



**Globalization and Regionalization**

Inessa AVANESOVA

**GLOBAL INVESTMENT STRATEGIES  
OF TRANSNATIONAL CORPORATIONS**

**Abstract**

In the given article global investment strategies of transnational corporations are examined. The role of transnational corporations as backgrounds for internalization that covers all the areas of human activity is investigated. The impact of the economic crisis upon the behavior of foreign direct investment is studied.

**Key words:**

Transnationalization, foreign direct investments, regionalization, capital, financial market, globalization.

**JEL:** G1, F21.

Under conditions of the increasing globalization of markets, enterprises come across the necessity to make deep changes in their structure and the choice of their corporate strategy in order to be successful and competitive on these markets. In times of the world economy globalization with the tendency of

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Avanesova Inessa, PhD student, Department of International Economics, Donetsk National University, Ukraine.

enterprises to keep to internationalization policy, and in times when markets are joining, the strategies of transnational companies are, basically, the strategies of internalization. Internalization strategies of enterprises may differ: firstly, they can be aimed at different goals, such as expansion into new and already existing markets, taking advantage of production location, and reduction of expenditures. Secondly, internalization can be used in its different forms: through purchasing or establishment of subsidiaries or share societies, through market agreements with third enterprises, as well as through establishment of strategic unions. And thirdly, internalization has a different impact upon every function of an enterprise.

Thus, internalization strategies can be applied in a broad spectrum: from inner-corporate to inter-corporate level. Enterprises not only sell the goods or services produced within the country on the foreign markets and apply raw materials and semi-finished products received from other countries, but also invest into foreign production and selling facilities, and establish R&D centres abroad. Even such centralized services of enterprises as programming, accounting, and designing may be located abroad. Domestic and foreign projects can be funded by foreign sources.

As a rule, international expansion of enterprises needs efficient decision-making concerning the location of different corporate functions. Decision in favour of one particular location may (though not necessarily) be the decision against the other. Decision about international location of corporate functions depends on strategic estimates, goals, and choice of investors, as well as at the environment in the potential locations. This, in its turn, has an impact upon the flows of capital, human resources, and knowledge.

In such way, international enterprises can have either direct or indirect impact upon the market functioning and the income and employment rates in the correspondent countries. Information about internalization strategies, i.e. the determinants, goals, scales and methods of internalization can facilitate the effectiveness of the national policy as to translational corporations. Ad locum, the analysis of internalization strategies is to be performed.

*The purpose of this article* is the survey of the role of transnational corporations as the backgrounds for internalization that covers all the areas of human activity.

*Large spectrum of theoretical and methodological issues related to TNC strategies in investment activities are investigated in the works of the following researchers:* P. Bakley, M. Porter, I. Anosoff, R. Vernon, M. Luchko, T. Belous, A. Movsesyan, V. Kolesov, W. Buffet, G. Soros, M. Friedman, M. Ilyin, E. Kochetov, V. Savchuk, Yu. Makohon, A. Filipenko, Ye. Savelyev, O. Volkova, T. Oryekhova, Yu. Shyshkov, and others.

There is no single definition of transnational corporation (TNC) as a «bearer» of the internalization process and «accelerator» of the process of globalization. Typical definitions refer companies that have branches in two and

more foreign countries with foreign activities that account for approx. 25-30% of the total company activities as TNCs [1].

The number of potential dimensions of internalization is rather large. B. Rürup and M. Setzer distinguish 47 indicators, only 30 of which can be applied in measuring the level of internationalization on the firm level [2]. In economic literature the argues concerning which of the three basic internalization indices it is better to apply still proceed. The indices in question are the following: UNCTAD's transnationalization index, Sullivan index [3], and Ietto-Gillies index [4].

When calculating its index, UNCTAD concedes that three variables (share of foreign assets in the total assets, share of foreign sales in the total cost of goods sold, and the share of people employed abroad as to the general number of companies) are equal.

Netto Grazia, when calculating its index, multiplies the UNCTAD's index by so called Network-Spread-Index, in order to take the regional network spread of TNC's activities into account. Since the Network-Spread-Index cannot be calculated precisely, this method turns out to be inexpedient.

Daniel Sullivan introduced the third internalization index taking 74 enterprises from the list of 100 most internationalized American TNCs as an example. In addition to that, he takes into account not only the share in non-American subsidiaries, the share of foreign assets in the general assets, and the foreign sales in general sales of the companies, but also the following two cultural components: foreign experience of top managers and management culture at enterprises. He considers that the level of internalization of enterprises increases as the range of their activities in countries that are significantly distant from each other grows. Thus, he believes that, for example, an enterprise that has production capacities in the USA and Turkey is more internationalized than the one that has branches in the USA and Canada. These indicators are not precisely described in modern scientific literature. Therefore we will not apply this kind of internalization index in our research work.

Application of the first index, i. e. the UNCTAD's index, is the most expedient since this index is the most precise in reflecting the international production indicators among the other three ones.

TNCs account for more than 90% of foreign direct investments (FDI) in the world, and their share in world production accounts for around 60% [5]. Cumulative sales of the two hundred biggest TNCs during 1983-2000 grew from 25,0% to 27,5% of the world GDP. Moreover, general goods turnover of these two hundred biggest transnational corporations is higher than the aggregate GDP of all countries of the world, excluding ten leading states. Over the period 1983-2000 the profitability of the mentioned two hundred biggest TNCs increased by 362,4 %. It is noteworthy that the income of many TNCs exceeds that of certain countries and the staff is bigger than population of certain countries. Thus, Sony's annual income is equal to the GDP of New Zealand, and the income of General Motors exceeds the GDP of South Africa and Poland [6].

Under conditions of the global financial crisis that is growing day by day, the leading experts are more and more worried about the perspectives of the world economy development, in particular in the area of international investments. Taking the official UNCTAD sources and expert opinion as a basis, we investigate the current situation as to the FDI flows and analyse the possible ways of changing it. During 2003-2007 the FDI flows tended to be positive; this was to great extent facilitated by the stable economic growth, the reforms implemented in the area of the investment sphere liberalization, as well as the large-scale internalization strategy that was implemented by the growing number of transnational corporations. This led to the historically record level of the FDI flows that in 2007 reached the height of \$1,8 milliards.

However, the following year was characterized by the reverse tendency. Financial instability that was peculiar to the USA in summer 2007 turned out to be the first omen of the global crisis that led to a considerable aggravation of the investment market environment. In the beginning of 2008 bad investment climate had a negative impact upon many investment programs, including FDI. Data that were obtained in summer 2008 pointed out at the decrease in the first semester of 2008 of both transnational mergers and acquisitions (M&As), and FDI flows when compared with the same period of the previous year.

The world financial and economic crisis has caused the cut of foreign direct investments in 2008 and this tendency is expected to remain in the current year. In the report of the United Nations Commission on Trade and Development (UNCTAD) the experts' attention is drawn to the fact that in 2008 foreign direct investments in the world have been cut by 21% when compared with the previous year and they account for \$1, 4 trillions. It is also expected that the tendency towards disinvestment will proceed in 2009. In the report the experts mentioned that unlike the crisis of 1997 that mostly touched the developing Asian countries, the current crisis arose in its most critical form in the developed countries. The preliminary evidence provided by the UNCTAD's experts shown that in 2008 the FDI into the countries like Great Britain, Germany, Italy, and Finland was cut by 33% when compared with the year 2007, and increased by 3,6% in the developing countries. The Commission states that the FDI inflow into Russia increased in 2008 by 17,6% and accounted for \$61,7 milliard. China, in its turn, received FDI in the amount of \$92,4 milliard (i. e. +10,6%), India – \$36,7 milliard (i. e. +60%). At the same time the UNCTAD warns that the most critical effects of the world crisis will reach the developing countries in 2009.

The data of the State Statistics Committee show that in 2008 FDI into Ukrainian economy accounted for \$10,9 milliard, i.e. 25,3% more than investments received in 2007. \$8,8 milliard (80,3% of total amount) was received from the EU countries and \$0,9 milliard (8,6%) – from the CIS countries.

However, in the fourth quarter of the previous year the tendencies in the FDI behavior changed dramatically. Net outflow of the FDI from Ukraine in October through December 2008 accounted for \$1,9 milliard, while in the third quar-

ter the increase accounted for \$1,2 milliard, in the second one – \$3,5 milliard, and \$3,4 milliard in the first one [7].

Rapid aggravation of the situation in terms of FDI allows concluding that this year one should not expect that the FDI inflow will become a significant factor for surmounting the economic crisis and its results.

Table 1.

**Foreign direct investment into Ukraine**

	Volume of direct investments as to 01.01.2009 (USD million) <sup>2)2)</sup>	%, total
<b>Total</b>	<b>35723,4</b>	<b>100,0</b>
including		
Cyprus	7682,9	21,5
Germany	6393,8	17,9
Netherlands	3180,8	8,9
Austria	2445,6	6,8
United Kingdom	2273,5	6,4
Russian Federation	1851,6	5,2
Unites States of America	1471,5	4,1
British Virgin Islands	1316,1	3,7
Sweden	1263,0	3,5
France	1226,1	3,4
Italy	914,3	2,6
Switzerland	715,6	2,0
Poland	694,7	1,9
Hungary	595,5	1,7
Other countries	3698,4	10,4

<sup>1)</sup> Countries are rated according to the positive behavior of investment. The countries are chosen to be included into the list according to the volumes of their investment into Ukraine.

<sup>2)</sup> Volume of FDI into Ukraine (based on separate countries-investors) are given with account of the data of the National Bank of Ukraine and the State Property Fund of Ukraine (concerning the difference between market and nominal value of shares, property, etc. that is not taken into account in the statistical reports of enterprises).

Analysis of these data allows concluding the following: TNC is the basic drive of the modern internalization stage that directly participates in the world economy globalization. The number of TNCs in the world is constantly growing. Statistics shows that in 2007 there existed more than 65000 TNCs in the world with around 850000 branches abroad. Their impact upon economy can be estimated differently. In 2001 around 54 million employees were working in foreign branches of TNCs, compared to 24 million employees in 1990; the sales of TNCs that in 2001 accounted for almost \$19 trillion, exceeded the world export turnover almost by twice, while in 1990 these two indices were almost equal; during the same period the aggregate volume of incoming FDI grew from \$1,7 trillion up to \$6,6 trillion [5]. Around one thousand TNCs are the «millionaire» corporations with the total sales that account for more than \$1 milliard. Among these TNCs the so-called «Club 500» is distinguished. This Club includes the biggest world TNCs that control around 90% of all FDI that are made by TNCs abroad. Their output exceeds \$1 trillion annually.

Increase of the TNC's role nowadays is proved by the increase in the number of economies that are at the stage of transnationalization (not only in terms of hosting foreign TNCs but also in terms of establishment of national TNCs). Obviously, the US TNCs take the leading positions the same way as it was at the times of their establishment. However, up to the mid-1990s TNCs of the developing countries were actively engaged in the process (Arabian, Australian, Brazilian, Chinese, South-Korean, Argentinean, Russian, Ukrainian, and others). In 2001 from the totality of the main world TNCs more than 13500 corporations were located in the developing countries. In the late 1980s the number of these corporations was only 3800.

50 thousand corporations and more than 100 thousand branches of foreign companies were located in the developed countries. And most of these companies were situated in the EU countries (35 thousand corporations and 62 thousand foreign branches).

Nowadays TNCs work almost in all areas of international business. However, they are most active in science intensive industries that guarantee their technological leadership, as well as in infrastructure industries, new information technologies, R&D, banking, and capital movement.

Following the general rule of activity organization in any industry – *to work there where it is possible to work most efficiently*, – TNCs are diversifying areas, types, money, work methods, geographical location more and more and are getting more intensive in turning into global business structures. This results in establishment and amplification of inter-firm and internal-corporate relations, giving the opportunity to establish new niches and guaranteeing the access to the markets of goods and services, which are impossible to enter if not for client proximity, as well as the markets that are expensive to use distantly. Thus, they get a new competitive advantage, i.e. the possibility to adjust rapidly to new consumers and market environment and changes of this environment. At the same time, TNCs get the access to the resources and instruments that are not available to

those, who are not included into the system, e. g. internal- and inter-corporation license agreements.

Certainly, these agreements have an important «constant control» component, since they provide for application of the original firm's technology. Income from sales of patents, licenses and technological experience accounts for 7,5% of sales associated with licensing [8].

On the average, the share of internal-corporate sales corresponds to one third of the world goods turnover, and with certain groups of goods this number reaches the level of 90%. Naturally, this cannot but effect the state and tendencies of the world market development and the position of other international business entities on these markets.

Similar situation is observed in international production of goods and services that is more and more falling at TNCs. In this case exchange of tangible and intangible assets is intensified. Unfortunately, there are no data about exchange of intangible assets, in particular services provided within enterprise systems. The only source of information about international payments related with technology transfer is calculations based on income from patents and licenses. The US and UK sources point to the fact that around 80% of such transfers are performed on the inter-firm basis, i.e. within the system of corporations, and in Germany this index accounts for almost 90%. (especially if the branches of TNCs from developed countries are located in the developing countries).

One of the peculiarities of TNCs is that they play more and more significant role in the process of money-and-credit market internalization, the rates of which are much higher than the internationalization rate of the similar processes in production. This is associated with the facts that at present transnational banks (TNBs) are the financial backgrounds for the development of TNCs. This development is facilitated by the network of TNB branches that spreads all over the world (more than 5000 branches of 140 TNBs) [9]. The mentioned network corresponds to the demands of the current internationalization of industrial production and other spheres of international business.

Being the organizations of private form of ownership, the biggest TNCs like General Motors, Ford Motor, DaimlerChrysler, General Electric, Toyota Motor, Royal Dutch/Shell, and others administer funds that exceed the national income in most sovereign states [10], and the international nature of operation of ten places them beyond the effective control of any national authorities.

Since bank component in the structure of TNC is supplemented (or in number of cases is substituted) by non-bank financial institutions, namely insurance and investment funds, the assets of which have already exceeded \$10 trillion [11], TNCs have more possibilities in international business.

It is noteworthy that the change in the levels of trans-frontier mergers and acquisitions is not always reflected in the FDI inflows because foreign share component of FDI inflows makes up only a part of trans-frontier mergers and acquisitions (at least 10% in the general joint capital). Firms are able to immediately use

the «ownership» assets purchased from other firms, such as technical experience, trademarks, existing sales networks, and distribution systems in order to improve consumer services, increase income, market share and competitiveness of corporations, as well as to use the international production systems effectively.

Investment activities of TNCs, both by forms and by content, are not limited by the «direction» of tangible assets in the form of capital, on the contrary – they, like a net, cover all countries in the world economy that is globalizing and administers the production process in all branches and with all related assets. In this case the recipient countries are given the opportunity to reform of their economy and increase its effectiveness.

In 1990-s parent companies of TNCs in the industrially advanced countries accounted for almost 90% of the world volume of inward FDI, however the actual area under control of these companies is much wider because of the existing management contracts and other forms of partnership. In late 1990-s control was aimed at attracting affiliated or venture companies into the system of strategic planning of the parent institution and subordinating them to the financial and investment programs of this institution. However, lately many TNCs devolve a significant part of management responsibility to their affiliated companies located in different countries.

Various forms of investment activity are applied by TNCs in order to access to the international markets at all stages of the production process and at the primary stage in particular. TNCs introduce a parcel of tangible and intangible assets into this process. The importance of these assets is intensified due to the access to a broader spectrum of resources available in the frames of the TNC systems in general, as well as due to the combination of their resources with the resources located in the recipient countries or countries where the main company that manages all activities is located. This is achieved through different forms of participation, however, the control over the key assets and basic elements of the production process, or distribution process, or both processes at once, is not always guaranteed. Different forms of participation are fully or partially interchangeable (i. e. sub-contracts can change FDI), or supplementary (i.e. FDI and trade). They are applied in accordance with the individual needs of firms and are aimed at the highest efficiency of their international activities and the highest profitability.

Since the role of TNC becomes more important, the number of functions that TNCs perform in the world economy is growing. Generally, they can be called *the stimulation functions*. These functions stimulate scientific and technological progress, intensify tendencies towards globalization of the world economy and facilitate the development of the world production.

Having performed the analysis of the general tendencies of the foreign direct investment in the world economy during the last few decades, we come to the following *conclusions*:

From the point of view of the increment rate, FDI leaves the world GDP and export behind. However, within this increment there exist discrepancies in



regional (country) and sectoral structures of increment. As to the regional (country) structure, relative growth of the number of developing countries (both as «receivers» and «sources» of FDI) was observed, while the number of developed countries dropped. Countries of the Central and Eastern Europe, and CIS started to take part in the process of foreign direct investment in 1990-s. However, the share of these countries still remains at the low level.

The sectoral structure of the world FDI is characterized by growth of the share of services and decrease of the shares of primary and industrial sectors. The global structure of economics is characterized by the same changes. TNCs that account for the basic volume of the world FDI, determine the leading tendencies of the globalization process. During the last years most FDI were performed in the form of trans-frontier mergers and acquisitions of companies.

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