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Lucia P. BLĂJUȚ
Doctoral School of Economics and Business Administration,
”Alexandru Ioan Cuza” University Iași, România

MULTINATIONAL COMPANIES AND FOREIGN DIRECT INVESTMENT

Literature review

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Abstract

This paper highlights the significant share of multinational companies in international trade that are a factor of developing global economies. In the context of economic globalization the activity of multinational companies and their foreign direct investment have a strong impact on the host country which presents advantages and disadvantages for them. The main objective of this article is the review of the important role played by multinationals in economic development, especially in developed economies. In the economies in which they operate, they bring capital, technology transfer, improve the national reputation and influence the other companies to invest in this countries, they provide a substantial source of revenue for the government and always improve the balance of payments in the host country.

Introduction

Multinational companies (MNC`s) are one of the most significant forms of non-state actor in world politics. Many of them are very large and represent a significant economic and political influence around the world. In the international business literature, multinational companies have received various definitions. One of the most important definitions widely accepted in the literature is mentioned by Raymond Vernon as a multinational corporation representing a big company, owners of industrial branches in at least six countries (Vernon, 1996). Later, there appeared medium-sized enterprises with international vocation and under this pressure the figure was reduced to two countries and after all that, even to one. Nowadays, most economists agree that a multinational corporation consists of a company that has expanded production and marketing beyond the borders of a single country. So, international production is a creative activity of added value, controlled and organized by a company (or group of companies) beyond national borders (Dunning & Ludan, 2008).

The foreign ownership of productive assets is measured by foreign direct investment (FDI). The economic globalization growth is given by foreign investment growth. FDI is defined as "the property of a foreign resident on assets (fixed assets) in order to control the use of these assets" (Graham & Krugman, 1989). FDI has come to play an important role in global business, especially for the host country, FDI presents advantages and disadvantages. First of all, they bring capital, new technology and production methods, improve the national reputation and influence the other companies to make other investments. Also, in the host economy, MNCs hire more local employees, increase the employment rate and the government has a new substantial source of revenue. The balance of payments is considerably improved: increases the exports, which bring money into the country and decreases the imports (Tomohara, 2011).

Multinational companies and host economies

The explosion of multinational corporations, the major actors of globalization, has received an important attention in international economics, translated by implementing an intense network and multiform exchange, outside national borders that become more permeable, between different centers of economic activity on the planet. Multinational firms internationalize services and production. They are positive forces for economic development and prosperity of all societies (Sofka et al, 2014).

The measures to attract FDI facilitate the access to finance, technology and international market, necessary for economic development. The benefits of FDI for the host economy are similar to those made by opening an economy to international trade. Among them are economic specialization, the increasing number of jobs, transfer of technology, access to international loans, a good ability to achieve an optimal size of production or organization by selling using an expanded market and increased competition (monopoly power reduction and lowering consumer prices by subjecting domestic firms to a fierce competition with more efficient firms on the same industry). Among externalities obtained by FDI , there are included staff training and technology transfers from multinational companies in host economy (Crespo et al, 2014). Another positive effect is the transfer of managerial and organizational practices (marketing techniques, quality control systems, costing assistance, health human resources, training systems, etc.). The negative effects include: giving local suppliers, natural resources, bankrupting local firms, diminishing national authority.

Romania and foreign direct investment

The impact of foreign direct investment on the competitiveness of Romanian exports remains one of the most complex problem, which requires both depth analysis of correct measurement of the influence of volume, structure and dynamics, and the profitability and distribution of the reinvested earnings and repatriated foreign firms, as well as transfer pricing issues (Zaman & Georgescu, 2011).

Using the data from UNCTAD's Bilateral FDI Statistics we can see the trend of FDI flows (inflows and outflows) between Romania and developed countries in the last few years 2010-2012 (table 1). Viewed from the Romania, the EU economies are an important destination. Major host countries of Romania FDI stock abroad are listed in table 2.

In 2011, the FDI inflows and outflows increased significantly compared with 2010, but in 2012 in some developed economies the flows nosedived. In this conditions, of weak growth and uncertainty in government policy in Europe and, especially in Romania, many MNC's implemented a strategy by disposing of underperforming assets and non-core business (UNCTAD, 2013).

In 2012, the FDI outflows in developed countries had a real sharp fall, but this result was a consequence of the year 2007, since the beginning of current economic and financial crises. In terms of international trade, developed countries accounted for 39 per cent of total inflows and 61 per cent of total outflows – the lowest levels. (UNCTAD, 2014)

In 2013, the FDI flows reached the level of EUR 2,712 million. Foreign direct investor equity in direct investment enterprises in Romania worth EUR 2,427 million representing 89.5 percent of FDI net flow and the credit of direct investment enterprises from foreign direct investors, intercompany lending included, worth EUR 285 million representing 10.5 percent of FDI net flow (BNR, 2014).

In 2013, FDI stocks reached the level of EUR 59,958 million. The differences in positive / negative revaluations arising from a change in the exchange rate and prices assets and accounting restatements opening balance value of the reporting enterprises have contributed to this result. The FDI stocks have recorded strong growth with a positive trend in the period 2009-2013. In 2009, the total FDI stocks worth EUR 48,827 million: equity worth EUR 35,646 million and credit worth EUR 13,181 million; in 2010 increased with 5.3 percent, in 2011 increased with 4.5 percent, in 2012 increased with 7.7 percent and in 2013 FDI stocks worth EUR 59,958 million, increased with 5.3 percent (Graphic 1).

In 2009, the total FDI flows worth EUR 3,357 million, the highest value in the last five year: equity worth EUR 1,730 million and credit worth EUR 1,627 million. Comparing with 2009, in 2010 FDI flows decreased to EUR 2,263 million and in 2011 decreased drastically to EUR 1,700 million, that representing the smaller value, but in 2012 have experienced a slight increase of EUR 2,489 million maintaining the upward trend in 2013 with EUR 2,712 million (Graphic 2).

Conclusions

Multinational companies are a key component of global economy, having an important and complex role in economic growth, international trade increasing that is crucial to the continuance of globalization, technological progress accelerating and markets, production and technology globalization. They are one of the most significant factors of modern economic growth. At the same time, multinational companies are one of the most important globalization vectors.

By their nature, CMN integrates production to international level and in this way, it plays a central role in economic growth. These firms are the main factors on development and spread technology which is considered to have a greater importance as a determinant of international competitiveness and nation progress. CMN contribute to capital formation, providing training and playing an important role in trade, playing a pivotal role in organizing international economic activities and are a considerable support for social and economic welfare of the home and host countries in positive terms.

Host countries consider CMN an additional source of investment, technology, innovation, employment, management modernization, skilled labor, national competitive power increase, greater integration into the world economy and opportunity for new export markets and revenue receipts and charges.

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Table 1: Romania FDI flows in the host economy, 2010– 2012 (millions of dollars)

	FDI inflows			FDI outflows		
Developed economies	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Austria	756	945	777	12555	12498	14356
Belgium	-86	210	118	1161	1443	1405
Bulgaria	1	-8	5	12	-	-
Croatia	-	-	-	24	-	-
Cyprus	-143	-75	-287	3426	3280	3532
Czech Republic	28	86	272	1305	1055	1347
Denmark	28	24	-1	514	312	344
Estonia	-	-	-	-	-1	-
Finland	41	-49	-64	211	220	153
France	358	544	132	5890	6524	6949
Germany	377	531	391	8594	8109	8544
Greece	-58	-271	-54	4051	3795	3326
Hungary	-58	-168	211	963	791	1267
Ireland	17	25	41	195	248	536
Italy	461	99	-130	3772	4320	3851
Latvia	-	-	5	-	-	-
Lithuania	-1	-	12	12	9	32
Luxembourg	200	384	53	1328	1648	1798
Malta	28	-	-9	31	48	26
Netherlands	638	56	528	14647	15489	17392
Poland	-62	-4	59	285	256	318
Portugal	16	-28	-51	277	251	256
Slovakia	-19	-15	-1	9	1	-8
Slovenia	-9	1	-1	16	14	9
Spain	204	-86	135	1428	1238	1434
Sweden	60	86	-17	418	519	591
United Kingdom	49	56	127	843	930	1284
Gibraltar	-	-	-	-	-	-
Iceland	-	-	-	-	-	41
Isle of Man	-	-3	-4	-	-3	-7
Jersey	-	-	-	-	-	-
Liechtenstein	-	-	-	110	-	55
Norway	12	64	10	122	270	330
Switzerland	-221	-285	248	2715	2377	2883
Canada	-29	-10	-3	278	331	99
United States	148	138	177	1812	1835	2378
Australia	61	-3	48	190	52	51
Bermuda	-	-11	-6	-1	58	57
Israel	-7	75	4	208	215	161
Japan	58	32	12	207	237	232

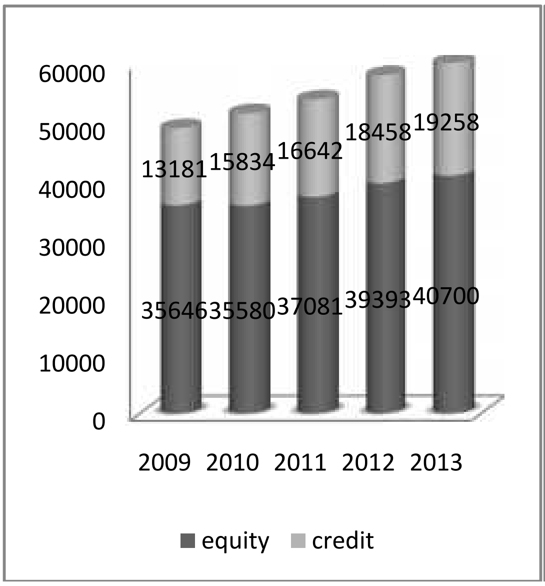
Source: UNCTAD, FDI/TNC database (www.unctad.-org/fdistatistics)

Table 2: Romania FDI stock abroad, by developed economies, 2010– 2012 (millions of dollars)

	Inward stock			***Outward stock***		
Developed economies	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Austria	1	-3	-23	11	32	9
Belgium	-	-	-	-	1	1
Bulgaria	-7	-13	14	207	-	207
Croatia	-	-	-	-	-	-
Cyprus	147	-8	-127	190	208	91
Czech Republic	-	-	-	-	-6	-
France	-1	-	-3	-	-	-3
Germany	-	-	3	1	-	17
Greece	-	-	4	1	1	8
Hungary	-50	17	9	123	126	140
Italy	5	-1	-1	17	38	25
Netherlands	3	-	3	3	3	4
Poland	-	-1	3	-1	-	8
Slovakia	-5	-6	4	16	10	15
Spain	17	-	10	20	17	21
United Kingdom	-	-	-	100	1	1
Switzerland	-	-	-	7	6	7
United States	-	-	-	1	1	1

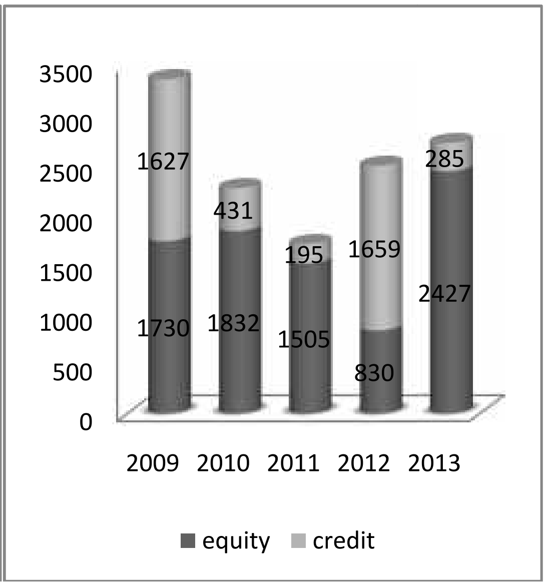
Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics)

Graphic 1: FDI stock evolution in 2009-2013 (EUR million)



Source: BNR database (www.bnr.ro)

Graphic 2: FDI flows evolution in 2009-2013 (EUR million)



Source: BNR database (www.bnr.ro)