

TRANSNATIONAL CORPORATIONS AS FORM AND FACTOR OF INTERNATIONAL ECONOMIC INTEGRATION

Heorhiy Cherevko¹

ABSTRACT

One of the main characteristics of the modern world economy is international economic integration. This article attempts to summarize the different approaches to the interpretation of the essence of international economic integration based on various criteria. Different organizational forms of international economic integration that characterize its respective degree are shown: an area of free market, customs union, common market, economic union, complete economic integration etc. Major international economic integration formation is presented. Particular attention is paid to transnational corporations as an integral element and factor in international economic integration and globalization. Specificity, importance, location and function of transnational corporations in the global economy and the associated benefits and challenges and their impact on globalization and the impact of transnational corporations in developing economies and the world economy are analyzed. The main manifestations of the negative impact of transnational corporations on certain aspects of social life and economic development are determined, in particular to deepen differences between developed and less developed countries, poverty and so on. Features of transnational corporations, which were exclusively the prerogative of the state, are highlighted. The basic specific features of transnational corporations that form the high level of features are shown. Characteristics of the market value of the largest transnational corporations are posted. EU as the most advanced form of integration group and its main task – to develop a common economic policy, a policy which covers commercial, industrial, agricultural, transport, regional, monetary, technological, environmental and others are characterized.

Key words: international economic integration, globalization, transnational corporations, features, benefits and threats.

JEL: F150

¹ Lviv National Agrarian University, Lviv, Ukraine. E-mail: gcherevko@ukr.net.

1. Introduction

The current stage of development of the international economy in conditions of globalization is characterized by increasing activation process of international economic integration, differentiation of organizational forms and the emergence and development of new business entities, the most important and effective of which are transnational corporations – the leading form of modern production. These formations take the functions of states, as well as increase their control over the global economy and its share in world income. The problem is the need to analyze and summarize the different approaches to understanding the essence of international economic integration based on various criteria, transnational corporations as an integral element and factor of international economic integration and globalization, as well as specific, value, location and function of transnational corporations in the global economy, related benefits and threats and their impact on globalization and the impact of transnational corporations in developing economies and the world economy. The above aspects of the general problem create high relevance of research.

2. International economic integration and its forms.

International economic integration is one of the main features of the modern world economy. It manifests itself in the emergence of international integration groups, which mostly have regional coverage. These processes have become more important after the Second World War and now they can be seen in all corners of the world.

There are many definitions of international economic integration, the creation of which was caused by the complexity of the integration process. Classic universally accepted definition of international integration is that it is a process of countries influence on the whole world economy into a single economic structure (Kisiel-Łowczyc, 2006). On the other hand W. Röpke defined it as a state of affairs that allows business contacts between different national economies as freely and as favourable as those that exist within the national economy (Adamczuk, 2006). In the economy it is understood as a process of consolidation, the fusion of different types of economies. International economic integration is understood as a process of merging at least two national economies (Integracja..., 2015) It means, however, create, rather than add new organisms of economic opportunities far in excess of the national potentials. Integration groups combine the same goals, means and tools of integration policy (Bożyk, 2008).

The variety of interpretations of this concept is the basis for the application of the following criteria for the definition of economic integration according to the coverage, time horizon, the mechanism of integration, the development level of integration and performance benefits, and according to the methods of integration

(functional, that is negative and institutional, that is, positive) (Kisiel-Łowczyc, 2006). Taking into account institutional criteria several forms of international integration groups can be distinguished. The first is the free trade zone, which is characterized by elimination of tariffs and trade barriers. An example of this form is the EFTA (European Free Trade Association), which entered into force on 3 May 1960. The next step is a customs union, which is an extension of the free trade area with a common customs tariff and a unified trade policy. An example of such an agreement is EC (Treaty of Rome), which came into force on 1 January 1958. The next step is a common market that provides freedom of movement not only of goods but also of people, capital and services. Monetary union is the fourth stage of integration, which is an extension of a common market with a common currency, a single monetary policy and exchange rate. The next higher form of integration is economic union, which involves the unification of economic policy. An example of this form of integration is the European Union. The political union is the penultimate step. It is the economic union expanded for unification of internal politics, foreign, defense and supranational authorities (Kisiel-Łowczyc, 2006).

The final stage is total economic integration, which includes the characteristics of a political union and a common monetary policy, fiscal, social and stabilization (Adamczuk, 2006). So far, this level of integration is rather a theoretical construct, than practical.

The most important groups of integration in the world economy are European Coal and Steel Community (ECSC), the European Atomic Energy Community (Euratom) and the European Economic Community (EEC). On the basis of the treaty signed 18 April 1951 in Paris by Belgium, the Netherlands, Luxembourg, France, Germany and Italy was formed Coal and Steel Community (ECSC). It entered into force on 23 July 1952. Organizations were characterized by limiting the scope of activities of the two sectors of the economy: coal and steel, and created a free trade area (Bożyk, 2008). The establishment of the European Atomic Energy Community (Euratom) and the European Economic Community (EEC) was initiated at a conference in Rome on March 25 1957 by signing the Treaty of Rome by six countries: Belgium, France, the Netherlands, Luxembourg, Germany and Italy. This treaty entered into force for an indefinite period on 1 January 1958. After ratification by all the partners, the organization Euratom was supposed to peaceful use of nuclear energy and has been committed to the creation of a customs union in terms of materials and products of atomic energy. In contrast, to the creation of the EEC it contributed to attempt to resolve the stalemate in which the concepts were supra-national political integration and defense (Bożyk, 2008). In 1967, the name of the European Economic Community was replaced by the name of the European Community, which together with the ECSC and Euratom created the European Communities. And then in 1992 on the basis of this Communities European Union is founded (Bożyk, 2008). The need

for greater cooperation in the monetary and foreign exchange led to the signing of the Single European Act in February 1986. It introduced the concept of economic and monetary union, and also included a provision guaranteeing free movement of capital within the Community and the commitment of countries to cooperate in the convergence of economic policy and monetary policy. Strict legal framework of EMU set out in the Treaty on European Union signed on 7 February 1992 y Maastricht, however, these provisions came into force on 1 November 1993 (Adamczuk, 2006).

The European Union as the most advanced stage picture a higher form of integration grouping (so far) as an essential task deemed to develop a common economic policy, including trade policy, industrial, agricultural, transport, regional, monetary, technological, ecological, etc. Common trade policy was also signed in the Treaty of Rome, where the signatories have declared that the common policy they want to contribute to the progressive abolition of restrictions on international. These objectives are achieved on 1 January 1970. Introducing a common commercial policy, a common industrial policy is not mentioned in the Treaty of Rome, as imagined that such a policy will be implemented out of necessity as a result of the creation of a free trade area, customs union, common market, and monetary union and economic. In contrast to the industrial policy, the basic principles of the common agricultural policy, EEC has been clearly defined in the Treaty of Rome. This policy was aimed at independence of the Community of food imports and had guaranteed income parity in agriculture and beyond. At the same time Member States applied the centralized purchases (at guaranteed prices), which counteract the drop in prices below the guaranteed level. In connection with the existence of price differences within the Community and on the world market it was created and the European Fund for Agricultural Guidance and Guarantee (EAGGF) (Bożyk, 2008). All these forms of integration policies have a significant impact on improving the economic conditions of individual members of the group integration.

Integration processes in the world economy create a contemporary environment functioning of the global economy and its image. A special type of players in the global economy as an essential and integral element thereof is transnational corporations (TNCs).

3. Transnational corporations – the concept, the nature and the role in integration processes. Opportunity and threats

Transnational corporations shaping the development and the process of globalization are defined in different ways. Most commonly used definition was formulated by the United Nations Conference on Trade and Development – UNCTAD. According to this definition, the transnational corporation is a company which is a corporation, consisting of parent companies and their

foreign affiliates. It has assets that generate revenue in at least two countries (Cudowska-Sojko, 2015). These entities are the global economy operating on an international scale, based on the foreign subsidiaries. Therefore, these are the companies that do business in at least two countries and have subsidiaries or branches in at least two countries, acting under their control and that are wholly or partially owned by the parent company (Makać, 1997).

The official definition of UNCTAD, transnational (transnational corporation, transnational corporation, transnational company, transnational enterprise) – is an enterprise legal entities of any organizational-legal forms and activities in two or more countries and conducts a common policy and overall strategy due to one or more centres of decision-making (Transnational Corporations..., 2016)

Currently, the status of the corporation is present in the majority of large enterprises worldwide. You will notice that their number increases every year. The creation of these entities is conducive to the progress of technical-organizational and technological level internationally. Their distinguishing features are features such as the sovereignty of managing their growth and spread, multi-organization of production cycles, dispersions global and regional focus on global profits, integration, and arbitration, flexibility in organizing and international efficiency. To the most important features of transnational corporations that make a high degree of particular TNC, are to include:

organizational flexibility in terms of production processes – commercial transnational;

sovereignty consists in the fact that take strategic decisions to some extent independent of the interests of the countries in which execute investments;

ability to bring performing multiple operations simultaneously on different markets to take advantage of economic disparities (in prices, in terms of production, in resources, in tax regulations) (Zorska, 2000).

The importance of transnational corporations in the global economy is huge (Table 1). They have very large capital and technological production, which generates huge profits. They also have a huge economic power in the form of high-value sales, technology and skilled labour. Often the income of transnational corporations exceeds the average of the developed countries GDP. Among the hundred largest economies in the world about half are TNC. Currently dominate the Chinese and US corporations.

Table 1. The largest transnational corporations by market value in 2016

	Name of corporations	Country of origin	Market value (w bln dol. USA)
1	ICBC	China	198
2	China Construction Bank	China	162.8
3	Agricultural Bank of China	China	152.7

Table 1. The largest transnational corporations by market value in 2016 (cont.)

	Name of corporations	Country of origin	Market value (w bln dol. USA)
4	Berkshire Hathaway	USA	360.1
5	JPMorgan Chase	USA	234.2
6	Bank of China	China	143
7	Wells Fargo	USA	256
8	Apple	USA	686
9	Exxon Mobil	USA	363.3
10	Toyota	Japan	177

Source: Study based on (The World's..., 2016).

The largest corporations on the list of UNCTAD are primarily associated with industry. The most powerful is the sector of mining and processing of fuels. Exxon Mobil – the largest corporation in the world that produces and processes oil and natural gas (<http://wyborcza.pl>).

Transnational corporation is characterized by the importance of the economic development of countries (where it operates by providing capital), high levels of innovation, high expenditures on R & D sector (Research for Development) leadership in technological progress and technology. Major corporations are treated as an economic power because they exceed the financial potential of some countries (Kozioł-Nadolna, 2011).

The role of transnational corporations in the global economy can be seen until the present day, thanks to the corporate level increases the economy of the country, shows the progress of technical and corporations enable the development of today's youth through the possibility of using different kinds of practices and even internships. Corporations make today the basic economic ties between the countries, through the creations of trade and capital flows. One of the great scholars R. Schaub says that corporations are considered as the major players, interested in retaining of differences in development levels between countries poorly and highly developed (Schaub, 2004).

Corporate activity meets in the global economy many important functions that serve the development and changes in global, regional and national. Transnational corporations have taken up many of the features that have been implemented by the state, such as the funding of research, social workers, or offering pension schemes (Sala, 2005).

The role of transnational corporations does not always have a positive impact on the global economy. Corporate activity may in fact lead to restrictive practices, drainage and markets advanced generation resources as well as many other factors.

Transnational corporations can also have an impact on poverty. E. Jastrzebska draws attention to the position of Oxfam, which deals with the fight against poverty and inequality in the world. The organization points to the following conclusions:

- transnational corporations create jobs, but often these are bad jobs, because on account of the violation of the human rights of employees;
- benefits the poor have on the operations of TNCs, are unevenly distributed which contributes to the deepening of inequality;
- TNC often impede the flow of technology, because the working poor are stuck in positions with low wages;
- TNC deepen poverty by advertising products that poor people need a small amount;
- TNCs are investing in poor countries, but they often extort from their governments exemption from taxes, which leads to the deterioration of the situation of these countries (Jastrzebska, 2012). See also table 2.

Table 2. The main benefits and risks associated with the activities of transnational corporations*

Benefits	Threats
<ul style="list-style-type: none"> ➤ TNC is the main provider of capital for developing countries, ➤ With TNC there are many modern technical solutions, ➤ TNC activity leads to an increase of economic efficiency, ➤ Reducing unemployment by creating new jobs, ➤ Investments to improve the environment, ➤ Economic growth and the development of relations between countries, ➤ Growth of the quality of products, ➤ Economic growth in developing countries, ➤ The creation of brands, ➤ Transfer of technology to developing countries, ➤ Creation of staff professional development 	<ul style="list-style-type: none"> ➤ Local and national businesses fall, what can lead to the inhibition of the development of the country, ➤ Standardizing of consumer tastes can lead to perdition tradition and culture, ➤ Pollution of the environment ➤ The state has limited power over the market, ➤ TNC manipulate the needs and tastes of consumers, ➤ TNC activity leads to a weakening of the economic sovereignty of states, ➤ TNC avoid paying taxes, ➤ The reduction of expenditure on removal caused by its pollution, ➤ Human rights violations ➤ Paying health insurance avoidance

* Source: (Jastrzebska, 2012).

4. Transnational corporations and globalization in the world economy

Transnational corporations meet a very large impact on the contemporary processes of globalization by: predominant share in international flows of goods and services, a significant impact on the other players in globalization, and in a direct or indirect impact on the mechanisms and factors affecting this process, active participation in the development of globalization, largest share of mergers and acquisitions around the world, use of cross-border strategy, use and development of knowledge as a strategic resource company, impact on harmonizing conditions of international business, which is one of the reasons integrating business on a global scale, creating the image of companies focused on global social problems and participation in solving them (Zorska, 2007)

Transnational corporations are actively influence the processes of globalization, due to the fact that they are the leading form of modern production. Unlike other forms of TNC production exercise or control the exercise of investment flows, actively participate in the newest forms of international cooperation in the economic sphere. Transnational organizational and economic structure combining national economy is not on a geographical basis, and from deep economic ties reproduction in any sphere of business.

5. Conclusions

1. Economic integration is a very important aspect of the proper functioning of the world economy, and lies in the many benefits for individual economies. There are no barriers to trade and standardized regulations contribute to the reduction of transaction costs, plus the introduction of the common currency unifies prices and improves market transparency. The integration helps to increase management efficiency and, consequently, the growth of national income and the modernization of the economy. With the integration is also possible the rapid technological progress in many areas through access to external production resources of other countries, such as raw materials or knowledge and technology.
2. Transnational corporations are an integral part of the modern world economy, and the most powerful factor in the best form of international economic integration, while ensuring the implementation of an increasing number of previously public functions in international economic relations.
3. Evaluation of the activities of transnational corporations in the modern world economy is neither easy nor straightforward. The main problem is not whether corporations are good or bad, but who and to what extent benefits from their operations.

4. Transnational activities always are, even they must benefit, since it is in order to achieve this advantage exists at all. However, the state benefit to some extent also depends in particular on the ability of individual countries and their societies.
5. Transnational corporations are usually formed in well developed countries, because there they can earn the most, while in underdeveloped countries market outlet is less attractive. Thus the benefits can not be sustained, input will be limited, or not at all.
6. The impact of transnational corporations on the global economy is huge. Today, they form the fundamental ties between the countries, through the exchange of goods and capital flows. However, the assessment of corporate activities in the modern economy is not clear. Transnational corporations lead to both positive and negative consequences. The main problem of TNC is limited liability. Due to the size of corporations is often difficult to determine who is responsible for certain decisions.
7. Still, it is worth to invest, build transnational corporations because they can bring a lot of benefits in the global economy and develop today's technological advances and giving jobs to young people in corporations as well as the opportunity to improve their skills through work.

REFERENCES

- Adamczuk, F., Adamczyk, M., Michalczyk, W., Rymarczyk, J., (2006). International economic relations, Polish economic Publishing House, Warsaw.
- Bożyk, P., (2008). International economic relations: theory and policy, Polish Economic Publishing House, Warsaw.
- Cudowska-Sojko, A., Grzybowska, A., (2015). The role of foreign direct investment in research and development activities of transnational corporations, *Optimum: studia ekonomiczne*, No. 3 (75), pp. 95–106, <http://yadda.icm.edu.pl/yadda/element/bwmeta1.element.ekon-element-000171389961> (accessed on 11.03.2017).
- <http://wyborcza.pl/1,75248,106333.html> (accessed on 01.03.2017).
- Integracja Gospodarcza, (2015), http://portalwiedzy.onet.pl/23878,integracja_gospodarcza,haslo.html (accessed on 09.03.2017).
- Jastrzebska, E., (2012). Transnational corporations a Fair Trade, <http://kolegia.sgh.waw.pl/pl/KES/kwartalnik/archiwum/Documents/EJastrzebska8.pdf>.

- Kisiel-Łowczyc, A., Oziewicz, E., (2006). Changes in the contemporary world economy, Polish Economic Publishing House, Warsaw.
- Kozioł-Nadolna, K., (2011). The role of transnational corporations in global expenditure on R & D [in] Innovations in sustainable development of the organization, Janasz, W. (red.), Difin, Warsaw, pp. 220–245.
- Makać, A., (1997). Today's transformation of the world economy, PWE, Warsaw.
- Sala, S., (2005). Development of transnational corporations in the global economy, [in] Entrepreneurship and modern civilization challenges, Herb, Z., Rachwał, T. (red.), Krakow, pp. 33–44.
- Schaub, R., (2004). Transnational Corporations and Economic Development in Developing Countries, Zürich, p. 129,
<https://www.pik-potsdam.de/members/edenh/theses/masterschaub.pdf>
(accessed on 07.03.2017).
- The World's Largest Companies 2016, (2016).
<https://www.forbes.com/sites/steveschaefer/2016/05/25/the-worlds-largest-companies-2016/> (accessed on 07.03.2017).
- Transnational Corporations and Ukraine, (2016).
<http://www.geograf.com.ua/geoinfocentre/20-human-geography-ukraine-world/266-tnk-and-ukraine> (accessed on 05.03.2017).
- Zorska, A., (2007). Transnational Corporations. Transformation, impact, challenges, PWE, Warsaw.