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OAJI (USA) = 0.350

SOI: [1.1/TAS](#) DOI: [10.15863/TAS](#)

International Scientific Journal Theoretical & Applied Science

p-ISSN: 2308-4944 (print) e-ISSN: 2409-0085 (online)

Year: 2019 Issue: 05 Volume: 73

Published: 25.05.2019 <http://T-Science.org>

SECTION 31. Economic research, finance, innovation, risk management.

QR – Issue



QR – Article



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TRANSNATIONAL CORPORATIONS AS A FACTOR OF INNOVATIVE INVESTMENT

Abstract: This article describes innovative investment as a factor in the development of transnational corporations. provides a definition of TNCs and their main features, and also presents a comprehensive strategy of TNCs. Selected types and sources of effective activities of TNCs. In addition, the practice of the participation of the world's largest TNCs in the domestic and foreign economic activities of Uzbekistan is analyzed.

Key words: transnational company, investment, foreign investment, economic development, innovation, internationalization, benefits, problems, enterprises.

Language: English

Citation: Nazarova, R., & Sultanova, M. (2019). Transnational corporations as a factor of innovative investment. *ISJ Theoretical & Applied Science*, 05 (73), 329-334.

Soi: <http://s-o-i.org/1.1/TAS-05-73-48> **Doi:**  <https://dx.doi.org/10.15863/TAS.2019.05.73.48>

Introduction

The transnationalization of production and capital on the basis of the development of the productive forces overgrowing national-state borders is the most important element of the modern stage of development of the world economy. The rapid growth of foreign direct investment, the emergence of the technological division of labor beyond firms, industries and national borders is accompanied by the emergence of gigantic international research and production complexes with branches in different countries and on different continents. Transnational corporations transform the world economy into international production, ensuring the acceleration of scientific and technological progress in all its directions - the technical level and product quality, production efficiency, improvement of management forms, enterprise management [1, p. 83].

Materials and Methods

TNCs play a crucial role in the transnationalization of the modern world economy.

The concept of TNCs quite clearly defined in the official documents of the UN, in particular, UNCTAD means by TNC an enterprise formed in any organizational and legal form and consisting of parent (parent enterprises) and controlled foreign enterprises (foreign affiliates), located, respectively, in the home country and the host states and territories. A TNC must have at least 10% of the voting shares of the parent companies or a similar share in the authorized capital for unincorporated forms of ownership [11]

The following signs of transnational corporations are distinguished in foreign literature:

1. The company sells manufactured products in more than one country;
2. Its enterprises and branches are located in two or more countries;
3. Its owners are residents of various countries.
4. The share of foreign operations in the income or sales of the company is determined by at least 25%.

The strategy of transnational corporations is based on a global approach, which provides for the

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optimization of results not for each individual link, but for unification as a whole.

For the propagation of TNCs, the presence of certain possibilities is necessary. All of them are to some extent characterized by a modern stage of scientific and technical progress. The new technology allows companies in a single corporation to specialize in the production of various types of products, but interconnected by the bonds of a production co-operation, the level of information support creates the possibility of managing enterprises located in different countries from one center. Changes are also taking place in the organizational structure of TNCs, and above all in the geography of location. If in the 1940–1950s these were mainly developing countries, then from the 1970s – 1980s, we are talking about industrialized countries with significant scientific and technical potential. Among economically backward countries, those that possess are attractive to TNCs:

- cheap labor;
- low taxation;
- proximity to sources of raw materials;
- weak government regulation;
- the possibility of exporting to them environmentally hazardous industries;
- stable political situation, etc.

In addition to the geography of location, current trends in the development of TNCs are characterized by the following circumstances:

- a growing degree of dependence of the parent company on its external enterprises, i.e. the increasing separation of TNCs from their national soil;
- The corresponding growth of transnational banks, which create branches in other countries, buy local credit institutions there;
- positive attitude to TNCs from the countries hosting their branches;
- increasing the general level of qualification, culture, education of the cumulative employee of TNCs;
- the new nature of the relationship between the parent companies and their affiliates, determined by the decentralization of research and development.

A comprehensive strategy is to decentralize the management of an international concern and significantly enhance the role of regional management structures. Such a policy was made possible thanks to advances in communications and information, the development of national and international data banks, and widespread computerization. It allows transnational corporations to coordinate the production and financial activities of foreign affiliates and subsidiaries. Integrated integration within transnational corporations requires an integrated organizational structure, which is expressed in the creation of regional management systems and production organization.

Currently, it is customary to distinguish the following types of transnational corporations [10, p. 312]:

- horizontally integrated corporations with enterprises producing most of the products. For example, the production of cars in the US or the Fast Foods network

- vertically integrated corporations that unite with one owner and under common control the most important areas in the production of the final product. In particular, in the oil industry, crude oil is often produced in one country, refining in another, and sales of final petroleum products in third countries.

- diversified transnational corporations, which include national enterprises with vertical and horizontal integration. A typical example of a corporation of this type is the Swedish corporation Nestle, which has 95% of its production abroad and is engaged in the restaurant business, food production, the sale of cosmetics, wine, etc. The number of such companies in recent years is growing rapidly.

Practically in all industrial sectors, where R & D costs are high and capital-intensive production is present (chemical industry, automotive industry) and a large number of intermediate goods in the form of components and semi-finished products (consumer electronics, pharmaceuticals), there is internalization. Progressive FDI agencies (for example, Taiwan and Singapore's investment development departments) put together an aspect of the high costs of R & D and transnationalization (FDI) potential: if there is an alternative, they prefer those TNCs that spend most of the turnover on R & D. This attitude is also used to attract new TNCs to the development of specific industrial sectors.

Analysis of the activities of TNCs and theories of foreign direct investment allows us to identify the following main sources of effective activity of TNCs (compared to purely national companies):

- taking advantage of the ownership of natural resources (or access to them), capital and knowledge, especially the results of research and development, to firms operating in one country and meeting their needs for foreign resources only through export-import transactions;

- the possibility of optimal location of their enterprises in different countries, taking into account the size of their domestic market, economic growth, prices and qualifications of labor, prices and availability of other economic resources, infrastructure development, as well as political and legal factors, among which the most important is political stability

- the possibility of accumulating capital within the entire system of TNCs, including borrowed funds in the countries where foreign branches are located, and applying it in the most advantageous for the company circumstances and locations.

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In numerous studies on the phenomenon of mergers / acquisitions, various motives pursued by companies are cited. However, most of the works are fragmentary in nature and suffer from a lack of a system, which leads to repetitions and vagueness of clear boundaries between individual motifs. This paper proposes an original approach to structuring motives that allows participants in mergers / acquisitions to more fully analyze the main areas in which it is theoretically possible to achieve a positive, including synergistic, effect from mergers / acquisitions.

Foreign investment plays a special role among the forms of international capital movement. When commodity production moves from the world market stage to the world economy stage, there is an international movement not only of the goods, but also of the factors of its production, first of all, capital in the form of direct investments. The characteristic features of the world economy — the totality of national economies of the countries of the world interconnected by mobile factors of production — are the development of the international movement of factors of production, primarily in the form of the export of capital; the growth on this basis of international forms of production in enterprises located in several countries, primarily within the framework of transnational corporations. In modern conditions, host countries, both developed and developing, tend to favor the activities of transnational corporations on their territory. Moreover, in the world there is competition between countries to attract foreign direct investment, during which transnational corporations receive tax credits and other benefits.

It should be noted that developing countries and countries with economies in transition, yielding to industrially developed countries in terms of economic development, socio-economic stability and other parameters, tend to attract foreign investment by creating a preferential business regime for foreign investors. Often, attempts to more fully realize the benefits of the use of international investments and at the same time protect national interests in practice through the use of industrial policy measures. However, in the context of the liberalization of the international capital market and the strengthening of the role of the global institutions governing it, such

measures are often limited. Thus, the Agreement on Trade Aspects of Investment Measures (TRIMs), signed by WTO member countries, expressly prohibits the use of state industrial policy in relation to foreign investors [3].

This clearly shows the divergence of interests of global players and developing countries. The first, having undoubted advantages in the competitive potential, seek to further liberalize the capital market, expand their economic activities by penetrating emerging markets; these goals are often implemented through influential international organizations. Quite illustrative in this regard is the remark of the Business Week magazine, which, commenting on IMF criticism J. Stiglitz, writes that this organization actually switched from realizing global economic interests to realizing the interests of the global capital market. The latter are trying to solve the urgent tasks of ensuring sustainable growth and to counter the negative effects of globalization, sometimes exceeding in scale the adaptive capacities of national economies [4. p 83].

When choosing a country, transnational corporations evaluate investment conditions according to the following main criteria: assessment of the local market in terms of its capacity, availability of resources, location, etc., political stability in the country, legal conditions of foreign investments, taxation system, nature of trade policy, degree infrastructure development, protection of intellectual property, state regulation of the economy, cheap labor and its level of qualification, stability of the national currency, the repatriation of profits. However, in addition to the benefits, there are a number of problems associated with the activities of transnational corporations in the receiving and exporting country. Table 1 shows the most typical pros and cons for the host country and for the country exporting capital. The most common misconception about the consequences of the activities of transnational corporations is the opinion that as a result of international operations of transnational corporations, one country necessarily gains and the other suffers a loss. In real life, such situations cannot be ruled out, but there are other results: both sides may be the winner (or the loser).

Table 1. ¹ Benefits and problems associated with the activities of transnational corporations

	Host Country (PS)	Capital Export Country
Benefit	To obtain additional resources (capital, technology, managerial experience, skilled labor); stimulating the development of the national economy, increasing the	foreign investments are more efficient than similar domestic ones;

¹ Designed by the author

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	volume of the product and income, accelerating economic growth and development; receipt of taxes from the activities of TNCs;	
Problems	PS representatives are not allowed to participate in R & D; enhanced exploitation and establishment of external control by TNCs; TNCs can manipulate prices to avoid taxes	government regulation of foreign investment: a ban on investment in certain industries, special investment conditions (use of local semi-finished products, training of local personnel, conducting research and development in the host country, expanding exports of products), losses in the trade balance; investment confiscation risk

In addition, host countries tend to believe that profits generated by transnational corporations are excessively high.

Receiving taxes from transnational corporations, they are convinced that they could receive much more if transnational corporations did not declare their profits in countries with a low level of taxation.

Thus, companies with an international character are largely independent of the development of the situation in individual countries, and the success of transnational corporations do little to help the national economy. Currently, in the framework of the global strategy of TNCs, the factors of labor and technology intensity are more and more combined.

Usually, international corporations locate the production of traditional consumer goods (say, textiles) in less developed countries, where it is possible to impose high technology on cheap labor, which greatly increases their profits. Industries that require economies of scale (eg, automotive), TNCs are most often located in countries with an average level of development, and such structures are often needed for international integration. Knowledge-intensive industries (electronics, aircraft, etc.) are concentrated mainly in industrialized countries, but their location also changes. Thus, the US research base attracts many non-US transnational entities, and they often seek to build their research units in this country. The shifts described above are by no means well thought out and organized and do not flow smoothly at all. In an era of tough international competition, placing or changing the place of business of TNCs in various parts of the world is probabilistic in nature. Often there is a sudden cessation of production in one country and the creation of a new, more efficient venture in another. Often, competitors are beginning to produce and market the same products at different prices, but with some modifications and improvements. The speed of action, elements of surprise and new forms of entrepreneurship like a "lean company" (it does research and development, organizes production, transportation and sale from its

small center, but attracts a large number of independent structures to cooperation, thus saving on investment) important role in the activities of the most advanced TNCs. Traditional corporations are also forced to restructure and view it as a key component of their strategy. This can increase the efficiency of individual transnational entities, but it can bring chaos into the world economy, increase the number of unemployed and the number of companies that are going bankrupt, the capacity and volume of products produced, and these processes will go much faster than before.

Today, there are about 50.2 thousand TNCs worldwide, with 495 thousand foreign affiliates. About half of the world industrial production and over 2/3 of foreign trade is accounted for by TNCs. They control about 80% of patents and licenses for inventions, new technologies and know-how. [13]

It is estimated that the export of foreign affiliates of TNCs accounts for about one third of the global exports of goods and services, and the number of people they work all over the world is about 77 million people who annually produce more than \$ 1 trillion worth of products.

The picture of modern international economic life is created, first of all, by those companies that not only actively trade with foreign countries, but also actively invest there. In the total volume of export of capital, the role and share of the export of state capital is increasing (about 25%). Among the total volume of exported capital to developing countries, 90% is state capital, and to Eastern Europe and the CIS countries - 35%. More than 50% of the migrating capital in the world economy belongs to private entities (corporations, TNCs, banks, investment, pension, insurance funds, etc.). In recent decades, there has been a tendency to reduce the share of banks from 50 to 25% and a simultaneous increase in the share of TNK capital. The volume of private capital migrating between industrialized countries is growing (about 75%). The number of international mergers and acquisitions of firms is growing (about 79% of the total foreign direct investment). There has been a shift

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in the sectoral structure of foreign investment from the manufacturing industry and trade to investment in knowledge-intensive industries and services (more than 55%)[2].

According to the Fortune Global 500, the total revenue of the 500 largest companies in the world in 2017 reached 30 trillion dollars, total profit increased to 1.9 trillion dollars. Geographically, enterprises are located in 33 countries of the world, employing 67.7 million people.

Also speaking about the role of TNCs and foreign investments, their geography, it is important to track the rating of the countries with the most favorable conditions for doing business - this is the Doing Business rating (2018), compiled by experts from the World Bank and the International Finance Corporation based on an analysis of law enforcement practices regarding private enterprises in 190 countries [14]. 10 indicators compile the rating.

We have analyzed the practice of the participation of the world's largest transnational corporations in the internal and external economic activities of Uzbekistan.

Over the 27 years of independence, a network of joint ventures has been created on the economic map of Uzbekistan, which is the result of the optimal investment policy of the state. This allowed the country's economy to integrate into the world system.

In the Doing Business ranking for 2018 published by the World Bank, Uzbekistan ranked 76th. The country has lost two positions compared to last year's rating, in which it was ranked 74th. Country indicators have slightly improved in almost all parameters, except for obtaining loans and enforcing contracts. The largest change was recorded in international trade (+ 5.48%), the smallest - in obtaining building permits (+ 0.19%).

The country pays special attention to cooperation with the world's largest transnational corporations, which are actively involved in setting up enterprises and introducing modern technologies into production facilities. The major investors in the Republic of Uzbekistan include such transnational corporations as British American Tobacco, a leader in the tobacco industry, which has invested 233 million dollars, which in turn are aimed at modernizing the tobacco industry, with production capacity from 7 billion cigarettes to 25 billion cigarettes per year. Newmont Mining is a leader in the mining industry, participating in the joint venture Zaravshan-Newmont project, this project is estimated at \$ 225 million and productivity of 13.8 million tons of ore per year. The company is an employer for more than 85,000 people all over the world, of which 1,734 workers have provided jobs for residents of the Republic of Uzbekistan who serve in the joint venture Uz British American Tobacco. Today, British American Tobacco is undoubtedly the leader of the tobacco industry in Uzbekistan with an average of 64.8% of

the market share and is among the largest investors in the economy of our country, along with this, the company is one of the largest taxpayers in Uzbekistan.

Nestle is a world leader in the field of food industry, having invested more than 30 million dollars in the country's economy, having created a large production facility of the joint venture Nestle Uzbekistan in the city of Namangan. The plant works on local raw materials (milk), for the reception of which 29 points were organized, where the strictest quality control was established. Consistently, the company intends to further invest about \$ 9.5 million in expanding efficient production, as well as \$ 5 million in building technological lines for the production of Maggi noodles and ice cream. The capabilities of this enterprise, by the way, the only one in Central Asia, allows not only to meet the needs of the domestic market with products of this company that are of high quality, excellent taste, packaging aesthetics and relative cheapness, but also deliver products abroad, in particular to Kazakhstan, Azerbaijan, Kyrgyzstan, Turkmenistan and others, which also provides the domestic budget with foreign exchange earnings.

Until 2008, the largest automobile manufacturer in the world for 77 years. Production is established in 35 countries, sales in 192 countries. The annual turnover is \$166.5 billion (December 2017), the net profit is \$19.322 billion. The company's headquarters is located in Detroit (USA).

On October 8, 2007, an agreement was signed in the Republic of Uzbekistan on establishment of an enterprise with foreign investment in the form of a closed joint-stock company General Motors Uzbekistan with an authorized capital as of the registration date in the amount equivalent to \$266.7 million, based on UzDaewooAuto, CJSC.

Productive capacity: GM Uzbekistan JSC, Asaka, 250 thousand automobiles; GM Uzbekistan JSC's branch in Pitnak city - 40 thousand automobiles; GM Uzbekistan JSC's branch in Tashkent city - 10 thousand automobiles.

The number of staff of JSC "GM Uzbekistan" on July 1, 2017. is over 10,000 people. The main sales markets are Russia, Kazakhstan, Ukraine, India and other CIS countries [15].

"Case Corporation" - delivery of agricultural products and equipment to the country; "Marubeni" and "Kanebo Silk" - are involved in the textile industry. "Samsung" - delivers modern high-quality household appliances to the country; Koch is a co-production of buses and trucks, Oxus Mineral Resources is involved in the mining industry; Mitsui is also in this area; Salamander is a co-production of footwear, Hobas Engineering AG is a recently created joint venture Hobas Taro "manufactures glass fiber reinforced polyester pipes in the country.

Huawei Technologies Co. Ltd. - one of the largest Chinese companies in the field of

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telecommunications. It was founded by the former engineer of the People's Liberation Army of China Zhen Zhenfei in 1987.

Huawei has been present in Uzbekistan for over 14 years. She started her business in Uzbekistan with a small office with a staff of less than 10 people.

Today, 180 thousand Huawei employees around the world strive to create the most favorable conditions for operators, enterprises and end users, providing them with competitive solutions and services. Huawei's sales in 2017 amounted to \$ 92.5 billion, and the company ranked 68th on the Interbrand list (which determines the rating of top brands) [16].

Conclusion

Huawei has a subsidiary with more than 150 employees, 80% of which are citizens of Uzbekistan. Moreover, since 2012, Tashkent has been designated as a regional headquarters in charge of the countries of Central Asia and the Caucasus.

Thanks to the friendly good-neighborly relations between China and Uzbekistan, as well as the support and assistance of the Government of Uzbekistan, Huawei is an important partner of the leading telecommunications operators in Uzbekistan. Currently, Huawei provides equipment and service solutions to national operators Uztelecom, Unitel, Ucell, Perfectum Mobile and East Telecom.

The company is a long-term investor in the field of information and communication technologies. Huawei is investing in Uzbekistan, being confident in the economic prospects of this country. The Uzbek market plays an important role in Central Asia and the potential for developing the telecommunications market is enormous. Huawei is ready to contribute to the development of private entrepreneurship, the creation of new jobs, the provision of enterprises and residents of Uzbekistan with the most modern communication technologies.

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