

Available online at www.sciencedirect.com**ScienceDirect**

Procedia Economics and Finance 8 (2014) 42 – 47

Procedia
Economics and Finance

www.elsevier.com/locate/procedia

1st International Conference 'Economic Scientific Research - Theoretical, Empirical and Practical Approaches', ESPERA 2013

Economic foundations and practical results of transnationalization processes

Vitali Fedosovich Medvedev^a, Marina Badileanu^{b*}, Marius Bulearca^c

^a *Institute of Economics, National Academy of Sciences of Belarus, Surhanova str. ½, Minsk, 220072, Belarus*

^{b,c} *Center of Industry and Services Economy, National Institute of Economic Research "Costin Kirițescu" of the Romanian Academy, Casa Academiei, Calea 13 Septembrie nr.13, sector 5, Bucharest 050711, Romania*

Abstract

In this paper, the authors are assessing the role of transnational corporations in transforming the international division of labor. Two main instruments of action are depicted: foreign direct investments and the new economic internal relationships system. The research work demonstrates the creation of uneven conditions of participation of developed, developing and transition countries to the international division of labour. These circumstances, established during the process of globalization strategy implementation, become constant factors of empowerment of a passive role of the latter countries in this process. A case study on energy transnational corporations acting on the Romanian territory comes to prove the consistency of the alleged conclusions of the previous theoretical approach.

© 2014 The Authors. Published by Elsevier B.V. Open access under [CC BY-NC-ND license](https://creativecommons.org/licenses/by-nc-nd/4.0/).
Selection and peer-review under responsibility of the Organizing Committee of ESPERA 2013

Keywords: Transnational corporations, globalization strategy, international division of labor, energy companies;

* Corresponding author. Tel.: +0740193202
E-mail address: badmarina@yahoo.com

1. Introduction

The main hypothesis evaluated in this paper is that transnational corporations use the globalization strategy with the aim to benefit from the resources of the host countries in their own interest. The most common means of accomplishing this goal are foreign direct investment destined to takeover foreign companies in developing or transition countries, and new management systems aimed towards the repatriation to the origin countries of the profits gained in host nations. Empirical evidence constitute the foundation of the theoretical approach and the case study is completing the demonstration process.

2. Research findings

The analysis of the economic globalization strategy foundation confirms the idea that the constitutive beginning of this strategy was its more and more active use by corporations from industrially developed countries and the accelerated production concentration in their own interests. For example, 1% of the US population holds 40% of the total wealth of the country, and especially the transnational corporations. This process finds its reflection in the formation of transnational companies extended throughout the world through large networks of subsidiaries. The process of concentration of industrial activities in large companies, their transition to a global strategy develops on the basis of integration in their property structure of new technological and economic subsidiaries interconnected among each other, and located in very different states.

One of the most important methods of accomplishing the global strategy aims of extension of transnational corporations' activities over the frontiers of their origin country, is the direct foreign investment in creation of new companies abroad or in taking over existing companies totally or partially (through a control share stake). Foreign investments are the key element of the global strategy implementation by transnational companies. Witness for this fact is their growth which is more dynamic than other indicators of the global economic development, trend recorded already for a quarter of a century.

The incentives for huge national corporations to create own subsidiaries over the borders of their origin country through foreign investments were, on the one hand, the limits of their internal market and resources - the basis of their future development-, and also the concentration of their production using the international division of labor. On the other hand, the preservation and use of the former economic means of participation to the international division of labor under the conditions of their growing scale was doubled by an important increase of risks.

The enhancement of the participation to the actual international division of labor automatically increases the corporations' interference in the system of international cooperation relationships, and as a consequence their dependence on foreign partners. The economic basis of the agreements and contractual relationships system of cooperation does not provide guarantees against certain serious risks. Under these circumstances, the enforcement of property rights for the international activities developed on the international division of labor has the role of insurance against risks. It provides the control opportunities for transnational corporations over the process of international division of labor as whole, the possibility to subordinate to its interests, the interests of their host countries. Also, the enforcement of the transnational companies' property over the activities of their host countries offers them the possibility to escape the control of these countries. Therefore, transition to the economic integration strategy of foreign subsidiaries is fully understandable and logical, as huge corporations become more and more active subjects on the international division of labor.

The global strategy of transnational corporations oriented towards the enhancement of the scale of their activities in foreign countries brings changes in the system of economic relationships and in the structure of the world economy. As a result, in the process of internationalization, the property role grows and acquires an international character. This means that property rights over multiple value chains of the international division of labor, under the larger international production and economic systems formed in the process of globalization, concentrate in the hands of transnational companies.

This situation could not remain without effects over the economic structure both on international level, and within the frontiers of individual countries. On international level, it found its reflection in the formation of new

international level relations between transnational corporations and national governments. These relations envisage a huge number of companies situated both in the origin countries and in the host ones. The formation of transnational corporations and their transformation in subjects of international property mark the organizational and economic integration of multiple activities. The institutionalization of joint international cooperation contributes to the formation of integrated production and economic organizational systems.

We should emphasize that the actual international extent of property, in certain limits, is more appropriate taking into account the extension level of economic production interrelationships of the multiple chains of the international division of labor. This can be explained through the fact that international division of labor deepening objectively presumes a certain centralization of separate regulation and coordination functions, possibility that occurs along with the concentration of the property in the hands of transnational corporations. These corporations centralize multiple management, production, marketing, resource distribution functions. Also, they optimize the productive and economic relationships system and they integrate companies from different countries with the aim to create competitive companies on a global market, vertically integrated structures.

The economic structure of the host countries that accommodate transnational corporations' subsidiaries, encounters important changes as a result of the global strategy implementation. They are necessarily involved in the process of trans-nationalization that manifests itself, first of all, in the formation and geographical extension of the property segment of transnational corporations. Decisions are made solely in the best interests of the corporations, and often in contradiction with the interests of the host countries. The enforcement of the corporations' property in the accommodation countries means the changing of the nationality of their companies. Being international, the property of the corporations is not ethnic. Its national affiliation is established by the origin country of the corporation. The corporation's global strategy creates a new system of relationships in the economic environment of the host countries. National property in all its aspects (state, private, shareholders etc) interacts with the corporation property that has an international character. This way, corporations insure access to the resources of these countries and also the right to dispose of the results at their discretion, influencing even the self determination of host nations.

Beside foreign direct investments, an important element of the transnational corporations' global strategy is the specific system of economic relations that describe their internal relations. The specificity of these economic internal corporate relations is given by their character quite different from the market one. Economic relations are based on a mix of market and non-market methods and principles. Corporate firms actively use nonmarket methods in order to manage the activity of their structural subdivisions. Examples are transactional prices, the centralization of financing resources in order to redistribute them among their own companies in a nonmarket manner, the mobility of the capital relocation from one country to another, the preservation of non profitable companies if this suites the mother company etc.

The result of the combination of market and administrative methods for the management of corporate subdivisions is the formation, within the global economy structure, of a qualitatively new, giant in its extension, economic environment with a specific system of economic relations, significantly different from the market economy ones. The dimension of this environment, as huge as the economic activity of whole countries, and its present dynamics witnesses its tendency for further development. Today, approximately 2/5, meaning almost half of the world commercial flows, goes through the internal channels of transnational corporations. This proves the creation of a corporate internal market comparable in dimensions with the Common Market but surpassing the latter through its efficiency.

The inclusion of the enterprises belonging to host countries as components of transnational corporations is automatically spreading the whole new arsenal of direct regulation methods over their economic activity. This creates the possibility to activate in host countries of a strong mechanism of administration of their wealth in the interest of the corporations because the companies located on their territory inevitably become subjects of these kinds of redistributive processes. Through the utilization of transfer prices, corporations understate the actual sale volumes, the real incomes of their activities (and consequently the tax base) in countries with relatively high taxes and they artificially increase those indicators in areas with more lenient tax regimes as the most used offshore areas. In the same direction activate other methods of corporative internal management, generating illegal wealth redistribution in their own interest. Another character receives the relationship between countries in the field of the

labor division, when host countries are transition or developing ones. Firstly, among them there are only few (some Asian and Latin American countries) origin countries for transnational corporations, and secondly these corporations can be classified only as “second echelon” of the transnationalization process that do not inflict any notable influence over the formation of a dominant model for the international division of labour division development.

The uneven conditions of participation of developed, developing and transition countries to the international division of labor, established during the process of global strategy implementation, become constant factors of empowerment of a passive role of the latter ones in this process. Wasting their functions of active subjects on the international division of labor, these countries lose the opportunity to influence the specialization process of the companies located on their territories but entering corporative structures. In this respect, a very strong evidence holds some well established tendencies on the international division of labor development that determine the character and diversity of the developed, developing and transition countries’ specialization. Nowadays, for the developing and transition countries, clearly emerges a strengthening trend of formation, preservation and growth of technological and economic dependency on transnational corporations.

3. Energy transnational companies in Romania – a case study

The structure and organization of the energy industry differs considerably with the horizontal or/and vertical integration degree and with the level of competition for each segment (fuels, electricity etc). In many countries, electricity industries are dominated by vertically integrated giant facilities, actively involved in every chain of the electricity supply (generation/imports, transport, distribution, supply). In other European countries, the property types are quite complex involving state, private and municipally owners. In France, the energy industry is fully dependent on state owned integrated national monopolies: *Électricité de France (ÉdF)*, and *Gaz de France (GdF)*; in Italy - on *Ente Nazionale per Energia Elettrica (ENEL)* and *ENI*. In Germany, *E.ON* and *RWE* are the leading energy corporations. In Spain, the electricity generation is managed by *Endesa* and *Iberdrola*, and the gas sector by *Gas Natural (GN)*.

In Romania, the former vertically and horizontally integrated electricity generation company *Termoelectrica* is under liquidation. Instead, 26 generation companies struggle from day to day to resist the lack of investments and the continuous demand decrease. The national state owned electricity distribution company *Electrica* split in eight units, five of them “fueling” the transnational corporations *ENEL*, *CEZ* and *E.ON*. The situation is repeated on the natural gas market where the domestic *Distrigaz North* and *Distrigaz South* contribute to the growth of the energy giants *E.ON* and *GdF*.

As to the oil market, the most important Romanian company *Petrom* is now a part of the Austrian group *OMV*. Subsidiary of the *OMV Group*, *Petrom SA* is the largest gas and oil producer in Eastern Europe. In late 2004, *Petrom* was privatized by the Romanian state and sold to Austrian oil company *OMV*. As of 2005, it was the largest privatization deal in Romania’s history.

The *Petrom* privatization was performed in December 2004, when *OMV* obtained a 51% stake in *SNP Petrom SA*. By that time, major Romanian specialists criticized the privatization of *Petrom*, on the grounds that last-minute unadvertised moves gave *Petrom* all of Romania's oil and gas reserves just before the privatization contract was signed. It was claimed that this move gave away the control of the country's national resources. As a consequence, *Petrom* has a *de facto* monopoly on the oil production of Romania. Moreover, the state did not impose price controlling clauses in the privatization contract, so that Romanian-produced petroleum is sold in Romania at the same price as imported petroleum. From 1 January 2010, the company changed its name to *OMV Petrom*. As a result, *OMV Petrom* is the largest oil and gas producer in South Eastern Europe (SEE), and aims to remain the leading regional, integrated oil and gas company with sustainable performance to support potential upstream growth in the neighboring Black Sea region. With activities in Exploration and Production, Gas and Power, and Refining and Marketing, the *Petrom Group* has proven oil and gas reserves of approximately 775 mn boe in Romania and Kazakhstan (750 mn boe in Romania), a maximum annual refining capacity of 4.2 mn t, a network of approximately 800 filling stations, operated under two brands, *Petrom* and *OMV*, in Romania, the Republic of Moldova, Bulgaria

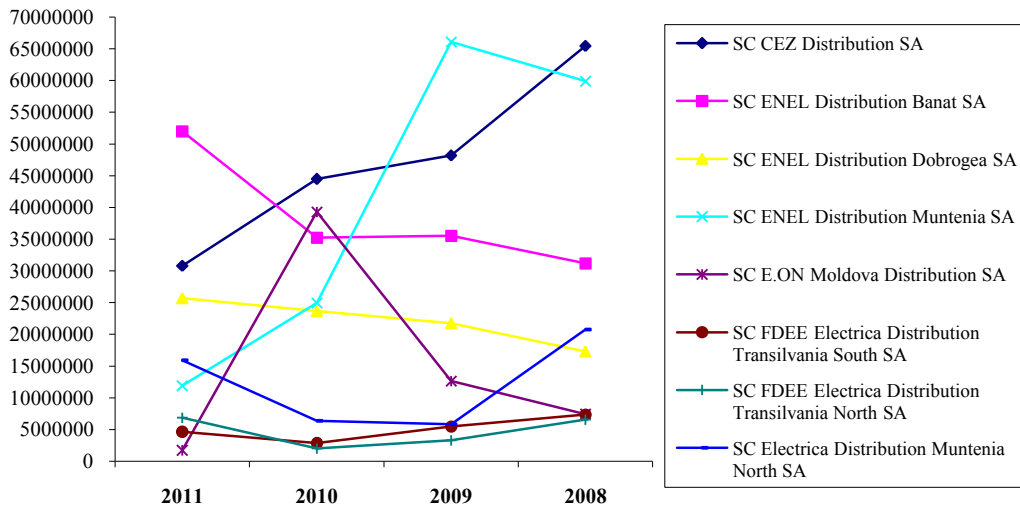
and Serbia, a 860 MW gas fired power plant at Brazi and a 45 MW wind park at Dorobantu, Romania. In 2012 the Group’s turnover was EUR 5.891 bn, with EBIT of EUR 1.270 bn.

On the Romanian electricity distribution market activated eight enterprises (from 2012 only six due to the merger of the three remaining domestic companies). As a result of the performed privatizations five became part of transnational companies. Thus, in 2001, the horizontally integrated distribution and supply company Electrica was split into eight separate entities. The next years, between the 2002-2007 years, the main focus of the Romania’s energy reform was put on distribution privatization.

The first two electricity distribution and supply companies privatized by the Romanian government were Electrica Dobrogea and Electrica Banat. The Romanian Government was forced to negotiate under the international financial organizations pressure. As a consequence, ENEL SpA paid only 43.4 million euro for 51% of the Electrica Dobrogea (a company with 1894699 consumers in 2006) stock (2.51 euro per stock) and only 69 million euro for 51% of the Electrica Banat (a company with 2841437 consumers in 2006) stock (2.92 euro per stock). For the next two privatized distribution companies (in 2005), the Czech company CEZ paid only 151 million euro for 51% of the Electrica Oltenia(a company with 3048340 consumers in 2006) stock (4.139 euro per stock) and the German E.ON Energie AG only 100 million euro for 51% of the Electrica Moldova(a company with 3087404 consumers in 2006) stock (3.083 euro per stock).

The analysis of the electricity distribution market (figure 1, table 1) was developed using the information from the accounting reports of the companies, available on the Romanian Ministry of Finance site (www.mfinante.ro). The net profit from the accounting report was converted from the national currency into euro based on the annual average exchange currencies published by the Romanian National Bank (www.bnr.ro).

Figure 1: Net profits evolution for the electricity distribution companies activating in Romania, for the period of 2008-2011 years (euro))



Source: Own data operation using the statistical information provided by the Romanian Ministry of Finance, www.mfinante.ro

We should recognize that the first thought came into our minds watching the above figure was directed towards the overrated econometrical modeling opportunities and the impossibility to define any correlations between financial and structural indicators in this particular situation.

Table 1- Net profits evolution for the electricity distribution companies activating in Romania, for the period of 2008-2011 years (euro)

Company	Average no. of employees in 2011/2008	Origin country	2011	2010	2009	2008
SC CEZ Distribution SA	1345/2026	Czech Republic	30783834	44465234	48184822	65459453
SC Enel Distribution Banat SA	1230/1382	Italy	52020264	35258421	35553523	31193905
SC Enel Distribution Dobrogea SA	995/1153	Italy	25685179	23669556	21731957	17283153
SC Enel Distribution Muntenia SA	1302/991	Italy	11909351	24961193	66092142	59912579
SC E.ON Moldova Distribution SA	1582/2105	Germany	1700492	39295533	12642942	7376722
SC FDEE Electrica Distribution Transilvania South SA		Romania	4617759	2832844	5470042	7343439
SC FDEE Electrica Distribution Transilvania North SA	2016/1980	Romania	6866754	2024652	3294462	6576625
C Electrica Distribution Muntenia North SA	2078/2053	Romania	15907598	6336652	5817946	20732253

Source: based on Ministerul de Finanțe (www.mfinante.ro)

Disregarding the theoretical desiderates, from the above mentioned statistical information, we came to the following conclusions:

- all eight electricity distribution companies registered profits each year, at least after 2008;
- the three Romanian companies generated the most moderate values for the net profits, and trends that could be placed in a certain linearity framework;
- the companies CEZ and ENEL Distribution Muntenia South recovered very fast their “investments” made to acquire the main stock share (over 65 million euro net profit for CEZ, respectively almost 60 million euro for ENEL Muntenia South, only in 2008);
 - as regards the employees, all Romanian companies increased their number in 2008-2011 years; au-
contraire, the majority of foreign capital corporations reduced the employees number.
 - for now, we could not explain the situation of the company E.ON Moldova which reduced substantially and suddenly its profit threshold (we shall analyze in the future the investments situation of this particular firm);
 - also, we cannot draw a conclusion regarding the determinations of the increasing or decreasing trends of the financial indicators, but we can remark a certain recovery, after the crises years period 2009 and 2010, of the Romanian electricity distribution companies;

Conclusion

Globalization (through transnational corporations’ activities) sharpens the competition and has a negative influence on local firms providing nationally specific economic activities and respectively on small and medium enterprises. This kind of inference in productive processes causes destructive influences on the country’s self determination.

References

- Guvernul României, Nota de fundamentare privind Strategia de privatizare a Societăților comerciale Filiale de Distribuție și Furnizare a Energiei Electrice Electrica Dobrogea SA și Electrica Banat SA, p.2.
- Concluziile raportului final al Comisiei Senatoriale pentru Privatizare, 05.07.2010, www.euractiv.ro
- Hotărârea Guvernului nr.1000/2004 privind unele măsuri pentru derularea și finalizarea privatizării și modificarea și completarea Strategiei de privatizare a societăților comerciale filiale de distribuție și furnizare a energiei electrice "Electrica Dobrogea" S.A. și "Electrica Banat" S.A., publicată în Monitorul Oficial nr. 629/10.07.2004.
- Ordonanța de urgență a Guvernului nr.114/2005 privind unele măsuri pentru derularea și finalizarea privatizării societăților comerciale filiale de distribuție și furnizare a energiei electrice "Electrica Moldova" S.A. și "Electrica Oltenia" S.A., publicată în Monitorul Oficial nr. 668/27.07.2005, www.gov.ro
- Romanian Ministry of Finance, www.mfinante.ro;
- Romanian National Bank, www.bnr.ro