TRANSNATIONAL CORPORATIONS AND ECONOMIC SECURITY: INTERACTION IN TERMS OF GLOBALIZATION

http://orcid.org/0000-0001-6008-2405


Since the end of the twentieth century, globalization processes in the world take a new level every year. This, in turn, affects the development of transnational companies (TNCs), which spread their influence on the economies of countries across the planet, as well as on the system of international economic relations as a whole. It can be said that, recently, transnationals have been the initiators and main supporters of the introduction of globalization. Given that TNCs have virtually unlimited financial resources, their activities pose threats to economic security for both host and home countries. This is mainly due to the fact that the interests of states and companies in relation to which the economic distribution of TNCs is directed are not fully taken into account, and also because the goals of many TNCs and the countries where they are based contradict the basic principles of economic security. The authors of the article describe the main components of economic security, analyze transnational companies, their impact on the economies of countries, as well as proposed steps to strengthen international economic security and that of the country as a whole.

© Ž. Simanavičienė, R. Žitkienė, P. Burak / Simanavičienė Ž., Žitkienė R., Burak P. V., 2019
Statement of the problem. The most important aspect of understanding the problem of the relationship between transnational corporations (TNCs) and national economies is the realization of the fact that in order to effectively fulfill its role as an international redistributor, a transnational corporation must freely move capital, technology, business experience, goods and securities worldwide in line with market opportunities, losses and competition. Therefore, the contribution of TNCs to the efficiency and development of the global economy depends on national governments' policies regarding the activities of these companies. However, national governments have little interest in increasing global economic efficiency and global economic development, as their function is rather to protect and expand national interests on the international stage. Therefore, national governments treat multinational corporations in terms of political and economic benefit for the nation, not the world at large.

Research methodology. The theoretical and methodological foundation of the work is based on the fundamental works of representatives of economic theory, on the research of foreign and domestic economists devoted to the study of theoretical problems of economic security and transnational corporations.

The study of the formation of the system of economic security involved a large number of domestic and foreign economists, including: Cable V., Goodwin S., Greer B., Johnson S., Kaufman D., Kelly R., Kirilenko V., Kozachenko A., MacMillan D., Marsh, P., Olvey L., Pripoten V., Sauvant K., Schneider F., de Soto H., Vasilciv B., Watkins T., Yermoshenko M., Yevdokimov E., Zasanskiy V., etc.

Despite a large number of processed theoretical and applied questions of the development of international economic security, it should be noted that the issues of identifying risks and threats to economic security from transnational corporations, as well as ways to prevent and minimize them, remain insufficiently researched. The study uses official statistical and factual data on corporations and country’s economies, as well as materials contained in various policy documents, forecast elaborations, reports and other scientific publications.

The purpose of the research. The purpose of this work is to generalize main components of economic security, analyze transnational companies and their impact on the economies of countries, and also to propose steps to of strengthening international and country’s economic security.

Results of the research. Economic security is such a state of the national economy that enables it to remain resilient to internal and external threats and to meet the needs of the individual, family, society and the state. Today the economic security of the country has become one of the problems attracting close attention of specialists of various fields, which is due to the fact that the economic sphere of the state is pivotal and determines the viability of other areas. Its influence on them is more tangible than the influence of these areas on it. That is, economic security is dominant in relation to other types of security.

The components of economic security are: macroeconomic, foreign economic, investment, financial, scientific and technological, energy, industrial, demographic, social, food security. The essence of each component is as follows. Macroeconomic security is a state of economy where the balance of macroeconomic reproduction proportions is achieved. Financial security is a state of budgetary, monetary, banking system and financial markets characterized by a balance, resistance to internal and external threats, the ability to ensure the effective functioning of the national economic system and economic growth [1].

Financial security, in turn, contains the following components:
- budget security is a state of ensuring the solvency of the state, taking into account the balance of revenues and expenditures of the state and local budgets and the efficiency of use of budgetary funds;

- currency security is a state of exchange rate formation that creates optimal conditions for the progressive development of domestic exports, unimpeded inflow of foreign investments into the country, integration of Ukraine into the world economic system, and also maximally protects against shocks in the international currency markets;

- monetary security describes the state of the monetary system, which is characterized by the stability of the monetary unit, the availability of credit resources and such a level of inflation that provides economic growth and increase in real incomes of the population;

- debt security is the level of internal and external debt, taking into account the cost of its servicing and the efficiency of internal and external borrowing and the optimal ratio between them, sufficient to address urgent socio-economic needs without threatening the loss of sovereignty and the destruction of the domestic financial system;

- insurance market security is determined by the level of insurance companies' financial resources, which would enable them in case of need to compensate for their clients’ losses stipulated in the insurance contracts and to ensure the effective functioning;

- stock market security is the optimal volume of market capitalization (given its securities, their structure and level of liquidity), capable of ensuring stable financial condition of issuers, owners, buyers, trade organizers, traders, mutual investment institutions, intermediaries (brokers), consultants, registrars, depositaries, custodians and the state as a whole.

Foreign economic security is a state of conformity of foreign economic activity to national economic interests, which ensures minimization of losses of the state from the effects of negative external economic factors and creation of favorable conditions for economic development due to its active participation in the global division of labor.

Investment security refers to a level of national and foreign investment (if there is an optimal correlation between them), which is capable of ensuring long-term positive economic dynamics with the proper level of financing of scientific and technical sphere, creation of innovative infrastructure and adequate innovation mechanisms.

During the research we propose to distinguish the factors of influence regarding the mentioned components of economic security of trade in the state, namely: financial, market, commodity, interface, intellectual-personnel, technical-technological, political-legal and information. We believe that the distribution of components should occur precisely in accordance with the importance of their influencing the level of economic security of the enterprise. These components, under the influence of internal factors, have a significant impact on the level of economic security of trade in the country.

Internal factors affecting financial security include: financial planning and enterprise asset management, investment policy, tools of risk management in contracts, state of receivables, workers’ wages and payroll fund, control of current assets (in particular, goods’ inventory), control over the enterprise capital structure, enterprise expenses, etc.

As for the market component, the following factors are the priority factors: the level of prices in the markets, the conditions created by the market owners, the size of the sales area, the size of the production of imports, the change in the market situation, the level of competition, the format of the trading enterprise, the adaptive capacity of the enterprise to change the market situation.

The internal factors influencing the commodity component are the competitiveness of the product, the assortment and price purchasing and marketing policies, the presence of a system of product quality management, the quality of trade services, the seasonality of sales, the actions of counterparties (suppliers, intermediaries).

Among the factors affecting the interface component, there are possible unpredictable changes in the conditions of interaction with economic counterparts and contact audiences (generally - interaction groups) of the enterprise.
The following factors of influence of the intellectual and personnel component can be distinguished: the level of education of the personnel, the turnover of the personnel, the low level of the personnel management system, the insufficient attention to the creative capabilities of the employees and the motivation of their initiative, the low quality of the program of development of the intellectual potential of the enterprise.

Among the factors influencing the technical and technological component are the following: deterioration of material and technical base, inefficient use of trading space, equipment, lack of resources for technical re-equipment and modernization, irrational structure of fixed assets, risk associated with the introduction of new technologies and new equipment.

The political and legal component is directly and indirectly influenced by such factors of the internal environment as the level of compliance of the documentation with the requirements of the current legislation, change of ownership and organizational and legal form of management, low qualification of employees of the legal service of the enterprise and insufficient attention of management to legal support of business, contracting with insolvent partners, and more.

The information component of the economic security of a trading enterprise is exposed to the factors of insufficient financing of the information-analytical unit, errors in the software, disclosure of confidential information, industrial espionage, unauthorized access to information, its destruction, etc. It should be noted that the damage from the influence of negative factors of the information component of a trading enterprise can be significant and lead the enterprise to bankruptcy (in case of insufficient attention to the management of the information component).

Today, globalization is pushing national boundaries, changing the business landscape, and the global economy is increasingly composed of a growing number of corporate global networks. UN experts include more than 80,000 companies from different countries in global multinationals, but only about 500 of them with annual sales of more than $ 1 billion, which are the core of the world economic system.

Analyzing the position of TNCs as global actors influencing the economic security and sovereignty of the country, we note that in general, TNCs account for more than 25% of world GDP, and TNCs outside the home country account for 10% of world GDP and one third of world exports. TNCs also serve 70% of world trade, of which 40% is traded within corporations, that is, not at market prices, but through transfers, which are formed by the long-term policies of the parent companies.

The largest TNCs have budgets that far exceed the budgets of some countries in the world. TNCs are leaders in conducting and financing the world's R&D. The largest TNCs in the world are given in Table 1.

Among the top 20 corporations in the world, 8 are owned by the United States, accounting for the highest net income - $ 1,12561m. The net profit of the largest European corporations for 2019 is $ 70466.5 m, corporations in Asia are $ 73167.5m, and the only corporation in the Middle East is $ 110974.5m.

TNCs have virtually unlimited financial resources, use extensive financial resources, media relations, political lobbying. The financial resources of the world's leading TNCs exceed the country's budgets. At the current stage of the global economy, TNCs are fostering industrial, scientific and technological links between organizations in different countries, as well as influencing international competition through cooperation and rivalry with small and medium-sized businesses. With significant production and financial resources, international companies are able to capture key positions in the country's economy, jeopardizing the economic security of host countries. The danger for economic sovereignty is also manifested in the fact that TNCs control the most important sectors of the economy, the vital products, such as oil and gas, which, because of their highest efficiency, remain the world's most demanded energy sources, despite the fact that their total reserves in the world are no more than 20% of all natural energy resources [3].

Table 1
### The world's largest TNCs, the Top 20 in the Fortune Global 500 list for 2019

| No | Name                          | Sector                   | Country      | Revenues ($m) | Profits ($m) | Assets ($m) | Employees
|----|-------------------------------|--------------------------|--------------|---------------|--------------|-------------|-----------
| 1  | Walmart                       | Retailing                | USA          | $514,405.00   | $6,670.00    | $219,295.00 | 2,200,00  
| 2  | Sinopec Group                 | Energy                   | China        | $414,649.90   | $5,845.00    | $329,186.30 | 619,151   
| 3  | Royal Dutch Shell             | Energy                   | Netherlands  | $396,556.00   | $23,352.00   | $399,194.00 | 81,000    
| 4  | China National Petroleum      | Energy                   | China        | $392,976.60   | $2,270.50    | $601,899.90 | 1,382,401 
| 5  | State Grid                    | Energy                   | China        | $387,056.00   | $8,174.80    | $572,309.50 | 917,717   
| 6  | Saudi Aramco                  | Energy                   | Saudi Arabia | $355,905.00   | $110,974.50  | $358,872.90 | 76,418    
| 7  | BP                            | Energy                   | Great Britain| $303,738.00   | $9,383.00    | $282,176.00 | 73,000    
| 8  | Exxon Mobil                   | Energy                   | USA          | $290,212.00   | $20,840.00   | $346,196.00 | 71,000    
| 9  | Volkswagen                    | Motor Vehicles & Parts   | Germany      | $278,341.50   | $14,322.50   | $523,672.30 | 664,496   
| 10 | Toyota Motor                  | Motor Vehicles & Parts   | Japan        | $272,612.00   | $16,982.00   | $469,295.60 | 370,870   
| 11 | Apple                         | Technology, Electronics  | USA          | $265,595.00   | $59,531.00   | $365,725.00 | 132,000   
| 12 | Berkshire Hathaway            | Financials               | USA          | $247,837.00   | $4,021.00    | $707,794.00 | 389,000   
| 13 | Amazon.com                    | Internet services, Retailing | USA   | $232,887.00   | $10,073.00   | $162,648.00 | 647,500   
| 14 | UnitedHealth Group            | Health Care              | USA          | $226,247.00   | $11,986.00   | $152,221.00 | 300,000   
| 15 | Samsung Electronics           | Technology, Electronics  | South Korea  | $221,579.40   | $39,895.20   | $304,165.30 | 309,630   
| 16 | Glencore                      | Energy                   | Switzerland  | $219,754.00   | $3,408.00    | $128,672.00 | 85,504    
| 17 | McKesson                      | Health Care              | USA          | $214,319.00   | $34          | $59,672.00  | 70,000    
| 18 | Daimler                       | Motor Vehicles & Parts   | Germany      | $197,515.30   | $8,555.00    | $321,890.50 | 298,683   
| 19 | CVS Health                    | Health Care              | USA          | $194,579.00   | $-594        | $196,456.00 | 295,000   
| 20 | Total                         | Energy                   | France       | $184,106.00   | $11,446.00   | $256,762.00 | 104,460   

Compiled by author based on [2].

It should be noted that TNCs exert a mixed influence on the countries of origin. By setting up production abroad, TNCs transfer there part of the jobs lost to workers in their country of origin. In addition, by setting up branches abroad TNCs evade income taxes that they would have to pay in their own country. The activities of large corporations that go beyond national borders can adversely affect the balance of payments of the country of residence of the company. To prevent this situation, governments often impose certain restrictions in the form of a licensing system, direct bans on foreign investment, and so on. However, on the whole, the positive result of more efficient use of national capital abroad overlaps almost all the negative consequences. Transnationalization increases the average profit of a company, which allows shareholders to earn higher income. Highly skilled TNC workers take advantage of the global labor market and can migrate from one country to another without losing their jobs. It should also be noted that as a result of the activities of TNCs, there is an "import" of certain institutions (antitrust and labor laws, taxation principles, contracting practices, etc.) that have developed in developed countries. TNCs are objectively reinforcing the influence of the host countries on recipient countries.

In general, TNCs promote international integration, creating stable economic relations between countries. Thus, a single global space in which TNCs are the main actors is gradually emerging.
As for host countries, they benefit from many aspects of foreign investment. Widespread attraction of foreign capital contributes to reduction of unemployment in the country, increase of the state budget revenues, increase of competitiveness of national goods due to decrease in their cost price, etc. But the benefits of foreign firms are not measured only by quantitative indicators. Their quality component is also important. The activities of TNCs force the management of local companies to change the technological process, practice of industrial relations, spend more money on training and retraining of personnel, pay more attention to product quality. Foreign companies are forcing local firms to attract and use new technologies, to introduce a new style of management, to use the best that is in the practice of international business.

Although there is generally a coherence of basic economic interests between host countries and TNCs, there is also a conflict of political interests, as TNCs challenge the national sovereignty of the recipient countries. This political conflict can be determined by three major problems: national interests, extraterritoriality and nationalism. The coexistence of economic benefits and political losses associated with foreign direct investment leads to a completely opposite attitude and, accordingly, to host countries' policies towards transnationals. Specific political and practical actions by host governments to minimize political losses from foreign direct investment are, in fact, attempts to prevent, reduce or restrict foreign ownership. Restrictions on foreign ownership include not allowing foreigners to key industries, requirements for local ownership, prohibiting foreign companies from taking over local businesses. Host countries, as a rule, offer incentives to attract foreign investment but impose certain conditions on them at the same time.

Foreign capital, which has penetrated deeply into the economies of many countries, has become an integral part of their reproduction process. The most common mistake to make in determining the effects of TNCs is that one country is bound to benefit from the international operations of these corporations and the other is to suffer losses. In real life, such situations are possible, but there are other outcomes - when both parties can either win or lose.

TNCs are evaluated differently in their countries of origin. However, they all acknowledge the fact that TNCs have great opportunities and are steadily expanding their activities across national borders, as well as the significant role of TNCs in capital investments in the national economy. The most problematic in the activities of TNCs in the countries of origin are the relationships between TNCs and national governments, as well as the realization of TNCs' corporate interests.

Strategic unity of interests of TNCs and states is also manifested in the fact that state policy, party system, army cannot exist without financial and technical support of TNCs. A targeted form of communication between big business and public authorities is a system of lobbying aimed at defending the interests of TNCs. The TNC's modern lobbying network covers corporations and their affiliates, informal contact organizations, foundations, bureaus, and more. They aim to influence the adoption of relevant legislation, the activities of parties, the results of elections and the decisions of the judiciary.

The generally recognized legal guarantees for maintaining international economic security are the following:

- focus on solving global world problems;
- guarantee of free choice and implementation by each state of the strategy of social and economic development;
- achieving mutual benefits in cooperation of all countries of the world community;
- preservation and ensuring the sovereignty of states regarding the use of natural, resource, production and economic potential and control of access to it;
- absence of exceptional priority in the economic development of individual countries or groups of states;
- ensuring the responsibility of states and their business entities to the world community for the consequences of their economic policies;
- solving economic problems arising between the subjects of the world economy in a peaceful way.
In carrying out their activities, TNCs are not guided by the above principles, but in many ways contribute to their violation and thus aggravate the general instability of the modern peacekeeping system. The free flow of capital in the context of globalization takes place in a highly polarized world system in terms of economic power and opportunities. At the same time, a small group of leading countries in which the largest TNCs in the world are based control a significant part of the production and consumption of global financial resources, without even resorting to political or economic pressure. Accordingly, the internal priorities and value orientations of these countries represented by transnational corporations leave an imprint on all the largest spheres of internationalization. This situation is a potential source of threats, risks, problems and conflicts between different countries.

It should also be noted that the most acute criticism of TNC business is related to the fact that their activities are focused on serving the interests of a relatively narrow circle of capital owners and do not take into account the interests of ordinary citizens, small enterprises and companies of both host countries and home countries.

In 1974, the UN General Assembly adopted the “Charter of economic rights and duties of States”, designed to help accelerate the economic growth of developing countries. Among other things, Art. 2 of the second Chapter of this Charter indicates the rights that States have [4]:

a) To regulate and exercise authority over foreign investment within its national jurisdiction in accordance with its laws and regulations and in conformity with its national objectives and priorities. No State shall be compelled to grant preferential treatment to foreign investment;

b) To regulate and supervise the activities of transnational corporations within its national jurisdiction and take measures to ensure that such activities comply with its laws, rules and regulations and conform with its economic and social policies. Transnational corporations shall not intervene in the internal affairs of a host State. Every State should, with full regard for its sovereign rights, cooperate with other States in the exercise of the right set forth in this subparagraph;

c) To nationalize, expropriate or transfer ownership of foreign property, in which case appropriate compensation should be paid by the State adopting such measures, taking into account its relevant laws and regulations and all circumstances that the State considers pertinent. In any case where the question of compensation gives rise to a controversy, it shall be settled under the domestic law of the nationalizing State and by its tribunals, unless it is freely and mutually agreed by all States concerned that other peaceful means be sought on the basis of the sovereign equality of States and in accordance with the principle of free choice of means.

The provisions of the Charter repeat the basic principles of ensuring international economic security:

• observance of the right to choose and implement by each state its own strategy for economic and social development;
• ensuring the sovereignty of each state on the use of its natural, industrial and economic resources;
• achievement and ensuring mutually beneficial cooperation of all countries and economic entities of these countries within the framework of the global economy.

However, despite the importance of the provisions of the Charter, including those in terms of ensuring international economic security, it was adopted by resolution and has only a recommendatory character.

Accordingly, within the framework of the emerging global system, TNCs create their own international economic and political order. At the same time, they interact most actively with government agencies in the home countries of the parent company and the host countries, while in most cases they are guided only by commercial interests, not taking into account generally accepted principles for ensuring international economic security. This process is aggravated by general trends in the development of the world economy - an increase in the intensity of transnationalization processes, and hence, an increase in the economic and political power of TNCs, an increase in the mass of capital flowing through the channels of international business.
entities, an uneven distribution of the concentration of financial resources across the countries of the world with their concentration in TNC-based countries.

Conclusions. Economic security is the basis for ensuring the economic development of a country, which must take into account national interests and ideas. To do this, it is necessary to take maximum advantage of the benefits of globalization in today's world development. To ensure economic security, it is necessary to:
- promote the creation of a competitive environment and entry into the international markets of products of domestic companies, accelerate the growth rate of competitive industry products;
- increase GDP growth, curb inflation processes.

Strengthening international economic security will be contributed to by development of programs to stabilize international energy markets. In this aspect, it is possible to introduce restrictions on speculative transactions of TNCs with financial assets tied to their supplies. The idea of creating new international institutions or organizations to solve these problems may also be considered. International coordination could accelerate the development of national energy conservation programs, as well as the development of alternative and renewable energy sources, especially since TNCs have the necessary financial resources for this.

In general, the impact of TNCs on the economic, political and social spheres of states cannot be assessed unequivocally: positively or negatively. However, despite some contradictions between governments and TNCs, there is clearly a significant positive effect of the presence of international companies on the economy of countries and their significant impact on the global economy.

References: