Multinational Corporation as a Regional Economic Security Network

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Abstract

This paper is about multinational enterprises and regional security economic, summarizes and synthesizes different strands of literature, to present conclusions on the potential role of multinational enterprises in regional economic security in the EU, Ukraine, Moldova. The circumstances under which 'developmental' MNE subsidiaries may emerge in host regions are reviewed and possible routes to cluster formation and the generation of dynamic comparative advantage are explored. Policy issues are discussed, emphasizing the importance of investment in infrastructure, education and other public goods.

Keywords: transnational corporations, expansion, innovation, economic impact, increase economic benefits.

With the increasing internationalization of the production, scientific-technical and investment level, this represents a hallmark of the current stage of globalization of the world economy. These processes accelerate international exchange of high technologies due to the expansion of cooperation and investment ties in the field of research and development (R&D) and focus on the production of high-tech products.

Driving forces for improving science-intensive industries act the transnational corporations. Further isolation of Ukraine's economy from participation in Trans-nationalization process leads to significant losses. To assess the real commitment of the Ukrainian economy inclusion in globalization processes must be taken into account the ability and the entire national economic system to withstand external threats from transnational corporations. Uncontrolled activities of TNCs can create conditions for transition economies to the loss of economic sovereignty, as the financial and technological capabilities of individual TNCs exceed the capacity of some developing countries.

A wide range of threats in the field of high-tech sectors of the economy trans-nationalization determine the relevance of thorough research and development of methodological approaches regarding prejudice and neutralize the negative consequences of TNCs on the level of development of high-tech sector of the economy, the formation of an optimal system of state regulation of their behavior, considering the economic and innovative potential of the Ukrainian economy.

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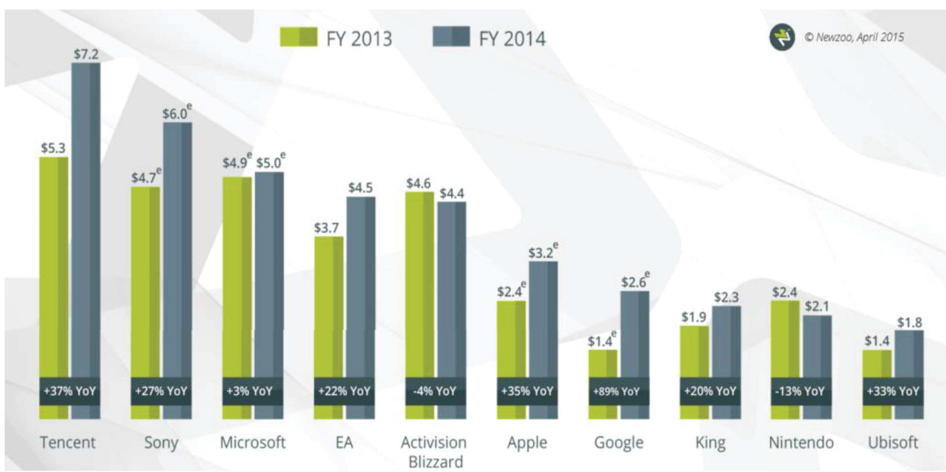
Study of the processes of trans-nationalization of the economy and the impact of these processes on the economic development of countries in recent years has received increasing attention. Such foreign scientists as K. Bartlett, R. Vernon, H. Perlmutter, M. Porter, F. Ruth; Russian scientists Bєlorusov A., I. Gerchikova, A. Movsesian, I. Brewers, S. Pashin, Tsvetkov, A. Grishchenko, V. Macedonia, V. Novitsky, Y. Pakhomov et al. reflected in their fundamental works this issues. [4].

The purpose of this article is to assess the impact of TNCs on the level of development of high-tech sector of the Ukrainian economy. It is well known that in today's world economic system the innovations provide a much higher rate of return, than simply attracting additional resources. It is estimated that the rate of profit of 17 most successful innovations in the United States in the early 2000s averaged more than 50%; at the same time, the average rate of profit on all investments in American business over the past 30 years is only 16% [1; 2].

Figure 1. Public Companies top by Game Revenues



Source: statistics [5]

Therefore, it is an innovative activity of the country that largely determines its level of competitiveness in the world economy. At the beginning of the 1990s the proportion of funds spent on R&D of the largest 400 TNCs accounted about 23% of the world's deductions and by 2004 it reached 30-32%. The share of TNCs in world production of innovation is much higher than their share in the financing of research and it estimates around 40-50% of the worldwide [5].

The definition of threats to the economic security of the state in the context of the activities of TNCs reveals the following negative consequences for the economic development of Ukraine's economy [3]:

Monopolization of certain areas of the Ukrainian economy, as evidenced by: the excessive presence of foreign TNCs in the oil and gas sector of Ukraine (2 Russian companies - TNC-BP and Lukoil controls more than 85% of the Ukrainian oil refining, as well as the lion's share of the wholesale and retail markets of petroleum products), the monopoly position of TNC in nonferrous metallurgy (TNCs "Russian Aluminum" and "Sual-holding" control 2 powerful steel mills of "Nikolayev Alumina Plant" and JSC "Zaporozhye aluminum plant"); conquest of foreign TNCs Ukrainian market of communication and telecommunication services (AFK "System", "Alfa Group" and "Telenor" have divided between them the market of mobile communications);

Predominant direction of TNC investment in production with outdated technological order and low-technology field of economics;

Significant "flood" of profits of foreign affiliates of TNCs to finance domestic investment process (the proportion of repatriated profits of TNCs in overall profits from PII in 2012 was about 98%, foreign investors reinvested only 3,890,000 US dollars);

Failure to comply with the terms of contracts of purchase and sale of shares by foreign TNCs investment obligations (unfulfilled obligations of Canadian "Shipping Technology Limited" with regarding to payments to the Pension Fund, repayment of loans; ignoring TNC "Mittal Steel" requirements of the environmental standards in the company of "Krivorozhstal" and etc.);

Enthusiasm for the most advanced and promising segments of the country's industrial production, its research structures to intercept priority and transfer of the know-how obtained abroad;

Investing Ukrainian TNC funds in low-technology sector, which does not contribute to the innovative development of Ukraine (domestic corporations do not seek to gain a competitive advantage in the high-tech sector, competitiveness is based mainly on raw material orientation and relatively cheap production factors, and transnational activity is limited to the purchase of foreign low-technology assets and minimum costs for the modernization of controlled enterprises).

International production continued to expand in 2013, rising by 9 per cent in sales, 8 per cent in assets, 6 per cent in value added, 5 per cent in employment, and 3 per cent in exports (table 2). TNCs from developing and transition economies expanded their overseas operations faster than their developed country counterparts, but at roughly the same rate of their domestic operations, thus maintaining – overall – a stable internationalization index. Cash holdings by the top 5,000 TNCs remained high in 2013, accounting for more than 11 per cent of their total assets. Cash holdings (including short-term investments) by developed-country TNCs were estimated at $3.5 trillion, while TNCs from developing and transition economies held $1.0 trillion. Developing-country TNCs have held their cash-to-assets ratios relatively constant over the last five years, at about 12 per cent. In contrast, the cash-to-assets ratios of developed-country TNCs increased in recent years, from an average of 9 per cent before the financial crisis to more than 11 per cent in 2013. This increase implies that, at the end of 2013, developed-country TNCs held $670 billion more cash than they would have before – a significant brake on investment (Table 1).

Table 1. Selected indicators of FDI and international production, 2015 and selected years, value at current prices ($bn)

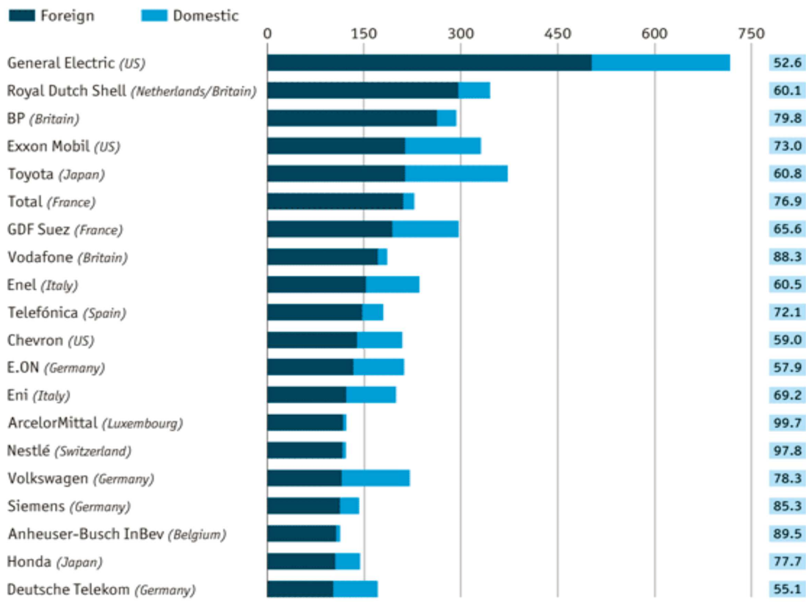
Item	*1990*	*2005-2007 pre-crisis average*	*2011*	*2013*	*2015*
FDI inflows	208	1493	1700	1330	1452
FDI outflows	241	1532	1712	1347	1411
FDI inward stock	2078	14790	21117	23304	25464
Income on inward FDI	2088	15884	21913	23916	26313
Income on outward FDI	79	1072	1603	1581	1748
Cross-border M&As	111	780	556	332	349
Sales of foreign affiliates	4723	21469	28516	31532	34508
Value added (product) of foreign affiliates	881	4878	6262	7089	7492
Total assets of foreign affiliates	3893	42179	83754	89568	96625
Exports of foreign affiliates	1498	5012	7463	7532	7721
Employment by foreign affiliates (thousands)	20625	53306	63416	67155	70726

Source: statistics [5]

Sovereign wealth funds (SWFs) continue to expand in terms of assets, geographical spread and target industries. Assets under management of SWFs approach $6.4 trillion and are invested worldwide, including in sub-Saharan African countries. Oil-producing countries in sub-Saharan Africa have themselves recently created SWFs to manage oil proceeds. Compared to the size of their assets, the level of FDI by SWFs is still small, corresponding to less than 2 per cent of assets under management, and limited to a few major SWFs. In 2013, SWF FDI flows were worth $6.7 billion with cumulative stock reaching $130 billion.

The number of State-owned TNCs (SO-TNCs) is relatively small, but the number of their foreign affiliates and the scale of their foreign assets are significant. According to UNCTAD's estimates, there are at least 550 SO-TNCs – from both developed and developing countries – with more than 15,000 foreign affiliates and estimated foreign assets of over $2 trillion. Some are among the largest TNCs in the world. FDI by State-owned TNCs is estimated to have reached more than $160 billion in 2013, a slight increase after four consecutive years of decline. At that level, although their number constitutes less than 1 per cent of the universe of TNCs, they account for over 11 per cent of global FDI flows.

Figure 2. Biggest Transnational Companies, 2015, ($bn, foreign sales as a % of total)



Source: statistics [5]

Conclusions

Thus, the host country has a different set of effective tools for monitoring the activities of TNCs in the economy. In the presence of well thought-out program of cooperation with transnational corporations, it is possible to minimize the negative impact of their activities and maximize the benefits that bring additional financial flows for the state and the associated qualitative changes in the national industry. The key idea of improving the competitiveness of Ukraine's economy is in the transition to an innovative type of economic development through the formation of a post-industrial economy through the development of the economy. This approach involves concentrating efforts on developing and implementing a radically new products and technologies, which are no analogues in the world.

International investment rule-making in the 21st century is a dynamic process that has resulted in an increasingly complex IIA universe. An equally dynamic process of dispute settlement, with a growing number of cases, and sometimes conflicting or unanticipated arbitral decisions, adds an additional layer of complexity. As a result, the IIA universe is under pressure from capacity and content challenges.

Among the most pressing challenges for IIA negotiators are to strengthen the development dimension of the international investment policy regime; to ensure sufficient policy space for host countries by balancing public and private interests; to address deficiencies in the ISDS system; and to resolve issues stemming from the increasing complexity of the international investment policy regime, all of which with a view to achieving sustainable development objectives.

There are significant benefits associated with multilateral consensus-building on investment polices. UNCTAD advocates an inclusive, transparent and structured debate on key issues, to which the IPFSD and the Investment-policy-hub can provide a foundation. Through proper staging and sequencing, multilateral consensus- building can move from loose to closer forms of international cooperation, yielding practical outcomes along the way

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