want to improve their export competitiveness in association with transnational companies is, first, creating links with the production systems of these firms.

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