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CORPORATIONS AS THE KEY MOVERS OF THE WEALTH CREATING ECONOMIC ACTIVITIES IN NATIONAL AND GLOBAL SCALE*

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Introduction

In a globalized world in which we are living today, multinational corporations are taking bigger and bigger proportion in national and global revenue (GDP). Influence of the Corporations is getting higher; they contribute on employment rate, export/import volume, declining and recovering of world economy. Financial crisis which lasts even now days is caused (intentionally or not) by Multinational Corporations. With bankruptcy of Lehman Brothers financial crises officially has started in 2008.

Because of all its power and influence, national governments are trying to attract as much as possible corporation's investments. Through foreign direct investment, green field investment, acquisition or privatization of some of the local companies, corporations are becoming integral and indivisible part of national economies. Because of its positive spill-over, especially on the short term, local governments are providing different incentives for corporations to start to operate in some specific country or region.

Through this research I will try to perceive different aspects of multinational corporations who are operating in local economies and globalized world. I will examine positive and negative spill-overs of multinational corporations on economies of developing countries. How influence of the corporations from emerging economies is getting more important in globalized world. How companies from China are trying to provide sustainable source of natural resources in Africa, and what method they are using to reach local authorities. Partially state owned Russian giants are playing important role in gas and oil business. I will try to find out who is behind their operations, and why they are investing in specific countries. At the one part of my research will look at relations between Nation-States and the Multinational Corporation. How Multinational Corporations decide in which county to invest. I will examine some of the UNCTAD report as most relevant document about Trade and

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Development. Through this part, I will give example of outsourcing activities, and how some local companies become big because of their clients.

For conclusion I will summarize all positive and negative effects caused by Multinational Corporations and try to answer on question:

“Are the Corporations the key movers of the wealth creating economic activities?”

Foreign Direct Investment Incentives and Spill-overs

Between scientists, professors and economists, it always was dilemma is FDI good or bad for one country. What are the benefits that Multinational Corporations can bring to one economy, and what are the negative consequences? All opinions about FDI basically are coming from school that is in our background, and influence of professors that taught us. Liberal approach is presenting idea that FDI are good for one country and it can bring good to economy and people. More conservative approach is creating opinion that all effects of Multinational Corporations in one country cannot be collected, and that government needs to create FDI policies very carefully.

But indeed, it is really difficult to calculate all the effects, especially on long term. A lot of scientists tried to give answer to this question. For short term and mid-term, some of the effects can be calculated: unemployment rate, GDP, trade balance, influence on local firms... But for long run, it is almost impossible to calculate who gain and who lose: National Economies or Multinational Corporations? Or maybe it is win-win situation?! That issue is even more important for politicians! Politicians say that we are dead on long run, so only short term and mid-term are counting. Politicians, FDI inflow and Multinational Corporations are connected deeply. It is proofed that new Corporate investment in a country will bring positive effect on unemployment rate, productivity, inflow of technology... If one big FDI become reality during the mandate of a government, politicians will have good arguments to create government again – they bring good to the country and to the people!

Another question is, how one FDI can have influence on local enterprises? It can have positive influence, especially if local companies are ready to learn from the Multinational Corporations: if they are ready to accept new command chain, management system, even quality control. But unfortunately we are more likely witnesses how Multinational Corporations are buying successful local companies. And those unsuccessful are dying by themselves.

From the next example can be seen how one Slovenian Multinational Corporation positively influenced on local Montenegrin Company.

Before Multinational Company Studio Moderna came to Montenegro, system for mail/box delivery in the county was undeveloped at all. State owned “Pošta” was unreliable. It was under question, if a letter is sent, is it going to come to right address. Another postal service, CityExpress, private own courier company, was much better, but still not reliable enough. Studio Moderna is company which fast delivery of product is key for success! When SM started to operate, “Pošta” was first Delivery Company that was tested. But it proofed as unsuccessful! Products were not delivered on time, a lot of them lost in transportation. So, Studio Moderna switched to CityExpress. Start position was much better, but still not good enough. Managing directors of Studio Moderna and CityExpress had a meeting almost every week. They had negotiations, even personally checked different postmen. After period of half year, CityExpress become most reliable postal service company in Montenegro. But it took a lot of time and energy.

And “Pošta” is trying now days to put their services on upgraded level, and (re)sign contract with Studio Moderna. In the end, it is about money!

In globalized world, Multinational Corporations are the ones who make the decisions. If one government does not want to provide requested conditions for operating in one country, Multinational Corporations are ready to negotiate with government of neighbouring county, and even get better conditions.

It is all about term and conditions, and what specific investment will bring to citizens and economy of one country.

China’s Government and Corporations activity in Africa

In the time when Economies of Developed World¹ have lost their huge influence around the world (especially during the crises), new emerging economies are trying to make one step forward in development by influencing counties, regions, or even continents. One of the most important players in this game is China!

China in last two decades notes high GDP growth. Export of product is bigger and bigger year by year. Almost all big Western companies transferred their production in China. New state

¹ US, EU, Japan

owned and private-state owned companies are created in China, and also become popular and influential all around the world (Huawei, ZTE, Lenovo, CNPC²). Government of PRC with its one-child policy reduced population and made GDP per capita to growth every year.

Including all these facts and fact that China has huge amount of reserves in foreign currency, it was logical movement that China starts to invest outside of its borders. Familiar examples are that China already invested in Europe (Volvo, Medion, Weetabix...).

Africa as continent is rich with natural resources (oil, gas, mines) and it is not under full control of Western countries³. In other side, China is going to become country from net exporter to net importer of natural resources in next years, because of its high production. PRC Government together with companies started to invest in Africa. Main purpose is to secure source of gas, oil, mines for long term (with lower price than international market price).

FDI from China to Africa increased sharply, especially after year of 2000. Beside industries that are mentioned above, China also provided unconditional aid to Africa under “Beijing consensus”. New infrastructure projects: roads, bridges, schools, governmental (foreign ministry) buildings are built as act of goodwill. China also invested in African Development Bank, and constantly providing money for African education system⁴.

Is the money from China investors going to the right place? Corruption is not the rare phenomenon in Africa. It is known case, that in the undeveloped world, money goes in hands just of couple of people (politicians, tycoons, families) and that most of the population remain poor. Is money going to right place, can be checked through different tools: unemployment rate, minimum/average salary, difference between rich and poor people...

And what about aid that is sign of goodwill? What about quality of those buildings...? There are some examples, how Chinese government builds hospital in some of the African country and donated medical equipment. Hospital was working for couple of years, until roof has not crushed. Some of the doors was not installed good, and remained blocked. Plug for electricity was not standardized for country where hospital is. Equipment was directly imported from China, but made for Chinese market, not for exporting country. Experts estimate that for putting hospital in working condition, needs half amount of money that was already invested.

² China National Petroleum Corporation.

³ Exp.: UAE, Saudi Arabia – US.

⁴ Exp. scholarships for African students.

How textile product from China influenced on local people and local businesses? Price of African product cannot be compared with Chinese. Although African labour force is cheap, Chinese shoes, t-shirts, pants are still cheaper than African. Locals are using traditional method of production, and Chinese are using economy of scale. Local people are forced to close their businesses, and Chinese are taking leader position! Politicians are not losing anything, and their pockets are full through "unconditional aid". What about other citizens? They are still looking forward to find new life in some of the Western Europe countries.

“Business is business” is Chinese policy with Africans! Western countries are still putting different conditions (human rights, minimal wage...) before investing in some of African countries. Chinese are strictly focused on business! They leave to local government to fix problems and inequality.

Time will show who is right! Is Africa going to remain “black”⁵ or new emerging economies are those countries who can bring change?!

Russian Multinational Corporations in Globalized World

After reading and researching different articles about Russian Multinational Corporations, I can find correlation that the strongest Russian (International) Corporations are corporations of gas and oil industry. And there are variety of reasons why they are investing in some specific countries and what is behind it.

Russians are a proud nation they take care about their own interest (nation interest) more than economic. If we go back to the period following the privatization, and summarize data, we can see that around 50% of state owned companies that were privatized stayed in Russian (private) hands. Only 3% went to foreigners. Comparing this data with CEE countries (~3% stayed in hands of domestic people), the differences are huge. “Nation on the first place” still exists – on internet some text appearing about Putin’s speech in Duma about minorities.⁶ But examining data (Financial reports, Income statement, and Balance sheet) can be very complicated work, as Russian Corporations are not always transparent; secondly, data from Russian Corporations can provide statistics that presenting Russia better than it is. The most reliable reports can be the ones from UNCTAD.

⁵ In the context to be poor.

⁶ Available online at: <http://beforeitsnews.com/eu/2013/03/americans-must-read-this-2513402.html>

Russian Corporations are concentrated in areas of oil/gas industry and mining/steel industry. The most influential, not only in Russia, but also outside of the border, are those one that are partly state owned. These are usually in the ownership of oligarchs (tycoon) and the government. When they are acting, they are acting together, in expansion policy, development, investing etc. Basically, all Russian Corporations activities are followers of the Russian Government's foreign policy. A good example for this is acquisition of NIS – Serbian National Oil Company.

Serbia and Russia traditionally have good relations. Those relations become even better, as Russia supporting Serbia in the Kosovo issue. In the year of 2008, Gazprom bought NIS (51% of stock) for 400 million euro directly from the Serbian government. In the contract, it is defined that Gazprom will build “South Stream” through Serbia⁷. This is only one example; but using other sources, we can conclude that Russian Corporations investments are mainly focusing on ex-Soviet Union countries, and countries that have good traditional connections.

USA (through Getty Petroleum Marketing) and Canadian market (through Bitech Petroleum Corporation) are not forgotten either. Through mergers and acquisitions, Russian Corporations entered the market and started to operate without big administrative problems.

As tycoons own big proportion of Russians Multinational Corporations, sometimes Russian government and tycoons are in conflict. Taxes in Russia are high, so owners of Russian Corporations are in most cases registering offshore companies at Cyprus, Netherlands, and Virgin Island. From these places they reinvest their profits all around the globe. After the elections in the year of 2000, president Putin (government) started to collect tax against the oligarchs. Boris Berezovsky was against this kind of taxation, and he confronted Putin. After his exile, Berezovsky died in March 2013. The circumstances of his death are still unclear.⁸ The Russian government, the President, and the oligarchs (their companies) are strongly connected to each other.

Russian companies whose expansion policy relies on research, development and technology are not represented abroad so much: Kaspersky antivirus in the information technology/software industry. There are also some examples in cell phone networks, namely Mobile Tele System. In aerospace industry, Sukhoi Aircraft and Aerospace Equipment; but their foreign activities are strictly controlled by Russian government (because of the national security).

⁷ See more about South Stream online at: http://en.wikipedia.org/wiki/South_Stream

⁸ See more online at: <http://edition.cnn.com/2013/03/25/world/europe/berezovsky-profile>

Russian, Chinese, Brazilian, and Indian Corporations are changing as they are adjusting their activities to host countries, and focusing on world market. Multinational Corporations of the emerging economies are more open and transparent today; they are listed on different stock exchanges. Most of them are still using natural resources as main source of financing, but that is going to change soon. Today, Kaspersky is one of the most trusted anti-virus in the world, TATA group has well known consultancy service, and Embraer is one of the most famous aircraft producers in the world. This means that Multinational Corporations of the developed economies have to be ready for strong competition.

Nation States and Multinational Corporation

Why Multinational Corporations are investing in one country and not in some other? What are main drive forces, and main barriers for investing?

Basic conclusion is that government fiscal policy does not significantly influence on FDI inflows. There is only tiny connection between government spending, taxation system and FDI inflows. Which is strange, because one of the main arguments what government is using to attract FDI are high public spending and favourable taxation system for international companies?

Another myth is relationship between multinational companies and authoritarian regimes. Some of the researchers and scholars developed theory that MNC are more likely to invest in to authoritarian regimes than in to democratic society. But some others (Mr. Nathan M. Jensen) have proved opposite! Maybe uncertainty of future happening in authoritarian regimes (for example Arabic spring) put MNC in position to be afraid what is going to happened after regime change. Maybe nationalization of foreign companies, monetary, fiscal and taxation changes can directly harm MNC. In democratic society, new government cannot make so big changes that can influence MNC so deeply. In democracy, more information are available than in the authoritarian regimes. And government of those regimes can also control directly information and publishing agencies. China is exception, because it has stable government with long tradition, and army that can control stability. Another reason why a lot of FDI are going to China is that government can guarantees conditions in which MNC will operate in next of couple of years. China provides free land and taxation free system for new investor, also.

Another important segment for MNC is (de)centralization. How local government can provide better conditions for FDI than some other state (for example).

Watts's (1999) conception of federalism as a combination of "shared-rule and regional self-rule" means that shared-rule announced by federal government is accepted by all states; and regional self-rule is announced by state, and followed only in that state. In the case of US, why Mercedes-Benz decided to invest in Alabama, and not in some other state? Answer must be: because of the benefits that Alabama state government can provide, especially in the long run.

The last segment, and maybe most important one, how International Monetary Fund can affect FDI inflow of some country? Answer is hidden under which condition IMF gave money to the country. In most cases contract includes changes of macroeconomic environment. By example of Greece and Spain, we can see that MNC avoid those countries; and local businesses are moving to neighbouring countries. From Greece to Bulgaria, because of taxation system, and stability⁹. And from Spain to France, because of lack of job opportunities (especially in construction industry). So, generally FDI flows are going more in to the countries without IMF contract, than in to the countries under IMF arrangement. American and almost all Western countries economists like to promote FDI, and emphasis positive spill-over on economies.

On the other side, economists of Merging Economies (BRIC countries) are much more reserved. They would like to promote FDI outflow from their economies especially to developing countries rich with natural resources.

Nation States and Multinational Corporation

Multinational Corporations are trying to find best functional model with outsource companies for their long term business. Couples of different type of "contracts" are available, but from business field to business field, MNCs are trying to control companies with who they cooperate. Non-equity model (NEM) is growing faster than the industries in which they operate. So policy makers of one country need to predict effect of Multinational Corporations on industry and other local firms (which are directly or indirectly connected to MNC). They need to consider that most of the local companies will try to get to industry where MNC

⁹ See more at: <http://edition.cnn.com/2012/05/03/business/greeks-move-bulgaria>

operate and make profit by doing business with MNC. One of the bad examples was Dutch disease.

Externalization (or outsourcing) activates for one big Multinational Corporation means that company can focus on core business, and not to lose time on peripheral operations. Third parties are usually controlled by contract. Research and development stays in country of origin (developed nation), and production is moved in to developing (and/or emerging) economies.

Depends from industry to industry, some countries (or region) are specialized in different part of production. For example, three main countries for outsourcing in IT-BRO industries are: China, India, Philippines. More than 65% of all production is located in these countries. This can be in connection that language, IT skills, low labour cost and ICT infrastructure make easy for every new company to start to operate and to join production.

As more and more Multinational Corporations externalize its production, some of the companies which work for MNC used opportunity and build its own empire by specializing in one segment. Best example is Foxconn. From small local Taiwan enterprise that produce and assemble electronic devices and motherboard, to big international company that cooperate with Apple, Acer, Toshiba, Nokia. Today Foxconn has its facilities in Mexico, Brazil, and Hungary.

Conclusion

Multinational corporations are one of the key players in world economy. Revenue of some companies are bigger than GDP of some countries, so their influence is high when it is about wealth creating.

Multinational companies can improve unemployment rate, trade balance, transfer of technology... But they can also cause huge degeneration in national economies, cause crises and shortage of some products. Countries and its population can become dependable on Corporation's activities and their operations.

When governments negotiate with multinational company about FDI and presence in the country, terms and conditions need to be viewed very well. Governments need to make conditions which will protect local population of exploitation and which will bring good in economic conditions.

In the short term, positive spill-overs are much more visible, but governments need to take in consideration long term effects.

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