TRANSFORMATION CORPORATIONS AND GLOBALIZATION

Jedan od glavnih ciljeva makroekonomskë politike zemalja u tranziciji jest da uspostave stabilan rast GDP zasnovanog na izvozu. Većina tih zemalja to još uvijek nije u stanju zbog nedovoljne kompetitivnosti izvozne ponude i teškoća u pronalaženju "nycia" u plasmanu na svjetsko tržište, gdje se već nalaze jake transnacionalne kompanije iz razvijenih industrijskih zemalja. Rast GDP u većini tih zemalja još uvijek je zasnovan na domaćoj potražnji, a to tim zemljama otežava ulazak u globalne proizvodne tokove. Iako je globalizacija proces koji već traje neko vrijeme, smatra se da globalizacija posebice ugrožava zemlje u tranziciji. Rast GDP u većini zemalja još uvijek je zasnovan na domaćoj potražnji, a to tim zemljama otežava ulazak u globalne proizvodne tokove. Iako je globalizacija proces koji već traje neko vrijeme, smatra se da globalizacija posebice ugrožava zemlje u tranziciji i zemlje u razvoju. Za zemlje u tranziciji veoma je značajno da se zaštite od nepovoljnih utjecaja globalizacije, a upravo u tome je uloga FDI vrlo značajna, jer imaju mnogo pozitivniji utjecaj na razvitak zemalja u tranziciji od ulaganja kratkoročnog i špekulativnog kapitala. Racionalnosti privlačenje i korištenje FDI, zaključak je autora, omogućit će tim zemljama da postanu što ravnopravniji partner u globalizaciji proizvodnih procesa i financijskih tokova.

Introduction

Though globalization is not exclusively an economic phenomenon, it is most frequently discussed in the economic context, as the material basis for its spread to other domains. Most definitions of globalization (Borschler, Chase-Dunn, Dicken, Strange; Jessop, Kaul) see it as a process of linking industrial and financial activities on the world market on the basis of the scientific-technological and information-communication revolutions, relying on a network of transnational corporations.

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2 See List of References.
(TNC). Institutionally, therefore, TNCs are a means or mechanism of achieving globalization. It follows from this that the growing number and significance of TNCs means their greater diffusion and importance in the global economy. Some authors actually link the concept of a global economy with the emergence of the first TNCs, such as the East India Company and similar Dutch companies in the early seventeenth century. Operating under the technological conditions such as they were at that time, these companies were the historical pioneers of integration of the flows of goods, money and services, thus marking the first steps towards the internationalization of economic processes. Starting with these two companies, the number of TNCs reached 53,000 in 1997, with about 450 thousand branches or daughter companies. The accelerating rate of growth can be seen from the fact that only two years earlier, in 1995, there were 40,000 TNCs with 270 thousand branches. The growth was fastest in the mid-seventies, coinciding with the development of technological-communicational facilities for the internationalization of financial transactions. That is why the importance of TNCs is often measured in terms of the volume of foreign direct investments (FDI). TNCs are the only source of capital for such investments in countries all over the world, facilitated by the availability of technological-communicational means for the internalization of financial transactions.

The role of foreign direct investments (FDI)

It is interesting to note that significant transnationalization of FDI first occurred in the early twentieth century on the basis of a liberal concept of international economic relations, led by Britain as the most powerful global economic force. However, in contradistinction to the present process of globalization through TNCs, the TNCs at that time remained British, but they operated throughout the world. The present trend, led by the United States, is to transform TNCs into global companies whose headquarters may, but need not, be located in the United States. This is not without its political significance, since certain political objectives are pursued through the activities of such global companies. Such developments led to a seemingly paradoxical situation, whereby the growing influence of American global companies was accompanied by the declining importance of America in the world economy. This can be explained by the fact that the pursuit of political objectives often prevented American TNCs from realizing their economic goals.4

Still, all the authors writing on this subject agree that the location of the headquarters of TNCs reflects the level of importance of the countries concerned in the globalization of international economic relations. From the beginning of this century to the outbreak of the Second World War, Britain was the favoured

headquarters of TNCs; the United States took over that position after the war and held it until the mid-sixties, when it began to drift slowly towards the EU as a whole. Throughout this period, the importance of Japan and its TNCs also continued its gradual growth. In the mid-nineties, there were three main regions providing the headquarters of major TNCs: Western Europe (48.8 per cent), North America (29.8 per cent), and Southeast Asia (15.2 per cent). In Western Europe, the dominant countries were those in the European Union – Britain 11.7 per cent, Germany 8.6 per cent, France 7.4 per cent, and the Netherlands 5.8 per cent. The leading country in North America was the United States (25.8 per cent) and in Southeast Asia it was Japan (4.9 per cent).\(^5\)

The sustained boom in the United States can be expected to change this situation in the near future, confirming the leading role of this country in the globalization of international economic relations, just as it has already been confirmed in the globalization of international political relations. It can be expected that unilateralism will spill over from the political to the economic domain.\(^6\) This, according to some authors, will additionally burden the relations between nation-states and TNCs. Nation-states, or welfare states, played a major role in Ford-type mass production, which was the basis of the Keynesian state capitalism. This was the time of greatest growth of living standards in the history of mankind. However, its benefits were enjoyed only by a limited group of countries, mainly in the developed West, where there was a heavy concentration of the headquarters of major TNCs. The Southeast Asian countries gradually increased their share in this process. But already at that early date, tensions began to appear between TNCs and nation-states in the less developed parts of the world, which TNCs sought to penetrate with their FDI. These countries were poor and short of capital. TNCs offered the capital, but under the conditions that undermined the sovereign decisions of the leadership of these countries. The tensions spread to the relations between the countries with TNC headquarters, that is, developed countries, and less developed or underdeveloped countries, and eventually between the developed and the underdeveloped part of the world, or between the North and the South. Economic tensions turned into political tensions when the developed countries, through TNCs, began to interfere in the political relations in the underdeveloped countries (cf. the case of Chile). The so-called socialist bloc countries were for a while excluded from the incipient process of globalization, but they could remain unaffected by it only as long as they possessed the economic resources enabling them to finance expensive defence and security systems which guaranteed their political and military isolation from the process of globalization. When the necessary resources ran out, the system collapsed and these countries, too, were obliged to enter that process.


The theory and school of regulation

Some authors⁷ view this fact as an indicator of the power of technological change, which is powerful enough to demolish political boundaries and shape the economic and all other relations, inexorably moving towards a new globalized system. This system will no longer be based on Ford-type mass production but rather on internationalized flexible production. The implications of the scientific-technological and information-communicational revolutions have reached such proportions that – through the changed mode of production and its internationalization – they vitally affect the political, social and cultural relations in the world. A clear need is felt for a new regulation of the intricately intertwined relations. This is the subject matter of the theory of regulation. While the Fordist theory concerned itself with the theoretical implications of mass production, in which national welfare states played an important role (state capitalism), regulation theory deals with the theoretical implications of the internationalized flexible mode of production. What we have here is the theory of globalization.

The so-called regulation school made its first appearance in France, from where it spread to the Anglo-Saxon countries and Germany⁴. An important contribution to the study of the postulates and results of this school was made by a conference held in Frankfurt in 1996 under the title “The global economy and the nation-state – between globalism and regionalism” (organized by the Goethe Institute). The conference defined regulation theory as a theory that seeks to determine the macroeconomic relationship and the degree of fit between the mode of production and its political and social aspects. Thus, it tries to harmonize, i.e., regulate, those relations. The relations regulated by the national welfare state in the period of Fordism no longer hold, and new relations need to be established between the economic base and its political and social superstructure. It is immanently the question of an orientation within political economy or international economics.⁵

The process of a fast and unstoppable internationalization of production is accompanied by a transformation of political, social and cultural relations on the international level. National mechanisms and frameworks of regulation are themselves undergoing a change, and it is just a matter of time when the global regulation will overcome the national regulation, or when the relation between the national and the global intervention will assume quite new forms. The best example of this is the regulation of the relations within the EU, where increasingly large portions of state, that is, national, sovereignty are being transferred to the supranational

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⁷ The so-called Perezian model of technological style change goes well beyond technology and economy; it is a político-economic model (see references on Carlota Perez model in List of References).


⁵ The regulation school characterizes the new technological regime as “flexible specialization”. 
level and delegated to supranational institutions. The example of the EU is instructive also because it points to possible solutions for the conflict which regulation theorists themselves see as a conflict between globalism and regionalism (this was, in fact, the second half of the title of the above-mentioned conference). What seems to be the goal is the globalization of production processes to go hand in hand with the regionalization, or decentralization, of business and political decision-making.

While in the national welfare states the main object of political intervention was the harmonization of relations between capital and labour, the present day social antagonisms can no longer be explained or resolved through class compromise. The antagonisms of the present day find their expression not only in economic conflicts, but also in ethnic, national and many other forms of social conflicts (problems of marginalized groups, gender issues, generational issues) and they also involve the problem of depletion of non-renewable global resources and environmental damage. Supranational regulation is needed for the harmonization of such relations, which immediately raises the question of its relationship to the national institutions.

It can thus be said that the world finds itself now in the initial phase of global capitalism, whose main subjects are TNCs. They play their role mostly through global financial flows, among which FDI is particularly important for the relations between the global and the national element. In 1997, the accumulated stock of FDI was estimated at 3.5 trillion dollars, while the financial flows originating from TNC’s branches were estimated at 9.5 trillion dollars. If one were to measure the degree of globalization, these figures could represent the quantitative expression or measure of globalization. Most of these flows were generated by TNCs. The 100 biggest TNCs have exceptionally high levels of transnationality, which, according to UNCTAD, is measured in terms of the share of foreign assets, foreign sales and foreign employment in their total assets, sales and employment. The first six biggest TNCs in the world are U.S.-based, followed by TNCs based in other developed countries. Interestingly enough, their index of transnationality is lower than that of the first 25 TNCs from less developed countries. According to UNCTAD, the average index of transnationality in 1996 stood at 35 per cent for the first 100 companies from developed countries and at 55 per cent for the first 100 companies from underdeveloped countries. This is a highly indicative finding, as it reflects the growing influence of the TNCs from the developed countries, especially the United States, in the globalization process. American companies do not need a high degree of transnationalization, since they have large-enough domestic markets and sufficient availability of the factors of production and sources of financial flows in the country or within the developed countries. The TNCs from underdeveloped countries must look for all these factors outside the countries in which they are based. This means having to rely on the factors supplied by the developed countries, which makes them dependent on these countries. This is just

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10 The degree of transnationality is measured by the shares of foreign assets, foreign sales and foreign employment in their total assets, sales and employment (WIR, 1998).
another indicator of the leading role of the developed countries, especially the United States, in the process of globalization.

The Multilateral Agreement on Investments

What has just been said is borne out by the fact that developed countries supply two-thirds of the world inward FDI stock and 90 per cent of the outward stock, available in the world. This trend has been brought about by the economic boom in the United States, now in its eighth year, made possible by the scientific-technological and information-communicational revolutions. The boom has also been characterized by the process of mergers and acquisitions (M&As) in the economy. This process has been intensified in the last two years and has proved to be yet another mechanism of globalization, resulting in a global restructuring of the strategic positions of TNCs and the countries in which they are headquartered. Given that this process is most prominent in the so-called sectors of the future, such as banking, insurance, pharmaceuticals, and telecommunications, it is obvious that it will lead to the growing influence of the developed countries in the globalization of the world economy. That this is indeed happening is confirmed by the fact that 90 per cent of the world process of M&As is controlled by the developed countries.

TNCs strengthen their strategic position in the globalization of international relations largely through intra-firm arrangements commonly concluded on the basis of technologically oriented activities with a view to improving the technological level of production. The number of such arrangements and their scope are increasing in line with the importance of the scientific-technological revolution for the competitive capability of individual companies. In the early eighties, about 300 such arrangements were concluded each year; in the mid-nineties, their number rose to 600. Over eight thousand such arrangements were concluded between 1980 and 1996, mostly in the technologically highly developed industries, such as information equipment, pharmaceuticals, and motor vehicles.

Though there are areas where the interests of the states and TNCs clash, the states usually try to attract TNC investments by passing suitable legislation. In the course of 1997, for instance, the governments of 76 countries amended 151 pieces of legislation in the interest of TNCs as potential investors. A liberal treatment of their investments creates a more favourable environment for TNCs, particularly in telecommunications and information equipment industries\(^{11}\).

Still, TNCs seem to think that this is not sufficient and that states place too many obstacles to their (TNC's) investment strategies. For several years now, they have sought full liberalization in foreign investments, along the lines of the liberalization already achieved in foreign trade. That is why the developed countries

\(^{11}\) "WIR", UNCTAD, 1998.
with the largest number of TNC headquarters have initiated discussions about the Multilateral Agreement on Investments. The aim is to give TNCs full freedom of investment in individual countries, practically excluding national sovereignty, at least in this area. National governments would only have the right to define certain strategic industries in which foreign investment would require prior consultation with the government. The draft Agreement was first negotiated within the OECD, but since the members of this organization are only developed countries its provisions would not be binding for the less developed and countries in transition, which are becoming increasingly important recipients of FDI. Though repeatedly invited by the developed countries to join the Agreement, they declined the invitation because they felt that too much freedom was given to foreign companies. Consequently, the negotiations within the OECD were interrupted and attention is now focused (especially by the United States as the main advocate of the Agreement) on their resumption within the World Trade Organization (WTO). Since all groups of countries are involved in the negotiations, a possible agreement would be binding for all of them. That is why the less developed countries continue to oppose it, fearing that an agreement of this kind would secure the definitive dominance of the United States and other developed countries in the globalization of international relations. Such countries would no longer have to take into account the interests of the countries into which they invested the funds but would rather make their investment decisions solely in their own interest. The interests of the two sides may occasionally coincide, but there are many situations – claim the “threatened” countries – when they are not easily reconciled.\(^2\)

It is interesting to note that the countries in transition are much less opposed to such plans than other less developed countries. Many of them actually welcome such developments and open their doors wide to foreign investments, having no fear that this might endanger their national sovereignty. The Polish delegates, for instance, refused to take part in the debates about the “threats” faced by FDI recipient countries, claiming that this was not an important issue in the era of globalization\(^3\). Admittedly, as shown in the case of the Croatian company Pliva Pharmaceuticals investing in Pliva-Krakow, Poland does impose certain legislative constraints on foreign investors (having to do with environmental protection and employment of domestic labour force), but these do not seriously impede the entry of foreign capital into that country. The reason for the more relaxed attitude of the countries in transition may be the fact that the amounts invested in these countries are negligible compared with the volume of FDI in the world as a whole. In 1997, the share of FDI in the Central and Eastern European countries amounted to barely 1.8 per cent of the world’s total – and this in the year that marked something of a turning point,

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\(^3\) From “Tools for Change”, the Newsletter of the Central and Eastern European Consumption and Production Patterns (CEECAP), Network.
since the amount received by these countries (19 billion dollars) was 44 per cent up on the previous year. One of the main causes of the relatively meagre inflow of FDI is the small size of the markets in these countries and the purchasing power that cannot match the ambitious plans of TNCs. The position of these countries with regard to the attraction of FDI is expected to improve as their integration into the EU progresses towards full membership. Their markets will then become part of a larger regional market, which will increase their attractiveness and give added security to potential investors of prolonged political stability. The criterion of political stability is increasingly important in TNC's decisions on where to invest.

In order to attract foreign capital under the conditions that will satisfy their strategic national interests, countries in transition must combine subregional cooperation projects with those that will link them with the markets of large regional groupings. In the case of the Central and Eastern European countries, this can be only the European Union. Possible linkages are just under discussion within the proposed Stability Pact and the eastern enlargement procedure in the EU. Only an equal and simultaneous integration into subregional and wider regional groupings will enable the countries in transition, as late-comers, to find their niche in the world market and in this way realize their national interests. In doing this, they should be aware that this process favours those who have traditionally been players on the world market. However, the examples of some smaller countries (such as Ireland and Portugal) show that there is room also for small countries in this future-looking process.

Conclusion

TNCs are the main institutional mechanism for FDI and thus also for the incorporation of the countries in transition into the world economy and their participation in the globalization of economic relations in the world. To a large extent, TNCs promote the interests of the countries in which they are headquartered, i.e., the developed industrial countries, especially the United States. What we see at work here is a combination of unilateralism and multilateralism in international economic relations, with unilateralism (in the form of the growing economic dominance of the United States) gaining the upper hand at present. The United States is the home of the most important TNCs, and it is from this country that most FDI originates. This means that world financial trends, as part of the globalization of the world economy, are directly influenced by the US's economic and political interests. Such a situation gives rise to a variety of problems in the relations between the United States and other industrially developed countries, such as the southeast Asian countries grouped around Japan and the EU countries. Problems are even more acute in the relations between the United States and less developed countries, and have recently surfaced into the open in the negotiations on the Multilateral Investment Agreement (MIA), with the developed countries, and especially the United States, seeking to remove as many national barriers to FDI as possible and to win for their TNCs the national status and treatment in the
countries in which they invest. The FDI recipient countries, on the other hand, complain that this infringes upon their national sovereignty, especially where the strategic planning of their economic development is concerned.

Countries in transition do not share this view and prefer to stress the positive effects of FDI on the development of their economies. These countries hardly consider the potential threats to their national sovereignty. An important reason for such a positive attitude to FDI is to be found in the specific characteristics of the process of transition, which differs from the process of economic development of the so-called developing countries, regardless of the level of development at which these countries happen to find themselves. The differences are economic, but equally political and even civilizational.

What all the countries that are the recipients of inward-oriented FDI have in common is the awareness that without FDI they cannot resolve even the structural, let alone developmental, problems facing their national economies. But this is where the similarity ends: while the countries in transition show very little sensitivity towards the political implications of this fact, the developing countries attach great importance to them. In order to better understand the standpoint of the countries in transition, a little more needs to be said about the specificities of the process of transition.

As long as they lived and worked under the socialist (i.e., communist) socioeconomic system, most of these countries recorded high rates of growth, which later proved to be artificial, unjustified by real economic growth or economic results. When market conditions began to be introduced and when prices became market prices, it became obvious that most of these economies were unable to function economically. A transition was therefore needed towards the market economy. This move resulted in a crisis of transition with very unpleasant effects – falling output, loss of markets, rising unemployment, declining living standards. There could be no mention of greater exports. For the revival of these economies, foreign capital was essential, and it could come primarily through FDI, with the recapitalization of privatized companies by strategic investors. Another important fact was that these countries had lost many of their former markets, and in trying to find new ones they needed strong links with developed foreign markets. FDI was seen as a prime mover in effecting the necessary structural changes in the process of transition and in alleviating its unfavourable side effects, such as unemployment, falling living standards, etc. These countries realized that a strong economy was a key element of protection of national sovereignty, even when that meant accepting foreign capital under particular conditions and, when necessary, political concessions. Such an attitude was facilitated by the political, or rather civilizational, fact that most of the countries in transition, particularly those in Central Europe, had been traditionally Western-oriented in civilizational terms and therefore did not find the West’s political and civilizational dominance odious. More recently, this attitude has even coloured their view of the relations between the United States and the developed Western European countries: the countries in transition do not fully share West Europe’s concern over the US’s unilateral economic and political stand. Despite their wish for integration into the European Union, these countries show a degree of
understanding for the fact that the United States is still “the most important European power”.

However, by seeking integration into the EU, the countries in transition actually open up the prospects of softening the consequences of unilateralism in the global relations. This is visible in the process of strengthening regionalism through regional economic groupings. In the view of many analysts, the European Union is a grouping with excellent economic prospects, especially if it is successful in strengthening its monetary union, eastern expansion and Stability Pact implementation. This will make it at least as powerful as NAFTA (North American Free Trade Area) and the southeast Asian grouping, thus helping to offset the possible negative effects of unilateralism in the global political and economic relations.

Everything points to a very positive role of FDI in globalizing the economies of the countries in transition. At the same time, everything points also to the need for a stronger integration of these economies into the process of globalization of economic and political relations. Without this, it is hard to see how these countries can continue to develop and, more specifically, how they can successfully achieve the market transformation of their economies.

LITERATURE:


TRANSNACIONALNE KOMANIJE I GLOBALIZACIJA

Sažetak

Jedan od glavnih ciljeva makroekonomske politike zemalja u tranziciji jest uspostaviti stabilan rast GDP (BDP) na osnovi izvoza. Većina tih zemalja to još uvijek ne može zbog dva razloga: najprije zbog nedovoljne konkurentnosti izvozne ponude, a drugo zbog teškoda u pronalaženju nycha u plasmanu na svjetsko tržište, gdje se već nalaze jedna transnacionalne kompanije iz razvijenih industrijskih zemalja. Stoga je rast GDP-a u većini tih zemalja još uvijek zasnovan na domaćoj potražnji, a to tim zemljama otežava ulazak u globalne proizvodne tijekove.

Iako je globalizacija proces koji već neko vrijeme traje i o kojem se govorilo u pozitivnom kontekstu, u posljednje se vrijeme sve više govori i o nekim njezinim nepovoljnim značajkama. Pogotovo, kada je riječ o efektima na manje zemlje ili na gospodarski i tehnološki manje razvijene zemlje. Smatra se da globalizacija osobito ugrožava zemlje u tranziciji i zemlje u razvoju, a njome se najviše koriste razvijene industrijske zemlje, posebno SAD.

Bez obzira na utemeljenost teh bojazni za zemlje u tranziciji, veoma je značajno da se zaštita od nepovoljnih utjecaja globalizacije, a njih kao i u svakom povijesnom i gospodarskom procesu ima, ne pretvori u izolaciju od svjetskih kretanja i kriterijuma, tj. u izolaciju od povoljnih efekata globalizacije, kojih je nesumnjivo više. Globalni je kapitalizam najbolja šansa za put u blagostanje i on u uvjetima uspostavljanja izgubljene ravnoteže u samoj svojoj strukturi nodi čak i veće izglede manje razvijenim zemljama, jer im kao "new-comerima" otvara veće mogućnosti ulaska na svjetska tržišta, nego u uvjetima liberalnoga kapitalизма.

U tome je upravo uloga FDI veoma značajna. Postoje podaci prema kojima povećanje stope rasta GDP izravno ovisi o priljevu FDI u određene zemlje. FDI su danas jedan od glavnih mehanizama globalizacije, jer imaju mnogo pozitivniji utjecaj na razvitak zemalja u tranziciji od ulaganja kratkoročnog i špekulativnog kapitala. Kada je riječ o zemljama u tranziciji, uloga FDI još je uvijek inward oriented, jer većina tih zemalja još uvijek nije dovoljno snažna da ulaže FDI u inozemstvu. Da bi došlo do te razine, moraju uspostaviti uvjete za što racionalnije privlačenje i korištenje FDI u cilju takvog razvitka, koji će im omogućiti da postanu što ravnopravniji partner u globalizaciji proizvodnih procesa i financijskih tijekova.