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**„The International and European legal aspects of Transnational Corporations'  
activities“**

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## **Abstrakt**

Die Haltung transnationaler Konzerne hat heute einen massiven Einfluss auf die zunehmende Globalisierung des internationalen Geschäfts, in der wissenschaftliche Erkenntnisse eine wichtige Rolle spielen. Als das Hauptmodell moderner Unternehmen gelten die transnationalen Unternehmen als wesentlicher Bestandteil der nationalen Gesamtmacht und spielen eine wichtige Rolle bei der weiteren Belebung der Weltwirtschaft in der Zeit der wirtschaftlichen Globalisierung. Die Arbeit analysiert die Entwicklung und die verschiedenen Modifikationsformen transnationaler Konzerne sowie deren wichtige Einflüsse auf das wirtschaftliche, soziale und kulturelle Leben in den Ländern mit unterschiedlichem Lebensstandard. Die Diskussion wird die historische Entwicklung transnationaler Unternehmen mit den wesentlichen Meilensteinen ihrer Entwicklung behandeln; wird die Definition, das Konzept und ihre sich verändernden Machtfähigkeiten sowie ihre positiven und negativen Auswirkungen auf Nationalstaaten, internationale Beziehungen und verschiedene ausländische Organisationen geben.

## **Abstract**

The attitudes of transnational corporations today have a massive impact on the increasing globalization of international business, where scientific knowledge is an important element. As the main model of modern undertakings, the transnational corporations are considered the essential part of overall national power and play an important role in further stimulation of global economy in the economic globalization period. The thesis will analyze the development and different modification forms of Transnational Corporations, as well as their important influences on the economic, social and cultural life in the countries with different living standards. The discussion will cover the historical evolution of transnational corporations with the essential milestones of their development; will give the definition, concept and their changing power capabilities, as well as their positive and negative impacts on nation states, international relations and different foreign organizations.

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## List of abbreviations.

BRI	The Belt and Road Initiative
CE	Chief Executive
COPA-COGECA	Omite of organisations professionnelles agricoles- Comité général de la cooperation agricole de l'Union européenne
EC	European Commission
EEA	Single European Act
EEC	European Economic Community
EP	European Parliament
ERT	European Roundtable of Industrialists
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ILO	International Labor Organization
IMF	International Monetary Fund
MNC	Multinational Corporation
OECD	The Organization for Economic Co-operation and Development
PI	Portfolio Investment
RAS	Rien à signaler
R&D	Research and Development
TNB	Transnational Bank
TNC	Transnational Corporation
UN	The United Nations
UNCTAD	United Nations Conference on Trade and Development
US	The United States
PJSC	Public Joint-Stock Corporation
WWF	World Wildlife Fund

## **Introduction.**

The importance of this paper is connected with the fact that the rapidly developing process of globalization is characteristic for the modern world economy and in this process, Transnational corporations (TNC) act as the main driving force through which the Transnational banks (TNB) connected with them pass financial and commodity flows that determine the development of the world economy. In recent decades, they are given much attention. Today, there is not a single significant process in the world economy that would take place without the involvement of TNCs. They are the main force shaping, the modern and future shape of the world and take a direct and indirect part in the political process of the world and different countries. The rapid development of international corporations reflects the aggravation of international competition and the deepening of the international division of labor. TNCs appear as the direct participants in the entire spectrum of global economic ties, as "locomotives" of the world economy. International corporations are a product of rapidly developing international economic relations, and on the other hand, they themselves represent a powerful mechanism for influencing them. International TNCs not only form new relations, but at the same time modify the existing forms having an active influence on the international economic relations. TNCs are the giant monopolies that carry out production, research, trade, financial activities in the world capitalist market.

TNCs transformed the world economy into international production, ensured the development of scientific and technical progress in all its areas: technical level and quality of products, production efficiency, improvement of forms of management, management of enterprises. They operate through their subsidiaries and branches in dozens of countries around the world in a single scientific production and financial strategy, formed in their "brain trusts", have a huge scientific and production and market potential, which ensures a high dynamism of development.

Currently, anti-globalization movement is growing, which counteracts the development of global processes in the world. The opposition demands a reassessment of the political and economic development of the modern world, advocates the ability to integrate the human and social dimension in the process of globalization, ensure the right of all peoples to a decent life, a cultural and civilized identity. In developing and transforming countries, fears are growing that a change in the role of international organizations in the context of the "new architecture of the world economic and financial system" will strengthen interventions in national economies, for now the intervention in national economies in providing assistance is not limited to macroeconomics. At the same time, the requirements for implementing structural reforms are being put forward. For example, International Monetary Fund (IMF) used to limit its goals to quantitative goals (budget cuts, etc.),

but now they are complemented by qualitative (structural reforms, adoption of new laws and the abolition of others, including constitutional ones, that do not facilitate the country's integration into the global economy).

The purpose of this work is to analyze the methodological aspects of determining the legal quintessence of the TNCs and to study TNCs as a subject of the world economic process, which determine their role in the world economy. In the first chapter, I will give the explanation and definition of TNCs, as well as about the structure and types. Foreign Direct Investment (FDI) as an essential part of international capital migration has the close relations with the development of TNCs and it will be widely discussed in this chapter.

The next chapter will be about the historical evolution of international trade and TNCs will be clarified in details. In order to understand the historical growth and development of today's giant corporations it is necessary to learn about the roots of the first multinationals and the ancestors. Although, I will try to analyze this evolution period from ancient Greece since today, but in general these periods will be divided in 2 subchapter: the period until Second World War and the period since 1945 to present.

In the third chapter, I will try to answer the question what is the globalization, including the main causes and directions of globalization and the role of TNCs in this context. As above mentioned, it is undeniable fact that, TNCs possess strong power to influence to the economic and political relations, therefore, it is necessary to determine the positive and negative aspects of this influence. The other main object in this chapter will be to study the role of TNCs in the economies of developed countries and to analyze the impact of TNCs on economic development on the example of developing countries.

The systematic way in which TNCs, through bodies like the European Roundtable of Industrialists (ERT), have been instrumental in completely shifting the emphasis of European Union (EU) policies will be the main discussion points in the next chapter. For this purpose, I will try analyze the concept of lobby, lobbying interests of TNCs and stages of lobbying at the EU level. In addition, European Parliament (EP) and European Commission (EC) as a regulator of lobbyists' activities and the post-Lisbon phase will be clarified in this chapter.

The last - fifth chapter we will be about the main characteristics of the activities of Public Joint-Stock Corporation (PJSC) "LUKOIL" and analysis and prospects for the activities of company in conditions of the introduction of several sanctions.

# **1. Definition and Theoretical context.**

## **1.1. Definition of Transnational corporation.**

In scientific economic literature, there is no single concept or clear definition of a transnational corporation. Corporations are called multinational, transnational, planetary, global, world, international, supranational, international, etc. Such a diversity of terms is partly due to the fact that in analyzing the activities of corporations for their characteristics, various criteria of both quantitative and qualitative order are used. Each author identifies a particular feature or characteristics, which he considers most distinctive and important. For the definition of TNCs, the proposed classifications take into account the number of countries in which corporations have their branches, the turnover of branches in the total sales of the corporation as a whole, the nationality of capital, etc.

The absence of a generally accepted definition of TNCs is very beneficial for corporations in practical terms. These corporations are not only "multinational," but also "multifaceted". The variety of their specifics is enormous. Using differences in national legislation, bypassing maneuvers where they cannot achieve their goals in an open way, masking branches for multinational enterprises, leaving responsibility, TNCs feel very confident. This situation is explained by the fact that, in the absence of a formal definition and agreed selection criteria from a legal point of view, there are many disputable questions about which firms are classified as transnational, since this title is not registered and is not legally protected. Therefore, the problem of the scientific definition of TNCs is not only an academic aspect, but also the great practical importance. Since its inception, TNCs have acted as economic organizations and most approaches and definitions, especially in the early stages, were purely economic. The economic definition emphasizes the ability of owners and their managerial agents in one country to control the operations in foreign countries. There is frequent confusion that equates the ability to control with the flow of capital across national borders. Since Hymer's thesis<sup>1</sup>, it is widely recognized that capital flow is not the distinguishing characteristic of Multinational corporations (MNC).

In particular, many approaches have been developed in the theory of law, one of which is the identification of quantitative and qualitative criteria. Identification of such parameters as a certain share of foreign assets of transnational corporations, sales volumes and the share of profits (losses) received abroad, the number of units located abroad and workers employed by them, expresses the essence of the use of quantitative criteria by authors in the definition of TNCs. One of them is

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<sup>1</sup>Stephen Herbert Hymer, PhD dissertation, *The International Operations of National Firms: A Study of Direct Foreign Investment* (Department of Economics from Massachusetts Institute of Technology 1976).

McDonald J.C., who believes that if 20% of the corporation's capital is invested in foreign enterprises, then it can already be considered not international, but transnational, since ostensibly when this level is reached, a critical turn in management from the prevailing national orientation to global orientation<sup>2</sup>.

Along with quantitative, the application of qualitative criteria is on increase. In their qualitative criteria approach, authors refer to the form of ownership, the place of registration, the distribution of assets and liabilities, the structure of the enterprise, management and control, the degree of concentration, etc. In particular, Detlev F. Vagts, one of the authors of the exclusively qualitative criterion, became one who argues that the TNC is made up of international facilities that extend beyond national jurisdictions in terms of economic resources and responsibility<sup>3</sup>.

TNCs are incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates. A parent enterprise is defined as an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity capital stake<sup>4</sup>.

A TNC is a firm, a corporation, a company that carries out the bulk of its operations outside the country in which it is registered, most often in several countries with a network of branches, subsidiaries, enterprises. TNC is the largest corporation, whose headquarters are based, as a rule, in North America, Europe, Japan or Australia, and branches and subsidiaries - all over the world. Today, TNC-diversified companies, unprecedented in terms of economic intellectual power<sup>5</sup>.

The rapid growth of FDI, the emergence of a technological division of labor beyond firms, industries and national boundaries is accompanied by the emergence of giant international research and production complexes with branches in different countries and on different continents. TNCs turn the world economy into an international production, providing acceleration of scientific and technical progress in all its directions - technical level and quality of products, production efficiency, improvement of management forms, management of enterprises. Thus, TNCs are such corporations whose production and sales activities are carried out outside the national state, actively using the objective tendencies of the international division of labor and strengthening the processes of internationalization of the world, contributing to the establishment of new schemes in the world division of labor. TNCs own or control the production or service complexes located outside the

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<sup>2</sup>J.C. McDonald and H. Parker, *Creating a Strategy for International Growth* (International Enterprise. N.Y. 1962) 17-19.

<sup>3</sup>Detlev Frederick Vagts, *The Multinational Enterprise: A New Challenge for Transnational Law* (Harvard Law Review, 1970) 739-40.

<sup>4</sup>"TNC", United Nations Conference on Trade and Development (UNCTAD), [http://unctad.org/en/Pages/DIAE/Transnational-corporations-\(TNC\).aspx](http://unctad.org/en/Pages/DIAE/Transnational-corporations-(TNC).aspx) accessed 8 July 2018.

<sup>5</sup>Boris Raizberg, Leonid Lozovsky, Elena Starodubtseva, *Modern Economic Dictionary* (6th edn, Moscow, INFRA-M 2011).



country in which these corporations are based, having an extensive network of branches and offices in different countries and occupying a leading position in the production and sale of a particular commodity. The following basic qualitative characteristics of TNCs are distinguished for the definition of TNCs:

- the company sells its products in more than one country;
- its enterprises and branches are located in two or more countries;
- its owners are residents of different countries.

It is enough for a firm to have at least one of the listed characteristics in order to fall into the category of transnational corporations. Some large companies have all these three features at the same time. The United Nations (UN) initially, in the 1960s, referred to TNCs as firms with an annual turnover of more than \$ 100 million and with branches in at least six countries. Later, less stringent criteria were applied. Now the UN considers transnational those corporations that have the following formal characteristics:

- they have production cells in at least two countries;
- they pursue a coherent economic policy under centralized leadership;
- its production cells actively interact with each other - they exchange resources and responsibility.

Some economists divide all TNCs according to the nationality criterion into 2 subgroups:

- actually transnational corporations - national firms, whose activities "splash out" beyond the borders of the country where their headquarters are located;
- multinational firms - associations of national business organizations of different states.

In terms of scale, all TNCs are divided into large and small. The conditional principle is the amount of annual turnover. If small TNCs have on average 3-4 foreign branches, then large TNCs have their number measured in tens or even hundreds.

Thus, summing up the above, we can say that, although much work has been done to determine TNCs, nevertheless the problem of the definition itself remains. I believe that, it is connected with the fact that, first, it is necessary to divide the concepts of "multinational" and "transnational" corporation. MNCs are such corporations that carry out certain activities in other countries, but it does not have a qualitatively great influence on industrialization and other processes, primarily political and economic processes taking place in these countries. On the other hand TNCs which have invested in foreign operations, have a central corporate facility and give decision-making,

R&D<sup>6</sup> and marketing powers to each individual foreign market. TNCs are such enterprises, whose activities are supranational, supra-state in nature and lead to the creation and management of ties standing over states, has a very active influence on the processes taking place in other countries. Contrary to MNCs, TNCs are known for the fact that there is no centralized office in a certain country. MNCs, in their turn, have headquarters in a single country, however, the main activity of these companies take place in several countries, continents<sup>7</sup>. In my opinion, the activities of TNCs, their management and interests are not due to internal, but to external factors, and the activity itself is primarily connected with the global capitalist economy.

In terms of concretizing TNCs, the following characteristic can be taken as a basis:

- sufficiently large size of the firm, allowing to use the whole arsenal of means of effective international activity;
- elements of a monopoly position in the market; an international production structure with a developed intra-firm division of labor;
- a significant share of foreign operations in the overall activity, the transnational nature of operations;
- the supremacy of the center in making the strategic decisions and monitoring all links;
- a single global strategy.

## **1.2. Structure and types of Transnational corporation.**

On the organizational structure, TNCs, as a rule, present multi-sectoral concerns. The parent company acts as the operational headquarters of the corporation. Based on a large-scale specialization and cooperation, it implements technical and economic policy and control over the activities of foreign companies and branches.

Recently, the structure of TNCs has undergone significant changes, the main of which are related to the implementation of the so-called integrated strategy. The strategy of TNCs is based on a global approach and provides the optimization of the result not for each individual link, but for unification as a whole. A comprehensive strategy is to decentralize the management of an international concern and significantly increase the role of regional management structures. Such a policy became possible thanks to advances in communication and information technology, the development of national and international data banks, and ubiquitous computerization. It allows TNCs to coordinate

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<sup>6</sup> Research and development (R&D, R+D, or R'n'D), also known in Europe as research and technological development (RTD), refers to innovative activities undertaken by corporations or governments in developing new services or products, or improving existing services or products.

<sup>7</sup> 'MNC', *Encyclopaedia Britannica* <<http://www.britannica.com/EBchecked/topic/397067/multinational-corporation-MNC>> accessed 8 July 2018.

the production and financial activity of foreign branches and subsidiaries. Comprehensive integration within TNCs also requires an integrated organizational structure and the creation of regional management systems and organization of production is reflection of this integration. Regional management systems are divided into three main types:

- the main regional departments responsible for the all activities of the concern in the relevant region. They have all the rights to coordinate and control the activities of all branches in the respective region (for example, the main regional office of the American concern General Motors to coordinate the activities of branches in Asia and Oceania is located in Singapore);
- the regional production departments, coordinating the activities of enterprises along the line of product movement, i.e. corresponding to the production chain. Such departments are responsible for ensuring the effective operation of the relevant enterprises, as well as, the smooth functioning of the entire technological chain and are subordinated directly by the main regional management of the concern. They are aimed at developing efficient types of productions, new models and products (for example, the corporation "Hewlett-Packard");
- the functional regional departments provide specific activities of the concern: sales, supply, customer service after the sale of goods, R&D, etc.

Currently, it is customary to distinguish the following types of TNCs:

- Horizontally integrated corporations with enterprises that produce the majority of products (the network of fast food enterprises);
- Vertically integrated corporations, which unite under one owner and under the unified control of the most important spheres in the production of the final product. In particular, in the oil industry, the extraction of crude oil is often carried out in one country, refining in another, and the sale of final petroleum products in third countries;
- Diversified TNCs, which include national enterprises with vertical and horizontal integration. An example of a corporation of this type is the Swedish "Nestle" corporation, which has 95% of its production abroad and is engaged in restaurant business, food production, cosmetics and wines.

### **1.3. The main reasons for the emergence of Transnational corporations.**

The reasons for the emergence of TNCs are very diverse, but all of them are to a greater or lesser extent related to market imperfection, the existence of restrictions on the development of international trade, strong monopoly power of producers, currency control, transport costs, differences in tax legislation. TNCs have a several advantages. Foreign branches play an extremely

important role in providing access to foreign markets, reducing production costs, increasing profits. All of these ensure the financial sustainability of TNCs and help them to survive during the periods of crises<sup>8</sup>. These advantages are considered as the reasons for emergence and active development of TNCs:

- the opportunity to increase the profitability of the association, which is achieved by overcoming the legal restrictions on entering the foreign market;
- the use of business qualities and market skills of a foreign partner in the domestic market;
- the recruitment and improvement of its own product program;
- the increase of efficiency of use of production capacities;
- the use of financial support from government as well as national authorities;
- the reduction of costs, which is achieved with the expansion of production, avoiding duplication of investments, opening up favorable commodity markets and taking advantage of the international division of labor, the possibility of rapid economic maneuvering allows TNCs to concentrate their production in countries with cheap raw materials and low wages;
- the opportunities to increase the efficiency and enhance competitiveness, which are common to all large industrial firms<sup>9</sup>;
- the additional opportunities to increase efficiency and enhance of their competitiveness by accessing the resources of foreign countries (using cheaper or more skilled labor, raw materials, research capacity, production capacities and financial resources of the host country)<sup>10</sup>;
- the risk reduction, because with TNC, the distribution of losses among participating enterprises is stipulated in advance and reflects their interests and opportunities;
- the ability to extend the life cycle of their technologies and products, dumping them as they become obsolete in foreign affiliates and concentrating the efforts and resources of units in the mother country to develop new technologies and products;
- the proximity to the consumers of the products of the foreign branch of the firm and the possibility to obtain information on the prospects of the markets and the competitive potential of firms in the host country;
- the opportunity to take advantage of the peculiarities of the state, in particular, the tax policy in different countries, the difference in exchange rates (mainly TNCs organize their production in low-tax countries);

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<sup>8</sup>A.I. Mihailushkin, P. Shimko, *The Economy of a transnational company* (Moscow: Higher school 2005) 20.

<sup>9</sup>V.V. Gordeev, *The global economy and the challenges of globalization* (Tutorial 2008) 285.

<sup>10</sup>Mihailushkin, Shimko (n 8) 22.

- the opportunity to overcome barriers to the introduction on the market of a country through export and direct investments<sup>11</sup>.

#### 1.4. Foreign Direct Investment.

An essential part of international capital migration is consist of FDI which we can observe an increase in substantial degree within last years (except 2014 year)<sup>12</sup>. Such a massive increase of FDI in recent decades is related undoubtedly to the emergence and rapid development of TNCs. FDI is a category of cross-border investment made by a resident in one economy (the direct investor) with the purpose of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than the direct investor<sup>13</sup>. Direct investments involve the establishment of a long-term relationship between a direct investor and an enterprise that is the subject of direct investment, as well as play significant role for the investor in the management of this enterprise. The proportion that determines the significance of this role varies by country. In order to ensure the comparability of the statistical accounting of direct investment in the System of National Accounts, in the balance of payments statistics of the IMF and other international organizations with FDI, recognizes any investment of capital (by lending or purchasing shares), if the investor has or receives at least 10% of common shares or votes (for a corporate enterprise) or the corresponding equivalent of ownership (for an unincorporated enterprise). It is important to emphasize that direct investment is not always connected with the direct movement of capital from country to country, at least initially. Often, the parent company receives the funds necessary for the investment of physical capital in the host country in the form of a loan and limits its contribution to the company with the so-called intangible assets - trademark, production and management experience, etc. When an enterprise becomes profitable, it starts to develop by reinvesting profits.

FDI includes the possession of real assets - different plants, factories, enterprises, equipment, transport, the property, precious metals. We can list different factors motivated investors to implement foreign direct investment:

- political factors - not always the leadership of foreign countries lets foreign companies enter the markets of their goods and services. This is due to the development of its own production. However, the foreign investor try to enter the FDI market in various ways, not by direct sales, that is, by export, but by producing their own goods in the specified country.

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<sup>11</sup>ibid 23.

<sup>12</sup>'Foreign Direct Investment statistics', EUROSTAT < [http://ec.europa.eu/eurostat/statistics-explained/index.php?title=Foreign\\_direct\\_investment\\_statistics&oldid=247915#Further\\_Eurostat\\_information](http://ec.europa.eu/eurostat/statistics-explained/index.php?title=Foreign_direct_investment_statistics&oldid=247915#Further_Eurostat_information) > accessed 8 July 2018.

<sup>13</sup>'Benchmark definition of Foreign Direct Investment', OECD (4th edn.) 17  
<<https://www.oecd.org/daf/inv/investmentstatisticsandanalysis/40193734.pdf>> accessed 8 July 2018.

It should be noted that political factors are not always a hindrance to FDI. It happens that foreign direct investment, on the contrary, is attracted by the government of the specified country with the incentive for attracting FDI is various tax benefits, lower taxes and a milder regulatory policy of the state;

- economic factors - the economy of countries also has an impact on FDI and their attraction, for example, we take any production in a small country in which the economy is not developed so much and the investments in production are not enough. What can a company do to raise funds for new developments, patents and in general for progress? Of course, attract FDI and save on own investments in development. In principle, in a similar way business is developing all over the world;
- competitive factors - that determine foreign direct investment can be explicit economic and political benefits. Large companies can afford to invest in poorly developed sectors of countries with weak economies to appear on the market in that country, in other words, to seize market share and accelerate the development of this industry. Also, the competitive factor determining the foreign direct investment is the merger or acquisition of the company in the territory of the specified country. This is done to gain access to technology.

There are several methods of investing. One of the simplest methods is to purchase or merge with a company in the specified country. As a result of FDI, you become the owner, or the founder, shareholder of the purchased company. The next way can be to participate in the increase of fixed capital in another country. An investor can establish joint production with local partners and both founders jointly make investments in production and own them on the right of ownership. Another possibility of FDI is the creation of a coalition or alliance with foreign players. This method of investment serves many purposes - conducting marketing research and events, technology exchange, joint scientific development. The threshold for a FDI that establishes a controlling interest is a minimum 10% ownership stake in a foreign-based company.<sup>14</sup> However, that definition is not definitive, as there are instances where effective controlling interest in a firm can be established with less than 10% of the company's voting shares.<sup>15</sup>

We should also define the difference between Portfolio investment (PI) and FDI, in order not to confuse these concepts. The main and the fundamental difference between PI and FDI is that PI do not allow managing the invested project, but FDI allow. So that, there are 4 detailed differences between them:

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<sup>14</sup>ibid 23.

<sup>15</sup>ibid 23-24.

- the task of investment: for FDI - the control of the company, for PI - the extraction of high profits;
- realization of the task: for FDI - updating of technologies, introduction of production, for PI - purchase of securities of the company;
- ways to achieve: for FDI - the main management and the acquisition of a controlling stake of 25% or more, for PI - no more than 25%, (usually about 10%, in foreign countries), from the share capital;
- receiving income: for FDI - entrepreneurial profit, for PI - dividends, interest.

## **2. Historical evolution of Transnational corporation.**

### **2.1. The period until Second World War.**

The history of the development of TNCs originates from the emergence of the institution of "corporation". The corporation is one of the oldest institutions that appeared in ancient Greece during the period of diadochi<sup>16</sup>. Subsequently, corporations firstly were created in the Roman Empire. Corporations were free societies, united by age and shared property (often referred to as colleges or conventions). Their goals and names were different. Professional activities in corporations usually did not play a key role, the main goals of creating such corporations were joint protection of the interests of members of the corporation, as well as social support, which was expressed in carrying out feasts, regularly distributing charitable benefits and organizing funerals at the expense of the community. Members of corporations addressed each other with the words "friend" or "brother", which shows that the community of interests was replaced by blood ties. The greatest prosperity of the corporation was achieved in the era of Cicero (106-43 BC), when the Roman Empire had the most developed handicraft production and agriculture, as well as trade with other powers. However, with the fall of the Roman Empire, corporations gradually disappeared. The next stage in the development of corporations was the Middle Ages (late 15th and 17th centuries). During this period, with the liberation of cities from seigniorial care and the development of industry and trade, the importance of the corporation has significantly increased. At the heart of medieval corporations was the exact mutual division of the professional duties of all members of the community, the joint ownership of the tools of labor, an effective combination of handicraft and trade activities, and a significant place was given to charitable activities within the community and joint leisure activities. Medieval corporations have become a worthy framework for the newly formed and most significant part of society - the bourgeoisie and artisans, which allowed

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<sup>16</sup>The Diadochi were the rival generals, families and friends of Alexander the Great who fought for control over his empire after his death in 323 BC.

corporations to become the basis of the commune. It was in the Middle Ages that the Hanseatic League and the East India Company formed, which served as a prototype for modern MNCs. At the end of the 14th - beginning of the 15th century, there was a merger of merchants in the basins of the Northern and Baltic Seas to the Hanseatic League, which became an example of a genuine foreign trade monopoly. The guild of merchants took control of most of the domestic and foreign trade. For a long time, German cities located in the southern maritime territories of the German and Baltic Seas have been trading for long distances - with the cities of the North and West coasts of France, England, Norway, Denmark, Sweden, and Russia. The more sea trade extended over long distances, the more it needed protection, security and freedom. The predecessors of the Hanseatic Organization sought to obtain a number of privileges in the states: exemption from land and land law, the protection of their stores, etc. Guilds of merchants joined and sought to obtain such rights, created a system of mutual protection against piracy. So the Hanseatic Union began to take shape. In the 13th century, it included 8-9 cities, by the end of the 13th century it had 23 cities. Many cities aspired to become members of this Union. Important milestones in the history of the Hanseatic Union were the conclusion of a union of such large cities as Hamburg and Lübeck in 1241 and the union of Lübeck with the coastal towns of Vendian, which soon joined the cities of Pomerania and Brandenburg (1285). For its part, Hamburg has merged with the Rhine alliance of cities. By the middle of the XIV century, the Hanseatic Union includes from 70 to 100 cities. In 1377, the Union receives privileges in England and opens in London a trading post *Stahlhof*, which had its own berths and warehouses. The members were freed from most of the fees, had their own court and other benefits. In 1397, the Union monopoly extended to all Scandinavian countries.

Another example of a large monopolistic trading company is the Dutch and British East India Company that emerged in the early 17th century. The United Dutch East India Company was established in 1602 with the direct assistance of the Dutch government, which sought to unite the activities of small entrepreneurs who traded with India, which had just arisen but already competing with each other. The main purpose of the founding of the Dutch company was to consolidate the monopoly of trade in Indian goods for a single enterprise and the prohibition of routes to India for the rest. She was guaranteed a monopoly right to trade east of the Cape of Good Hope and to the west of the Magellan Strait and the right to conduct "defensive" wars, conclude treaties and alliances, build forts. The monopoly of the company was periodically renewed until its liquidation in 1798. A characteristic feature of the Dutch East India Company was the motley composition of the depositors of capital - from emigrants from the Southern Netherlands to the British, Germans, Jews. Despite the formally democratic structure and a large number of shareholders, the company's management was carried out autocratically. The company consisted of independent chambers - the



Dutch, Delft, Rotterdam, Horn, Enkhuizens, who were subordinate to the board of seventeen masters. From the beginning to the end of its existence, the United Dutch Company outperformed its competitors in terms of commercial operations, the tonnage of the European and regional fleet, its geographical coverage and the first achieved demonstrative success. By the middle of the 17th century, the company captured such possessions as Jakarta (1619), displaced the Portuguese from the island of Ceylon (1658), Cape of Good Hope (1652), seized trade with China and Japan, settled in Taiwan. As a result, the Dutch East India Company became a major political and military force, which largely led to a change in the nature of the company itself. The main source of income was no longer trade, but compulsory taxes and levies with the extensive use of the power apparatus. In contrast to the Dutch East India Company, the British East India Company began with a simple desire to establish factories for its agents and warehouse items for its goods. In order to create its own fortresses and warehouses, it built several forts, although from 1689 the East India Company was planning to establish territorial ownership in India and make revenues from the acquired territories one of the sources of its profits, however, until 1744, it acquired only a few minor regions around Bombay, Madras and Calcutta<sup>17</sup>. Only by the middle of the 18th century, the British East India Company circumvented its Dutch rival in terms of political influence and the number of personnel due to the gradual expansion of government and administrative functions in the captured territories. The Dutch and the English constantly fought each other. Especially severe was the competition in the field of spice trade, which bore the largest percentage of profits. The attempt to introduce a monopoly on the trading operations of spices inevitably led to an aggravation between them. In 1619, there was even a military clash on the islands of the Moluccan archipelago. The United Dutch East India Company ceded 1/3 to the English trade of spices in the Moluccas, Ambon Island and the Banda Islands and half the pepper trade in Java. An agreement was reached with the British company regarding the factories on the Indian coast. Overcoming resistance from the Dutch East India Company, the British managed to create a network of trading stations from the Persian Gulf to the China Sea. The company had in India Bengali, Calcutta and Bombay branches, which were merged in 1773 and one of branches was in China. Each branch had its own administrative apparatus and its army. Demonstration of military force the British combined with diplomatic efforts. Originally, the capital of the British East India Company, organized in 1600, was considerably inferior to the Dutch one. But the British East India Company had a more compact and simple organizational structure, it was formed as a joint-stock company on the principle of "merged capital" as a result of the merger of several competing firms. Between 1600 and 1630 years, 2.9 million pounds were collected among 1318 contributors. Not having at first such opportunities as the Dutch company, the British used mainly means of economic penetration into India. Thus, the

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<sup>17</sup>Karl Marx, *The East India Company-Its history and results* (New-York Daily Tribune July 11, 1853).

embassy delegations with gifts, bribes and services, the company, having first secured the right to establish trading stations in India, then lowering fees, finally got complete freedom from them for a one-time contribution to the treasury of the Great Mongol. Later, for an appropriate fee, the company granted the right to conduct duty-free trade under the English flag to local merchants. Thus, the company gradually pulled into the orbit of its interests local trading and usurious circles. In addition, the company created an extensive network of native intermediaries - "brokers" for the acquisition and sale of goods. By the middle of the 18th century, the English East India Company had become virtually the only contender for colonial domination in India. Because of long wars with competitors and local feudal lords, the company captured vast Indian territories. The main means of enriching was no longer trade, but direct exploitation of Indian lands and the population. In the middle of the 19th century, with the development of the processes of globalization and transnationalization, a new stage in the development of corporations has come, that is the transformation of large companies and trusts into international corporations. An international corporation is a form of structural organization of a large company that carries out direct investments in various countries of the world, the distinguishing feature of which is the exit of their economic activities beyond national borders - transnationalization. Transnationalism economic, political, and cultural processes that extend beyond the boundaries of nation-states. The concept of transnationalism suggests a weakening of the control a nation-state has over its borders, inhabitants, and territory. Increased immigration to developed countries in response to global economic development has resulted in multicultural societies where immigrants are more likely to maintain contact with their culture of origin and less likely to assimilate. Therefore, loyalty to the state may compete equally with allegiance to a culture or religion. With increased global mobility and access to instantaneous worldwide communication technology, boundaries dissolve and the territorial controls imposed by the traditional nation-state become less relevant. However, state definitions of citizenship and nationality and the rules for political participation may become more relevant for transnational groups<sup>18</sup>.

International corporations have gone a long way of evolutionary development, in the course of which the prevailing forms and spheres of activity, intra-corporate structure and strategy have changed. The most complete classification of generations of corporations includes 7 stages:

1. The first stage of TNCs (from the period of their inception at the end of the 19th century to the beginning of the First World War in 1914-1918) was engaged mainly in the development and extraction of raw materials in the colonial countries of Asia, Africa, Latin America, and their

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<sup>18</sup>"Transnationalism', *Encyclopaedia Britannica* <<https://www.britannica.com/topic/transnationalism>> accessed 8 July 2018.

processing in the owner countries colonies. Gold, diamonds and copper are in Africa, tin in Malaya and Bolivia, rubber in Malaya, tea in India, oil in the Middle East. In form, these TNCs were cartels and syndicates. The cartel is a form of monopolistic agreement between firms on regulating the volume of production and sales (quotas) for its participants in order to extract monopoly profits. Such agreements are most often accepted between firms belonging to the same industry. The syndicate is an association of single-industry enterprises for the purpose of selling products through a common channel-a special partnership in the form of a joint-stock company, partnership, limited liability company, and the like-with which all participants in the syndicate sign sales contracts under the same conditions. One of the first multinationals was the Singer Company, founded in 1863, which was engaged in the production of sewing machines. It was the end of the 19th century that became a period of widespread TNCs. The Rockefeller oil company, which originated in the early 20th century, can be considered the prototype of the Civil Code. Already in the 1920s, it began its expansion into the Middle East, where it took several oil fields in concession.

2. The second stage of TNCs developed during the period between the two world wars (1918-1939) and began to engage in the most profitable production of weapons and military equipment to meet the military needs of the leading countries of Europe, America and Japan. In other research, in the period from 1895 to 1904 years, about a thousand small enterprises operating on the market began to unite among themselves, which eventually led to the formation of large companies that dominated the market<sup>19</sup>. These TNCs were formed in the form of trusts involving national firms and enterprises in their structures through mergers and acquisitions, thus creating international corporations for more effective conduct of international business. The trust is a monopolistic form of association of enterprises of a certain industry or several industries, in which the independence of companies is eliminated, both industrial, commercial, as well as legal. By the beginning of the 1940s, the total number of monopolies did not exceed 300.

## **2.2. The period since 1945 to present.**

3. The third stage of TNCs began to emerge after the end of World War II (1945) and especially after the collapse of all empires and their colonial system (1950-1960). TNCs of the third generation were generators and distributors of scientific and technical achievements in the field of the newest branches of science and industry (nuclear energy, electronics, space, instrument engineering, and so on). The main forms of their organization were concerns and conglomerates that sometimes combine into strategic alliances to strengthen their positions in the acute competitive struggle for the markets for their products. A conglomerate is a type of concern that arises from the absorption

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<sup>19</sup>L. S. Shakhovskaya, *World economy and international economic relations* (KnoRus 2013) 87.

of a large number of companies that are not organizationally connected. The difference between a conglomerate and an ordinary concern lies in the large scale of diversification of production and in a larger volume of financial transactions. The conglomerate includes powerful banking structures, with the support of which it is possible to purchase controlling stakes in the interest of industrial and financial companies. As a parent company, a conglomerate may be a concern, a bank or a holding company.

4. The fourth stage of TNCs gradually began to form in the 60-70s of the 20th century in the conditions of the development of accelerated scientific and technological progress and world economic relations under the influence of increasing competition in the world market. It was during this period that the process of mergers and acquisitions accelerated, which contributed to the concentration of capital and production from TNCs, most successfully developing a large international business. International corporations acquire qualitatively new features:

- there is a rejection of a clear sectoral orientation;
- the industrial capital is increasingly intertwined with financial, trade, and with science;
- the processes of unification, standardization of production and R&D are becoming more active.

5. The fifth stage of TNCs appears and begins to develop purposefully in the 80-90s in conditions of accelerating processes of regional economic integration. A new form of international corporations is emerging - global ones. Their qualitative differences from previously considered are as follows:

- the implementation of activities within the framework of the global strategy concept, characterized by innovative aggressiveness and dynamism, abandonment of a one-industry specialization, constant improvement of the internal corporate structure, aiming to win not individual market segments, but key global economic positions in the production and sale of products;
- the coordination of actions of their branches on the basis of network information technologies, adaptability and flexibility of the entire organizational structure of corporations, integration of branches, factories and joint ventures into a single international management network that closely interacts with the global corporations;
- the use of global factors of production (380 largest corporations concentrated in their hands 40% of global capacity and 80% of technological innovations);
- the creation of a system of global international production, located in most countries of the world.

The fifth stage is characterized by a wide spread of mergers and acquisitions, which are due to the emergence of new financial instruments on the international market.

6. The sixth stage (1990s - to the 2009) global corporations act as powerful players in the world market, as well as national states. Global corporations, having mastered the world internet, not only changed the form and efficiency of world markets in recent years, but also its own structure. Modern global corporations are characterized by the following features:

- Forward growth of direct foreign investments in comparison with the level of international trade. The main investors - TNCs have firmly taken center stage in the process of internationalization of the world economy, have become the main mechanism for strengthening economic interdependence between individual states. The average growth rate of FDI for the period from 1999 to 2009 is about 18%<sup>20</sup>. The total volume of accumulated TNC FDI in 2008 was estimated at \$ 16.2 trillion.

- In this years, the trend towards the consolidation of TNCs has intensified, primarily due to the increase in the number of mergers and acquisitions (M&As). This led to qualitative shifts in the development of TNCs. Motives for M&As in TNCs are very different. First, it is the acquisition of synergies due to economies of scale, combining complementary resources, financial savings (due to lower transaction costs), increased market power due to reduced competition (monopoly motive), complementarity in the field of R&D. Secondly, it is an opportunity to enter the unfamiliar market for the company relatively quickly and diversify the risks. Thirdly, the motive for M&A is sometimes the desire to reduce the tax burden, meet the ambitions of management to increase the market capitalization of the company and the like. In 2007, the largest M&A in worth \$ 98 billion was the acquisition of ABN AMRO (Netherlands) by RFS Holdings BV (UK)<sup>21</sup>. In addition, one of the significant features of the functioning of TNCs in the period from the mid - 1990s to 2008 is also the development of strategic alliances. The result of numerous M&As, as well as strategic alliances, is the formation of new TNCs of oligopolistic type.

- Between 1995 and 2008, there was a significant increase of investment in services. International investment in services, especially financial services, continued to grow steadily throughout the period, accounting for the bulk of the world's accumulated FDI. In 2008, the services sector accounted for 60% of the total cost of cross-border M&As, with 1/3 of the cost of cross-border M&As in this sector related to financial services.

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<sup>20</sup> 'World Investment Report', UNCTAD <<http://worldinvestmentreport.unctad.org/world-investment-report-2017/chapter-1-global-investment-prospects-and-trends/>> accessed 8 July 2018.

<sup>21</sup> John Williamson, *Largest Mergers and Acquisitions by Corporations in 2007* (Washington, DC: Congressional Research Service Report 2008).

- Another trend in the activities of modern TNCs is the changes in the regional distribution of FDI. An analysis of the regional distribution of FDI, its scale, growth dynamics reveals the following regularity, if in the mid-1990s, the leading and predominant role belonged to the most developed countries in this process, not only as donors but also as recipients, in recent years developing countries occupy an increasing share in the distribution of FDI. The growth of FDI flows to developing countries was mainly related to the financing of new projects, especially in Asia. Approximately one third of all projects to create new and expand existing enterprises in developing countries have been registered in China and India. The rapid growth of the FDI flow over the past 10 years is due to many factors. The aggravation of competition in many industries makes the company look for new ways to increase competitiveness. Some of the opportunities include expanding operations in fast-growing emerging markets (in the interests of increasing sales), and in rationalizing production (using economies of scale and lowering production costs). The high prices of many commodities serve as an additional incentive for the placement of FDI in countries that are rich in natural resources such as oil and minerals. An increase in FDI flows to Africa is expected due to the attractiveness of the commodity assets of this region. Chinese oil and gas companies are increasingly pursuing a globalization strategy in connection with the growth of domestic demand and are actively penetrating African markets in order to gain access to sources of raw materials. In 2009, the Chinese government issued an almost non-interest-bearing loan to Angola of \$ 1 billion. Of all Chinese investments in Africa, more than 80% is invested in the Nigerian economy, primarily in the oil industry. Chinese state oil companies only received licenses for the development of three oil fields in 2008-2009 and, in addition, purchased Nigerian oil fields from Western companies. So, the Chinese petrochemical corporation "Sinopec" in mid-2009 bought for \$ 7.6 billion oil-producing corporation "Addax" with its headquarters in Switzerland (more than 50% of gas and oil deposits "Addax are concentrated in Nigeria, the rest in Gabon and Iraq, Brazilian companies are also not far behind China. Nigeria, Algeria and Angola are the largest suppliers of oil to Brazil. The key countries for Brazilian investments are the Portuguese-speaking Angola and Mozambique.

- In addition to the marked trends in the activities of TNCs, attention should be paid to the increase of the importance of technology in their competitive struggle among themselves and in the struggle to increase the share of intangible assets, which resulted in increased costs of technology purchase, staff training, and royalty payments and licenses. Competitive advantages of TNCs are increasingly based on the ownership of equipment, and on the ownership of know-how and patents, that is intangible assets.

- Another trend in the activities of TNCs at the present stage is to change their structure (the essence of which is to implement a global approach that provides for optimizing the result not for each

individual link, but for the corporation as a whole, while decentralizing the management of the international company and increasing the role of its regional links).

7. The seventh stage (2009- to the present). Opponents and supporters of transnational companies simultaneously consider them to be some kind of predators standing on top of the food chain in the world economy. These companies form the ecosystems in which other participants of the world economy operate. They direct the flows of goods, services and capital that led to the process of globalization. While TNCs account for only 2% of the world's jobs, they own or manage supply chains, which account for 50% of world trade, they account for 40% of the value of the stock markets of Western countries, also own most of the intellectual property in the world<sup>22</sup>.

At present, TNCs are increasingly beginning to look like victims, predators of which are politicians of different countries trying to get as much production as possible controlled by transnational companies, this includes 80 million jobs in their payrolls and their incomes amounting to about \$ 1 trillion. In 2006, IBM's CEO Sam Palmisano argued that "Globally integrated enterprise", operating as a single organization, and not as federation of national enterprises, will overcome all borders in its aspiration to "integrate production and maximize global value". When anti-globalists actively opposed these processes, although demonstrations of their activists did not have any results. Such a situation in the world economy could not last forever and the increasing body of evidence indicates that this trend is coming to naught. The volume of cross-border investment of global companies in 2016, probably reduced by 10-15%.

Investors saw significant potential from economies of scale. As China, India and the CIS opened their economies, as well as, European countries created a single market and companies were given the opportunity to provide their products to more consumers. And since the federal model of TNCs was replaced by global integration, companies could make the most efficient use of resources from around the world. This phenomenon, which increases the effectiveness of companies, Martin Reeves of the consulting company Boston Consulting Group described as a geographical arbitration. Thus, from developed countries, TNCs received management, capital, brands and technology. In turn, companies from developing countries received cheap labor, raw materials and less strict regulation with respect to environmental pollution. These advantages made investors think that TNCs will grow faster and create higher profits. Up to a certain stage, this was true. However, at present this assumption is no longer true. So that, revenues of 700 largest TNCs from developed countries over the past five years decreased by 25%. The depreciation of many currencies against the dollar is one of the reasons, but this factor accounts for only a third of the fall.

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<sup>22</sup>'The retreat of the global economy', *The economist* (2017) 14

<<https://www.economist.com/briefing/2017/01/28/the-retreat-of-the-global-company>> accessed 8 July 2018.

Revenues of local companies grew by 2%<sup>23</sup>. For companies with headquarters in The Organization for Economic Co-operation and Development (OECD) countries, most of which are developed countries, revenues have declined by 17% in five years. American companies suffered less, the fall in their profits was 12%.

Thus, since the end of the 19th century, corporations have come a long way from the cartels and syndicates of the first stage of TNCs, second stage trusts, third stage concerns and conglomerates to global corporations of the fifth, sixth and seventh stages.

### **3. The role of Transnational corporations in international and European economic relations.**

#### **3.1. The role of Transnational corporations in the context of globalization.**

The activities of TNCs are closely linked to the interests of their states. Most modern states have a strong focus on ensuring a high level of quality and longevity of their citizens, as well as their personal and public security and respect for human rights. At the same time, the state's goal is the well-being of citizens. The state's protection of the interests of the nation presupposes state support for language, culture, concern for the number and territory of the resettlement of the nation. The achievement of the goals of state development takes place in the interaction of countries and forms international relations<sup>24</sup>. At the present stage, direct political control over the territories of other states is impossible, transnational corporations allow states having a technological and economic advantage to gain access to the resources of other countries. In addition, in cases where other states can apply protectionist policies against the goods of an industrialized country, TNCs, placing production abroad, relieve their states of the need to overcome protectionist barriers and thereby retain this market space in the system of international separation labor. TNCs strengthen their state's positions in the territories of other countries, creating enclaves of their property in the form of branches and subsidiaries. History has shown that such a system provides real international influence of the state even in cases when colonial countries receive political independence. In parallel with the consolidation of economic influence, TNCs allow the development of communications, expand the influence of international organizations, including the UN, to improve international law and all forms of international cooperation, including coordination of international space projects.

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<sup>23</sup>ibid 15.

<sup>24</sup>V.A. Mikhailova, V.S. Buyanova, *Globalization and the modern world process* (Moscow: RAGS 2007) 93.



TNCs, with the support of their state, contribute to the achievement of its goals in the field of international relations, primarily economic ones. Having political support of the state, TNCs in its interests involve in economic circulation natural and human resources of other countries. TNCs have a favorable influence on international relations, primarily on the state of international security, as they contribute to the development of interdependence and mutual understanding of various states. The political and economic importance of transnational corporations is so great that in the foreseeable future they will remain one of the important factors for increasing the impact of industrialized countries on many regions of the world. Hence the obvious conclusion that concern for the transformation of leading domestic corporations into TNCs has become a conscious goal of the foreign policy of states seeking to strengthen their influence on an international scale. TNCs understand the need to improve the efficiency of their structures and take appropriate actions. Over the past decade, international manufacturing firms have conducted a thorough review of their structures, and, above all, took measures to reduce the number of employees. Thus, the American corporations "Ford" and "General Motors" in the nineties reduced their bureaucracy. Even Japanese companies, proud of the system of lifelong hiring, are making significant cutbacks, since, in their view, many middle-management employees do not bring real benefits. TNCs, while reducing staff, at the same time pay more attention to its training, seeking to gain significant benefits in carrying out the strategic tasks facing the companies. In order to increase the efficiency of the functioning of international firms improve the entire management system. Recently, many TNCs began to move to the creation of not one but several management centers. For example, Japanese companies "Matsushita" and "Toshiba" have three regional headquarters. Each of these guidelines, while not refusing corporate centralization, at the same time manages its subsidiaries and affiliates, taking into account the specifics of local markets and local consumers.

At present, TNCs have begun to take more account of the specialization of countries in the production of certain high-quality products. For example, Japan is famous for high quality electronics, the United States - good films and computers, Germany has the highest standard in engineering and chemical industry, England - in the field of book publishing and pop music and etc. Realizing this, MNCs start to group their business around such centers, considering this method as the best guarantor of their successful activity in the old markets of the world.

TNCs are paying great attention to entering new markets, among which China is a primary focus. Strive for the Chinese market are seeking all the major companies in the world. To achieve this, TNCs make extensive use of ethnic Chinese, born in the West and educated in Western universities, which help them to establish close contacts with local enterprises.

Thus, by reducing the bureaucracy, improving the management system and advertising activities, deeper mastering old ones and penetrating new foreign markets, TNCs can continue to function effectively. By mobilizing all of its financial resources, technological and design capabilities, they are able to produce a product that meets the needs of the population of different countries of the world. At the same time, they are able to develop several types of products that can be successfully implemented on the world market. But such risk can afford only those TNCs that occupy a leading position in the list of 500 companies published by the American magazine "Fortune 500"<sup>25</sup>.

The main trend of the modern world economy is its globalization, this decisive factor in current international economic relations is noted by many researchers in different countries. One of the widespread opinions of specialists is that we are now moving away from the historical period, which was characterized by the absolutization of the interests of the national economy proper (with the legislative and political framework inherent in each individual state), which was, by the way, quite justified and logical, another stage - a global economy that does not have a single rigid regulatory apparatus<sup>26</sup>. On the one hand, the processes of anarchy are developing (this concerns, first of all, the monetary and financial system), on the other hand, the tendencies towards the oligarchy are growing (this is noticeable in the concentration of industry and finance, the formation of technological alliances between individual firms). As a result of this development, huge corporations that do not know the boundaries are formed. Thus, the emerging global economy of the end of the century cannot provide an effective development base on a global scale without adequate all-planetary legislative and political frameworks.

The last factor - the need to create an all-planetary legislative and political framework, by the way, it is only a reflection of global trends which has caused and still causes conflicting opinions among researchers and politicians. First, their formation will take many years, not to mention the fact that this requires a stable international environment and ensuring security, not only political, but also economic. Secondly, doubts are expressed about the possibility of achieving some concerted action by various countries in the current complex international situation<sup>27</sup>. And most importantly, the very phenomenon of the globalization of the world economy sometimes causes certain concern with its uncontrollability. This is pointed out, in particular, by Jean-Claude Juncker (EC President). He believes that globalization is a source of increased efficiency, significant improvements in the conditions for consumers. Goods, and in general all the factors of production - capital, labor and

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<sup>25</sup>The Fortune 500 is an annual list compiled and published by Fortune magazine that ranks 500 of the largest United State corporations by total revenue for their respective fiscal years <<http://fortune.com/fortune500/>> accessed 8 July 2018.

<sup>26</sup>Bernard Barber, *Constructing the Social System: The absolutization of the market* (Transaction Publishers 1993) 217.

<sup>27</sup>V.M. Koltukov, K.V. Maltsev, *Globalization of the economy* (Moscow: AST 2008) 243.

information are moving more freely, become available to all and at an ever lower price. But in the global economy, competition worsens. Enterprises are in a competitive environment that they have never known before<sup>28</sup>. This, of course, is beneficial to the consumer. But this also means that the desire for efficiency, the constant renewal of production and the distribution network have become extremely urgent. Globalization leads to a revision of a number of habits, beliefs, cultural landmarks. It is necessary to adapt to the new state of things, and this is not easy and causes people's anxiety. And one more problem related to the noted general trend towards globalization of the world economy, which also requires close attention. We are talking about the complex interaction and interaction of two processes: on the one hand, the globalization of markets, and on the other, the formation of regional economic blocs. Is there a contradiction between these two trends? These trends need to be studied and taken into account. Nevertheless, the trend towards globalization is more pronounced. This is a qualitatively different stage leading to the formation of a single global market. This can be judged by many features. For example, one of his symbols compelling for the consumer - a universal payment card. Just one plastic document allows you to make all or almost all calculations in Madrid and Tokyo, Beijing and Davos. The tendencies of globalization are particularly favored by technical factors, for example, the development of communication media, but multinational firms are moving it forward. It covers all sectors of economic life - scientific research, industry, services, finance. But parallel to the world economy is another deep evolution: the formation of regional economic blocs, that is, the process of integration is developing. At the same time, it has a two-sided nature - global and regional. Although globalization and regionalism in the form that they are currently adopting are not incompatible, but this does not mean that there are no contradictions in certain areas.

The strongest impact on the state of TNCs, their subsystems and the interaction of these subsystems is rendered by such diverse global factors as:

- the disintegration of the world socialist system, the emergence of a multitude of new states that did not fully define their policies and did not realize their political, cultural and other national interests;
- political and economic crisis in Eastern Europe;
- growing in some regions into a military-political (Yugoslavia, Transcaucasia, Tajikistan);
- technological revolution; an aggravation of the energy and raw materials and food problems;
- crisis of the world financial and credit system; the aggravation of environmental problems, which affects the entire world economy, national and global productive forces;
- strengthening the interdependence of national economies, their economic policies;

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<sup>28</sup>A.N. Kovtunenکو, *The role of TNCs in the transformation of the economy* (4 edn., 2010) 310.

- leveling, rapprochement of economic levels of development of various countries;
- overcoming inter-system contradictions between countries, manifested in the recognition of competition as the main factor ensuring the balance of intra-economic development;
- strengthening the processes of convergence, based on universal economic, cultural, moral, legal, humanitarian value orientations recognized by the world community at the end of the 20th century.

The speed of action, the elements of surprise and new forms of entrepreneurship are similar to "lean companies" (it carries out scientific research, organizes production, transportation and sale from its small center, but attracts a large number of independent structures to cooperation, thus saving on capital investments) play an important role in the activities of the most advanced TNCs. TNCs are also forced to carry out restructuring and perceive it as a key component of their strategy. This can increase the efficiency of individual transnational entities, but it can also bring chaos to the world economy, increase the number of unemployed and the number of companies that are ruining, the capacity and output, and these processes will be much faster than before.

Due to the relationship between stock markets and TNCs, the impact of this new type of competition will extend to finance, income and savings, and will affect broad segments of the population, especially in industrialized countries. So, it can be concluded that in these conditions, the world is growing aware of the fact that the current model of globalization, which relies primarily on the economic and technological resources of the society, is extremely primitive in its development and entails a global crisis.

From all the above it follows that the optimal strategy of the state in the context of globalization does not dictate to civil society, but increasingly closer cooperation with it, the delegation of part of its powers to local self-government and other structures of civil society. The close cooperation of the state authorities with trade unions, business associations, environmental, human rights and other public organizations makes it possible to consolidate society, to activate the nation's creative forces at the grassroots level, to adequately address the worsening social problems, effectively monitor the actions of the bureaucracy and fight corruption. This allows us to talk about the possibility of successful integration of national states into the world community.

However, here we can see the weakest point of globalization - state institutions and a system of government. It was noted that "even the first steps towards globalization require a qualitatively higher level of control over social processes. You cannot build the future with the political tools of

the past. Those means of control, coordination, and management, which for centuries were created at the national level, clearly lose effectiveness in a globalizing world<sup>29</sup>."

### **3.2. Positive and negative aspects of activities of Transnational corporations in the world the economy.**

Analysis of the activities of TNCs and theories of foreign direct investment makes it possible to single out the following main sources of TNCs' efficient performance (compared to purely national companies)<sup>30</sup>:

- the use of the advantages of access to natural resources, capital and knowledge, especially the results of R&D, to firms that carry out their entrepreneurial activities in one country and satisfy their needs for foreign resources only through export-import transactions;
- the possibility of an optimal location of their enterprises in different countries, taking into account the size of their domestic market, the rates of economic growth, the price and qualifications of the labor force, the prices and accessibility of other economic resources, the development of infrastructure, and political and legal factors, among which the most important is political stability;
- the ability to accumulate capital throughout the entire TNC system, including borrowed funds in the countries of location of foreign affiliates, and applying it in the most favorable circumstances and places for the company;
- use for their own purposes of financial resources of the whole world;
- constant awareness of the conjuncture of commodity, currency and financial markets in different countries, which allows you to promptly transfer capital flows to those states where conditions for maximum profit are being created, and simultaneously allocate financial resources with minimal risks (including risks from fluctuations in national currency rates);
- creation of new jobs and provision of a higher level of wages in comparison with the average statistical level in the country;
- the possibility of large investments in R&D.

Sources of effective activity of this type are dynamic, they usually increase as the company's assets grow and its activities diversify. At the same time, reliable and inexpensive communication of the parent company with foreign branches, a wide network of business contacts of the foreign branch with local firms of the host country, and skillful use of the opportunities provided by the legislation of this country are necessary conditions for the implementation of these sources. At the same time,

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<sup>29</sup> V. Kuvaldin, *The boundaries of globalization* (Moscow: Alpina Publishers 2003) 95.

<sup>30</sup> S.I. Dolgova, *Enterprise in foreign markets and foreign trade* (Moscow: BEK 2014) 161.

TNCs are indeed the source of a number of negative social consequences associated with the motives of their activities. This is a common problem of the market economy and the large capital that dominates it. But it acquires a special morbidity in the sphere of international economic relations.

In their desire to seize markets abroad, TNCs do not shun the suppression of national production. There are often cases of buying up local enterprises not for reorganization, but for curtailing production, especially in poorly developed and middle-developed countries. By extracting high incomes through the exploitation of cheap labor and natural resources, large TNCs often prefer to invest profits outside these countries. Also, huge profits, transnational companies, including banking, are obtained through financial transactions on the world market. To achieve their goals, TNCs also resort to interference in political life, fuel politicians, political groups and regimes that are convenient for them, limiting the state independence of other countries. All these are real phenomena, and in themselves they are unlikely to disappear. It is necessary to create a system for regulating the activities of TNCs, norms and rules of the game that limit negative manifestations.

It is worthwhile to focus on a few key points, to which criticism is mainly directed:

**- Low wages in developing countries.** Undoubtedly, the salaries of workers working in the same corporation in the West and, for example, in Latin America will be radically different, this is a universally recognized fact. However, it is more reasonable to compare the salaries of TNC workers and the corresponding average for a particular country. As a result, we see that TNCs in developing countries pay as much or as much as their employees in other places of work. A number of studies show that in some cases wages in TNCs exceed the national average by 40-100%. An economist at the University of Michigan, Linda Lim, having processed a significant amount of information about TNCs in Bangladesh, Mexico, Shanghai, Indonesia and Vietnam, came to the same conclusion - in all enterprises, wages are higher than the usual in these places<sup>31</sup>.

The positive impact of foreign investment on the level of wages is examined by the example of Venezuela, Mexico and the United States in the work of Brian Aitken, Ann Harrison, Robert Lipsey. Despite the fundamentally different economic conditions and the level of development of the three countries, the authors managed to find one obvious similarity: the higher the level of foreign investment associated with higher wages. However, in Mexico and Venezuela, foreign

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<sup>31</sup>Linda Lim, *The Globalization Debate: Issues and Challenges* (Geneva: ILO 2001) 41.

investment associated with higher wages only for foreign - owned firms, there is no evidence of wage spillovers leading to higher wages for domestic firms.<sup>32</sup>

**- The use of slave labor of children by corporations.** As is known, the presence of child labor in developing countries is a big problem. The International Labor Organization (ILO) is very concerned about this fact and actively promotes its eradication. A special program on the eradication of child labor was established within the ILO. Since 2000, there has been constant monitoring of the decline in its use, and in 2006, the ILO has set itself the goal of eliminating the worst forms of child labor by 2016. It is worth noting that certain results have actually been achieved. Since 2000, the number of working children has decreased by almost a third - from 248 to 168 million, 85 million of them are working at work that poses a threat to their lives and health (in 2000, this figure reached 171 million).

However, around the world there are still 72 million children, 54% of whom are girls, do not attend school. And in South America and the Caribbean, about 13 million children continue to be employed. Nevertheless, the primary cause of child labor is not the integration and not the activities of TNCs, but rather the poverty of the lower strata of the population, which forces parents to send their children not to school but to work, and thereby help the family. In turn, integration, on the contrary, leads to a reduction in the use of child labor. After all, in most cases, it entails increasing welfare and reducing poverty. It seems possible to trace the logical chain of the positive impact of integration on reducing the number of working children. With a growing standard of living and well-being of parents, children have more opportunities to get at least primary education, which leads to the spread of literacy, improving labor standards, reducing the use of child labor, accelerating the processes of democratization of society, improving social and legal protection. At the same time, declaring child labor in third world countries unlawfully will not solve this problem radically, because for lack of official, permitted work, children will go secretly to work illegally, often connected with the criminal world, which includes trafficking in weapons, drugs, prostitution and so on.

**- TNCs worsen the status of women in society.** Despite the fact that the UN General Assembly adopted the Declaration on the Elimination of Discrimination against Women<sup>33</sup> on November 7, 1967, women, in particular in developing countries, are often subjected to discrimination and, in some cases, to violence. To monitor the world situation on this issue in 1981, the Committee on the

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<sup>32</sup> Brian Aitken, Ann Harrison, Robert Lipsey: *Wages and foreign ownership: A comparative study of Mexico, Venezuela, and the United States* (NBER 1995) 22.

<sup>33</sup> 'Declaration on the Elimination of Discrimination against Women', UN General Assembly <<http://www.un-documents.net/a22r2263.htm>> accessed 8 July 2018.

Elimination of Discrimination against Women was established, which currently, consists of 23 independent experts on the rights of women from all over the world. Nevertheless, women still make up two-thirds of the total number of illiterate people on the planet (774 million people). And this proportional ratio remains unchanged for the last two decades. However, concerns about the exclusively pernicious impact of integration on the status of women, their vital interests and prospects are erroneous. On the contrary, the positive impact of integration is obvious. Thanks to the arrival of TNCs on the domestic markets of developing countries, the demand for women's labor is increasing, and a growing number of them are able to find employment.

- **TNCs pose a colossal threat to the environment.** One of the most popular accusations against TNCs is the reproach regarding pollution of the environment of third world countries, deforestation and depletion of mineral resources. Moreover, the leaders of developing countries, in turn, do not pay proper attention to this problem, they are on the sidelines of corporations, since they are extremely dependent on their investments. Nevertheless, it is not necessary to blame exclusively TNCs. As it was mentioned earlier on the example of deforestation in Brazil, this process is authorized by the government of the country, and the residents are limited in their ability to influence decision making, which gives grounds to speak about the problem in the political aspect.

- **TNCs help to curtail democratization processes and infringe workers' rights in developing countries.** Due to the rapid advancement of integration, the so-called concept of "race to the bottom"<sup>34</sup> is becoming increasingly popular among anti-globalists, politicians, activists. According to concept, developing countries in pursuit of investment resort to lowering standards and removing restrictions in various areas - tax, trade, social, environmental protection and so on. All these actions lead to negative consequences for the population, increased poverty, the abolition of social guarantees, environmental degradation. Because of the high competition for investment among developing countries, the "race to the bottom" from year to year only grows and leads to increasingly negative results. It is also worth noting that there is an opinion that as a result of TNC's international operations, one side wins, and the other party necessarily incurs losses. Indeed, in real life to exclude such situations is impossible, but there are others - when both sides are in the win or conversely, in the loser.

The ambiguous influence is exerted also by the activities of TNCs on the mother countries. They create production abroad and move a part of their jobs there, respectively, the home countries lose these places for their workers. In addition, creating foreign branches, TNCs, from the point of view of the state, take away part of their profits from taxation, which as a result does not fall into the

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<sup>34</sup>The concept received formal recognition by the US Supreme Court in a decision of Justice Louis Brandeis in the 1933 case *Liggett Co. v. Lee* < <https://supreme.justia.com/cases/federal/us/288/517/> > accessed 8 July 2018.



form of taxes to the budget, and accordingly cannot be used to finance social and other programs in the mother country. But according to macroeconomic analysis, for the home country, the positive result of a more effective use of national capital abroad overlaps the emerging negative effects. The positive role of TNCs is undeniable. TNCs bring new technologies of management and production, implements investments, influences positively on the balance of payments, reduces imports and increases export earnings, and increases Gross Domestic Products (GDP). All these phenomena and changes strengthen the economy of the country, as well as improve the standard of living of citizens.

### **3.3. The impact of Transnational corporations on economies of developed and developing countries.**

The flow of corporate investments has increased, but has become increasingly concentrated in the richest regions of the world. If in the 1970s about 25% of foreign direct investment went to developing countries, in the late 1980s, their share fell below 20%. TNCs in developed countries control 40% of industrial production and half of world foreign trade, this, of course, affects the economic climate in certain countries and regions. A distinctive feature of the TNCs of the developed countries in current time is still the international nature of their activities, but not so much on the basis of the country of origin of capital, but rather in the area of its activities. The decisive issue is not so much from which countries capital comes, how much it rushes, where it operates, where it extracts profits. The overwhelming majority of modern international corporations represent only one nationally separate, and not multinational capital.

The international corporation in developed countries is characterized by the following main features:

- it is an active participant in the development of the world economy, the processes of the international division of labor;
- it is characterized by a relative independence of the movement of capital from processes occurring in national boundaries;
- it objectively regulates world economic relations, carrying out its operations in order to extract high profits.

The financial basis for the development of TNCs is TNBs, which are developing at a more accelerated pace in developed countries than in other countries. The network of TNBs is spread all over the world, more than 5 thousand branches of the 140th TNB accounted for in the mid-1990s and in 2000s this process was further accelerated. Examples of TNB: "Deutsche Bank" in Germany, "Citigroup", "Bank of America" in the United States (US), "Bank of Tokyo-Mitsubishi" in Japan.

It should also be noted that the 100 largest TNCs in developed countries have 40-50% of all foreign assets. If you compare the assets of 100 companies with a total amount in the world, which can be estimated at \$20 trillion, it means that these 100 companies have approximately 16% of the world's productive assets around the world, and 300 of the largest companies control, probably, 25% of all assets. For the leading industrialized countries, the foreign activity of their TNCs determines the nature of foreign economic relations. Thus, up to 40% of the property value of the 100 largest TNCs, including financial ones, is outside their home country. TNCs from developed countries penetrate high-tech, knowledge-intensive industries that require huge investments and highly skilled workers. At the same time, there is a noticeable tendency to monopolize the branches of TNCs.

Improving relations between TNCs and developing countries began in the 1980s. This was largely facilitated by the revision of a number of developing states of legislation on direct foreign investment. In the same years there was a decrease in the number of cases of nationalization and an increase in the number of litigations, disputes between TNCs and governments of developing countries. The rethinking of the role of TNCs by many developing countries is mainly in the wake of a change in the perception of what these corporations can provide for structural changes and stimulation of internal factors of technological progress. As practice shows, TNCs make a significant contribution to the development of the Third World countries. This contribution is expressed by:

- the transfer of advanced production technologies in some sectors (textile, clothing, electronics). TNCs play an important role both as investors and as suppliers of investment goods or technologies (licenses);
- the facilitation of transformation of developing countries from raw material exporters into sellers of finished products. This direct contribution to the structural changes of developing countries is more important than simply the movement of financial resources through direct investment;
- the TNCs which contribute the acceleration of innovation processes. Technological innovations are mainly concentrated in industrialized countries, but in recent decades they are increasingly moving to some other countries, especially in newly industrialized countries. With the transfer of technology, however, there may be an unintended adverse impact on the environment. The activities of TNC affiliates have a negative impact on the nature of the host countries, and, therefore, on the well-being of people, up to the threat of their lives. Thus, there is a need to strengthen the regulatory functions of national authorities in developing countries for control, both for their own and for foreign enterprises;

- the TNCs which improve the employment situation in the developing world. Although it should be noted that the number of jobs directly related to direct investment is small - less than 1% of the economically active developing world.

International organizations propose developing countries to use TNCs for technical assistance, and their governments in turn struggle to attract TNCs to their economies. Thus, the American company General Motor intends to double its share in the Asia-Pacific market by 2020, bringing it to 15%. To this end, the company is going to build a plant to produce cars and parts worth \$ 1 billion in the Philippines or Thailand. According to experts, Thailand has an advantage, as the car market here is better developed. However, the Philippines offered General Motor a number of initiatives, including tax and customs incentives, which stimulate the construction of the plant in this country. By obeying the objective laws of the development of international economic relations, developing countries seek and, as a rule, find the necessary parity between their own goals, problems of socio-economic development and the interests of TNCs in the economies of their countries.

#### **4. Lobbying interests of Transnational corporations and ways to regulate lobbying in EU.**

##### **4.1. Lobbying interests of Transnational corporations and stages of lobbying at the EU level.**

In Europe, lobbying is almost as strong as in the United States, so that, in European countries there are 13 thousand lobbying organizations. Lobbyism is mainly developed in such sectors of the economy as agriculture, mining and metallurgy. The lobbying activity of multinational companies is realized on the operating platforms of three main types<sup>35</sup>:

- A global platform for activities related to the achievement of agreements on the division of product markets, distribution of production capacities, as well as M&A policy, etc. Lobbying opportunities are realized through the participation of companies in multilateral institutions and organizations, through the membership of representatives of organizations in closed clubs and communities.
- Areas of developed capitalist states that have an established and stable socio-political system. The most important for TNCs are the United States, Japan, the "old" members of the EU. "The second echelon" is Canada, the countries of Northern Europe. At the same time, the specifics of the choice of the baselines are directly related to the specifics of the companies themselves. For example, for metallurgical companies, Canada and Australia are of particular importance in this group.

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<sup>35</sup>A. Binetskiy, *Lobbyism in the modern world* (Moscow: TEIS) 69.

- Places of states with a dynamically developing social and political structure and economy. In recent years, this group has been talking about BRI countries<sup>36</sup> and "new Europeans" for food companies. For mining companies, the geography of this group is largely directly related to production locations (Africa, Latin America, the Middle East, etc., depending on the type of minerals extracted and the structure of their processing).

The methodology of the activities of TNCs on these three types of sites is built on different principles. The main aspect of lobbying is the provision of a favorable business regime for the company in such areas as the attitude of the supervisory bodies, tax regulation, extraction, processing, labor resources, etc. This implies the need to establish links and implement lobbying capacity in several principal areas<sup>37</sup>:

- state bodies of the host country;
- local, municipal authorities;
- public opinion.

In the first two areas, work is carried out using all available resources to companies, in the third area, the methods of information work dominate. Corporate groupings and individual large firms that have significant funds at their disposal, as a rule, have their own unofficial representatives in different parts of the executive branch. Industrial and banking giants usually closely coordinate their activities with lobby groups in elective bodies, pushing through relevant projects, seeking preferential loans, budget support, state insurance, etc.

Lobbying of European institutions originates in 1957, when the Roman treaties that established the European Economic Community (EEC) and the Euro-atom came into force. The next three decades, until the signing of the Single European Act (EEA), were the first stage in the development of European lobbying<sup>38</sup>. In 1958, 2 branch organizations were created in Brussels, which did not lose their significance as lobbyists - Committee of Agricultural Organizations in the EU, now – COPA-COGECA and Union of Industrial and Employer's Confederations of Europe, from 2007 - BUSINESSEUROPE. The first lobbies the interests of farmers and agricultural cooperatives within the framework of the EU's single agricultural policy, the latter is an association of employers, to which today 40 federations from 34 countries are members. At the same time, the main trend in

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<sup>36</sup>The Silk Road Economic Belt and the 21st-century Maritime Silk Road or The Belt and Road Initiative (BRI) is a development strategy proposed by the Chinese government that focuses on connectivity and cooperation between Eurasian countries, primarily the People's Republic of China, the land-based Silk Road Economic Belt and the ocean-going Maritime Silk Road.

<sup>37</sup>L.E. Ilicheva, *Lobbyism in the structures of legislative and executive power of European countries* (Moscow: ALC 2009) 45-48.

<sup>38</sup>Justin Greenwood, *Organized Interests and the European Community* (London 1992) 74.

lobbying methods was different for thirty years, from 1957 to 1987, groups of business interests lobbied European institutions indirectly - referring to the governments of member countries, through trade unions, professional associations and commercial organizations. Such a focus on national representatives was due, firstly, to the political weakness of the EP at that time, and secondly, at that time European integration was still gaining momentum and not all spheres of politics were in general control, therefore the interest groups were dispersed<sup>39</sup>.

The second stage is considered from 1984 to 1994. The signing of the EEA and the subsequent creation of a single internal market for goods, services, capitals and individuals led to a rapid growth of lobbying activity in Brussels. Moreover, according to the EEA, the spheres of public policy in the field of European business passed to the public policy spheres that had previously been the responsibility of the national authorities. These include the development of rules of operation and further regulation of a single internal market, which united 12 countries into a single economic zone. Regional, environmental and scientific and technical policies have also been transferred to the EU institutions. Regarding the institutional triangle of the Commission-Council-Parliament, the EEA significantly strengthened the role of the Parliament<sup>40</sup>, giving it new powers in the legislative process, which in turn made this institution more attractive to lobbyists. Previously, the functions of the EP were reduced to "discussion and control." EEA introduced a new form of decision-making, including the "procedure for cooperation"<sup>41</sup>, gave the EP the right of veto, which allowed to suspend the actions of the Council acts on the decision of the absolute majority of European deputies<sup>42</sup>. According to a study conducted by the EC, officially in 1992 in Brussels there were up to 3,000 lobbying organizations<sup>43</sup>. At the same time, the number of law firms, consulting agencies, small companies, ready to take on the representation of the interests of the customer in the institutions of the EU has increased. Also in the corporate sphere, there has been a tendency to create separate units within large companies responsible for working with European institutions. As for lobbying strategies, for this stage the most common method was direct lobbying - building relationships with department heads or with Chief Executive (CE) heads of general directorates. At the same time, the method of indirect lobbying through the national representatives in the all-European bodies fell into the background<sup>44</sup>.

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<sup>39</sup>Rinus van Schendelen, *Machiavelli in Brussels: The Art of Lobbying the EU* (Amsterdam 2002) 117.

<sup>40</sup>Chemery S. Le Parlement Européen: Une institution aux pouvoirs renforcés par la Constitution Européenne <<http://www.robert-schuman.eu/pdf.qe.php?num=sy-136>> accessed 8 July 2018.

<sup>41</sup>'The Single European Act, Art. 252', European Commission <[http://ec.europa.eu/economy\\_finance/emu\\_history/documents/treaties/singleeuropeanact.pdf](http://ec.europa.eu/economy_finance/emu_history/documents/treaties/singleeuropeanact.pdf)> accessed 8 July 2018.

<sup>42</sup>A.V. Borev, *Regulation of Corporate Lobbyism in the European Union* (President's advisor 2008) 2.

<sup>43</sup>Directorate-General Internal Policies of the Union. Lobbying in the European Union (Briefing paper 2007) 6 <[http://www.eurosfaire.prd.fr/7pc/doc/1211469722\\_lobbying\\_eu.pdf](http://www.eurosfaire.prd.fr/7pc/doc/1211469722_lobbying_eu.pdf)> accessed 8 July 2018.

<sup>44</sup>ibid 5.

The period from 1994 to 2009 is considered the third stage when a distinctive European type of lobbying has taken shape. At this stage, the European system of promoting interests acquires distinctive features, and the difference between European and, for example, American systems becomes obvious. Recognized American researcher Christina Mahoney among the principal differences between the two types of lobbying highlights is the fact that absolute majority of the posts of euro functional members are not elective, unlike the posts of officials and politicians in the US. In other words, European officials do not need to finance election campaigns and do not fight for the votes of electors, as a result, they otherwise build their relations with lobbyists<sup>45</sup>. In addition, at this stage it was possible to systematize the available knowledge about the features of lobbying in the EU<sup>46</sup>. Contribution consisted in that they focused their attention on the logic of joint actions of commercial organizations, which contributed to a clearer understanding of how and when interest groups are ready to participate in the EU political process.

Finally, the fourth stage covers the time period from the end of 2009 to the present. The allocation of a new stage is primarily due to the entry into force of the Lisbon Treaty, which made significant changes to the practice of lobbying in the EU, as well as the signing in 2011 of the first inter-institutional agreement between the EP and the EC on the establishment of a public register of organizations and independent individuals, involved in the processes of discussion and development of European legislation<sup>47</sup>. This inter-institutional agreement put an end to the two independent lobbying registration systems that existed in the EP and the EC, combining them into one.

#### **4.2. European Parliament as a regulator of lobbyists' activities.**

The increased activity of lobbyists could not remain unnoticed by European parliamentarians. One of the first questions about the transparency of the decision-making process was raised deputy of EP Jens Peter Bonde<sup>48</sup>. In 1985, he appealed to the EC with an official request for clarification of the nature of the relationship between the EC and interest groups. Several years later, in 1989, his colleague Alman Metten returned to the issue of transparency. A. Metten made a report on the activities of European lobbyists, as the material for analysis by this time has accumulated enough. Taking as a basis the system that already operated at that time in the United States, A. Metten

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<sup>45</sup> Christine Mahoney, *Brussels Versus the Beltway: Advocacy in the United States and the European Union* (Georgetown 2008) 224.

<sup>46</sup>Rainer Eising, 'The Access of Business Interests to EU Political Institutions: Towards Elite Pluralism?' [2007] *Journal of European Public Policy* №14(3), 384-403.

<sup>47</sup>'Agreement between the European Parliament and the European Commission on the establishment of a transparency register for organizations and self-employed individuals engaged in EU policy-making and policy implementation' [2011] *Official Journal* L191, 29-38

< <https://eur-lex.europa.eu/legal-content/HR/TXT/?uri=OJ%3AL%3A2011%3A191%3ATOC> > accessed 8 July 2018.

<sup>48</sup>Up to 2008, J.P. Bonde remained a member of the European Parliament, where he headed "June movement" eurosceptic and became a true icon of Euroscepticism.

suggested creating a common register for those interest groups that want to continue their activities in the EC and EP.

The decision to restrict access to the buildings of European institutions came very close in 1991, when the European Parliament Committee on Rules Verification of Mandates and Immunities asked European Parliamentarian Mark Galle (European Socialist fraction) to prepare a special report on the interaction of European institutions with groups influence, suggesting possible methods for regulating lobbying activities within the European Community. M. Galle was tasked with "presenting concrete proposals for the development of a code of conduct, as well as an official open register of lobbyists accredited by the Parliament"<sup>49</sup>. This was the first time when the official document of the EU Institute mentioned the possibility of regulating and controlling the activities of lobbyists.

The EP, represented by the College of Quaestors<sup>50</sup>, invited lobbyists to sign the code with minimal amendments. He did not impose significant restrictions on the signatories, but he gave them open access to the EU institutions. Under the assumptions of J. Greenwood, one of the influential members of the College of Quaestors was in close connection with the business world, which explains the reactivity and formality with which the College approached the solution of the issue of regulating lobbyism<sup>51</sup>. As a result, an optional registration was introduced, which left the choice of actions for the groups themselves interesting and did not have a shadow of regularity, but guaranteed free access for lobbyists. Later, this "soft" code prevented the adoption of more stringent measures against lobbyists. In the meantime, it has become obvious to large trans-European corporations that if they want to have a significant impact on the political process in the EU, this will require more effort than monitoring the passage of supranational directives and providing expert opinion to the EC when it develops legal acts.

As mentioned above, with the strengthening of the legislative role of the EP, especially after the signing of the Maastricht Treaty in 1992, lobbyists began to show greater interest in this institution. The decade of 1984-1994 was a time of gradual awareness of the political potential of the EP and, at the same time, opening up new opportunities for lobbying this institution. Prior to the entry into force of the Maastricht Treaty, the EP played a predominantly advisory role, despite the fact that its procedure already includes a cooperation procedure and an agreement procedure. After the signing of the Maastricht Treaty, the EU competence extended to new policy areas, which have traditionally

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<sup>49</sup>Didier Chabanet, *The Regulation of Interest Groups in the European Union* (CONNEX Work Package A1, Report) 3.

<sup>50</sup>The College of Quaestors is an administrative body created in 1977 at the EP. The Quaestor board has the right to make decisions regarding the interpretation and execution of the rules of administrative management within its competence.

<sup>51</sup>Justin Greenwood, *Representing Interest in the European Union* (Basingstoke 1997) 86.

been the subject of national sovereignty, namely, trans-European networks (including telecommunications, energy and transport), health, education, culture, youth policy, consumer protection.

The EP came back to the issue of regulating lobbying activities after the elections in June 1994 on the initiative of the Party of European Socialists. The work on the preparation of a special report on "lobbying in the EP" was entrusted to the Parliamentary Committee on Procedure, Verification of Powers and Immunities on Glyn Ford. At the heart of his report, G. Ford put forward the ideas put forward by M. Halle, but suggested a more differentiated approach: lobbyists can get a "long pass to the Parliament and the opportunity to meet with parliamentarians"<sup>52</sup> provided they adopt the provisions of the code of conduct and enter the public register data about yourself and your customers. In parallel, while the work on the report of G. Ford was underway, another report was being prepared on the development of proposals on declaring the incomes of parliamentarians. The work on this project was entrusted to Jean-Thomas Nordmann. The measures proposed in the above-mentioned report were draconian - they included the provision by the EP deputies of open declarations about their finances, which implied the disclosure of all the capital in the form of movable and immovable property, as well as information on bank accounts. Despite unflagging opposition from some European deputies, on 17 July 1996 both reports were approved by the EP<sup>53</sup>. According to the provisions outlined in the report, each member of the EP was obliged to declare "income from his professional activities, as well as from any other paid activity or performed functions, any kind of assistance rendered to a deputy of the EP, motivated by the political activities of European deputies and coming from third parties whose names are not subject to concealment, any "essential" gifts ". In addition, for a long time, the overwhelming majority of EP members - including the College of Quaestors, which was called to guarantee the implementation of the internal rules of Parliament and, if necessary, apply disciplinary sanctions - ignored the need to declare their financial interests. The situation changed slightly in March 1999, when the declarations began to be published on the Internet portal of the EP. Although even today the lion's share of the EP deputies provides in the form of a financial declaration by handwritten word like "RAS"<sup>54</sup>. The list of accredited assistants has only been available on the EP portal since 2006, however, in order to access declarations of their financial interests, it is necessary to go to the EP and submit a special request , which can be satisfied after verification.

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<sup>52</sup>Didier Chabanet, *The Regulation of Interest Groups in the European Union* (CONNEX Work Package A1, Report) 13.

<sup>53</sup>Currently, the provisions of these reports form the basis of the Rules of Procedure in the EP with relevant areas, namely: the Regulations on transparency and financial interests of members of Parliament, as well as the Regulation on lobbying in Parliament.

<sup>54</sup>RAS - short in French "Rien à signaler" which in the English version sounds like "Nothing to declare".



### 4.3. Regulation of lobbyists - European Commission and the post-Lisbon phase.

Over time, we can observe how contradictions in the activity of interest groups are widening within the EU itself. As it was already noted earlier, with the adoption of the EEA, the role of the EP increases, and as a consequence, the resource of influence of this institution and its attractiveness are growing in the eyes of lobbyists. Of course, all this time the EC did not stay aloof from this process. The position of the EC was fundamentally different from the position of the EP by its openness in relations with interest groups, the focus on cooperation. It was due to the fact that it was the EC that came forward with legislative initiative and therefore, at the drafting stage of the bill, needs expert opinion.

Prior to the adoption of the Lisbon Treaty, the normative task of the EC, within the first pillar of the EU, was the regulation of all policies that were within the competence of the EU. That is, the EC was entrusted with the development of rules for the functioning of a single domestic market with a volume of \$14.5 trillion. Obviously, the technical and expert justification for projects of this size is not up to the EC staff in 33,000 functionaries and requires the involvement of additional forces from outside. It is only natural that the most informed experts are representatives of large business, whose interests affect the proposed bill in one way or another. Therefore, the EC is interested in establishing a constructive dialogue with interest groups, especially when interest groups for their part seek cooperation. So there is a kind of outsourcing of expertise, which the EC entrusts to representatives of corporate interest groups. Such a model of relations easily fits into the theory of information supply and demand: the EC demand for expert opinion generates a proposal from those who are ready to submit this opinion for consideration<sup>55</sup>. The official position of the EC on the regulation of political behavior of interest groups was set out in a document that, in a sense, opposed the EP's attempts to drive lobbyists into a rigid framework of rules and restrictions<sup>56</sup>. It should be noted that for the EC, civil society was by no means limited to trade unions, non-profit organizations or public associations. Any organized interest groups that are ready to defend their position, take part in consultations or, even more, provide expert data and analysis, are perceived as part of civil society<sup>57</sup>. Such a loyal approach to the EC had three main objectives: not only to a certain extent facilitate the decision-making process (at least purely from the technical side), but

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<sup>55</sup>Pieter Bouwen, 'Corporate Lobbying in the European Union: The Logic of Access' [2002] *Journal of European Public Policy* Vol. 9. №3, 365-90.

<sup>56</sup>Communication from the Commission of 11 December 2002. Towards a reinforced culture of consultation and dialogue-General principles and minimum standards for consultation of interested parties by the Commission <<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52002DC0704>> accessed 8 July 2018.

<sup>57</sup>Karen Heard-Laureote, *European Union Governance: Effectiveness and Legitimacy in European Union Commission* (London 2010) 17.

also to improve the quality of representation of interests, that is to put it in the form of an open dialogue, consultations, in other words, bring the process of lobbying out of the shadows.

Based on the concept of information supply and demand, the researchers A. Broxaid and D. Cohen managed to identify three types of lobbying, characteristic for the interaction of interest groups with the EC. The first type includes such lobbyists who have significant resources (material, reputation, etc.) and are ready to go to significant costs to achieve their goals. High "cost solution" can be due to high technical demands or complex political issues, which, in turn, requires the work of highly qualified experts. The circle of such lobbyists is very limited. This is a pure type of insider lobbyism. An example of this type of lobbyism can serve as the majority of decisions related to foreign policy.

The second type includes representatives of business interests, ready to incur not very high costs to achieve the desired result. However, they face high procedural requirements in the decision-making process, which significantly reduces their effectiveness, compared with the first types of lobbyists. At this level, the circle of lobbyists is expanding significantly, which leads to increased competition between them, and sometimes on the contrary gives an opportunity for cooperation and joint action. As a rule, such interest groups act on the main directions of the EU's general policy. The EC in this case can reduce the number of lobbyists, to whose opinion it listens, creating a division into insiders and outsiders. In this case, the EC again acts as a moderator of its relations with representatives of interest groups and chooses its sources of information.

Finally, the third type of representatives of interest groups includes those whose costs for making the desired decision are minimal, but the passage of the decision itself practically does not encounter procedural obstacles. This type of lobbyists are not affected by the division of the EC into insiders and outsiders. Such lobbying is typical for those policies where there is no need for complex technical analysis, and the issues are not of a strategic nature.

With the entry into force of the Lisbon Treaty in 2009, EU institutions faced an unprecedented increase in lobbyist activity, which was the result of changes in the decision-making process that the document introduced. Firstly, due to an increase in the number of issues on which decisions are taken by a qualified majority, secondly, because of the strengthening of the role of the EP and the expansion of its powers, thirdly, due to such innovations as the European Civil Initiative. In this regard, the main efforts to regulate the participation of interest groups in the post-Lisbon period are not aimed at limiting access for the elect, but on ensuring equal and fair opportunities for all and, most importantly, maintaining transparency. The latter task presents a certain complexity for EU institutions. By the time the Lisbon Treaty was adopted, interest groups had already become

established in their status as integral participants in the political system of the EU, in official documents they were recognized as important actors who "can provide technical information and give constructive recommendations." In this regard, today, regulation has shifted towards seeking measures to improve the effectiveness and transparency of lobbyists' participation in decision-making. To this end, in 2011, at the initiative of the EP, a special inter-institutional agreement between the Parliament and the Commission was adopted on a unified transparency register, which remains today the last normative document regulating lobbying in the EU.

## **5. Case study.**

### **5.1. International integration at the modern stage on the example of company PJSC "LUKOIL".**

In this case, we will analyze problems and prospects for the development of TNCs in international integration at the present stage on the example of company of PJSC "LUKOIL". The company PJSC "LUKOIL" is one of the most powerful oil corporations in Russia. The main activities of the Company are exploration and production of oil and gas, production of petroleum products and petrochemical products, as well as sales of manufactured products. The main part of the Company's activities in the exploration and production sector is carried out on the territory of the Russian Federation, the main resource base is Western Siberia. "LUKOIL" owns modern oil refining, gas processing and petrochemical plants located in Russia, Eastern and Western Europe, as well as neighboring countries. The Company's products are sold in Russia, Eastern and Western Europe and the USA.

The company "LUKOIL" was established in November 1991 by a decree of the Council of Ministers. It united three oil fields - "Langeepas", "Urai" and "Kogalym", from the first letters of which the company's abbreviation "LUK" and the word "oil", as well as, several oil refineries factories. In 1992, V. Alekberov left the post of acting minister of oil industry of the USSR and became president and chairman of the board of the company "LUKOIL". "LUKOIL", like other enterprises created on the basis of Soviet industry, became the property of the state. Today, "LUKOIL" is one of the largest TNCs engaged in oil and gas production, production of petroleum products and sales of petrochemical products<sup>58</sup>. "LUKOIL" has a quality portfolio of assets in terms of exploration and production of oil and gas. The main sector of the company's oil production is Western Siberia, and now the Timan-Pechora oil and gas province, where oil production has recently intensified. Moreover, "LUKOIL" operates in regions other than Russia, such as

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<sup>58</sup>E.A. Gryaznov, *TNC in Russia. Positions of the world's largest MNCs in the Russian economy* (2014) 55.

Kazakhstan, Egypt, Azerbaijan, Uzbekistan, Saudi Arabia, Iran, Colombia, Venezuela, and Iraq. In all these countries, the company is engaged in oil and gas production.

In the modern world, the trend of increasing the number of economic sanctions is relevant. First of all, this is due to the globalization of international economic processes characterized by an increasing degree of intensive integration of both markets for goods and services and capital. It is well known that today the stability of the country is determined, firstly, by the level of development of its economy. In this regard, the termination or restriction of economic relations can have significant consequences for the normal functioning of the state. Economic sanctions imposed by the US and the EU were aimed at key sectors of the Russian economy - public financial institutions and energy.

Limits were imposed on the financing of state banks by the US and Europe, as well as on the provision of technology to energy enterprises.

In international practice, the notion of "economic sanctions" corresponds to different interpretations. For example, in the legal practice of the UN the definition of economic sanctions was defined as measures not related to the use of armed forces, which may include a complete or partial break in economic relations, rail, sea, air, postal, telegraph, radio or other means of communication, as well as the severance of diplomatic relations<sup>59</sup>.

In mid-March 2014, the United States and the European Union, Australia, New Zealand and Canada introduced the first package of sanctions. These measures included the freezing of assets and the introduction of visa restrictions for persons included in special lists, as well as the ban on companies that have imposed sanctions to maintain business relations with persons and organizations included in the lists. In addition to these restrictions, it was also undertaken to close contacts and cooperation with Russia and Russian organizations in various fields. The next round of sanctions was connected with the Boeing 777 catastrophe in the Donetsk region on July 17, 2014, the reason for which, in the opinion of the leadership of a number of states, was the actions of insurgents supported by Russia. If we review and analyze the sanctions in detail, we can see that they are aimed at limiting the presence of Russian state-owned companies in various segments of the world and, above all, the European market, which accounts for half of Russia's foreign trade turnover.

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<sup>59</sup>'Charter of the UN', The UN, art. 41 <<http://www.un.org/en/sections/un-charter/chapter-vii/index.html>> accessed 8 July 2018.

If current sanctions are maintained or expanded, we can expect a decrease in the share of Russian companies in the oil (and in the future, gas) market in Europe and their replacement by American and British companies that previously worked for the US market. Russia's dependence on the supply of raw materials to the EU market sooner or later had to make itself felt, accordingly, diversification of the sales markets becomes a priority for the Russian economy, which requires an accelerated resolution. In the first half of 2015, the company's net profit was \$ 4,002 million, an increase of \$ 773 million, or 23.9%, over the same period of 2014. At the same time, second quarter of 2015 was \$ 1,949 million, which is \$ 375 million, or 16.1%, lower than in the second quarter of 2014. The positive dynamics of net profit is mainly due to a sharp rise in prices for hydrocarbons in the first half of 2015 compared to the first half of 2014. However, the results were adversely affected by the growth of the tax burden, the strengthening of the ruble to US dollar and increased transportation costs. The most significant negative factors affected the results of the second quarter of 2015, when profit decreased compared to the same period in 2014. Almost all oil is produced in Russia by the same vertically integrated companies and it leads to the fact that part of the transactions are conducted between companies that are part of a vertically integrated group. As a result, there is no concept of a comparable oil price on the domestic market.

"LUKOIL", "Gazprom" and "Surgutneftgaz" have joined the list of Russian oil and gas companies that have fallen under US sanctions. On September 12, 2014, the US authorities announced a new package of measures aimed at limiting the access of Russian companies to technologies and capital markets, in fact changing the logic of applying sanctions. The aforementioned companies in the conditions of sanctions will not be able to export from the US goods, services and technologies related to oil production, including offshore and in arctic conditions, and with deep water exploration.

It should be noted that under the conditions of the introduction of anti-Russian sanctions, the management of the company PJSC "LUKOIL" has tried and is trying to take effective measures not to lose potential partners and demand for products in the global energy market. For example, in 2015 integration takes place in the wholesale energy market of Russia, - a world record in drilling horizontal wells was achieved. PJSC "LUKOIL" and World Wildlife Fund (WWF) signed an agreement on cooperation; Also, a large gas field was discovered on the continental shelf of Romania. In 2016, the commercial exploitation of the two largest fields, in the Caspian and in the Yamalo-Nenetskiy Autonomous District, the program of modernization of Russian oil refineries was also completed<sup>60</sup>. However, the president of "LUKOIL" V. Alekberov in July 2014 in an

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<sup>60</sup>ANNUAL REPORT 2016', LUKOIL < <http://www.lukoil.ru/FileSystem/PressCenter/121352.pdf> > accessed 8 July 2018.

interview with Reuters admitted that sanctions still affect the business of his company, above all, the investment program<sup>61</sup>.

It is also important fact that "LUKOIL" in 2012 introduced a new strategy, according to which by 2021 it is going to increase hydrocarbon production by 50%. The new program of strategic development provides for the production of hydrocarbons over 10 years (2012-2021) in the amount of about 10 billion barrels , with an average annual growth rate of hydrocarbon production of more than 3.5%. The new program is aimed at increasing investment attractiveness and a multiple increase in payments to shareholders. So, in 2012, dividend payments should have grown to 25% to the level of the previous period. In the foreseeable horizon it was assumed that the growth of dividend payments could reach 300% to the level of 2011. The growth of dividend payments should be provided by growing cash flows due to the high attractiveness of investment projects. The program of capital expenditures until 2021 will reach more than \$ 150 billion, of which about 16% will be directed to the business segment "Refining and marketing". By 2021 it is planned to increase hydrocarbon production by 50% compared to 2011 to 1.17 billion barrels of which 17% is expected from the Company's international projects. "LUKOIL" outlined the strategic goal of increasing the oil recovery factor to 40%. In addition, during the presentation of the new strategy, the company's president V. Alekberov said that "LUKOIL" plans to modernize all its refineries in the next 10 years.

Thus, it can be concluded that the management of "LUKOIL", despite the introduction of anti-Russian sanctions, which affect, for the most part, the oil and gas industry in Russia, is looking for ways out of the situation, for example, by concluding deals with China for gas supplies and increasing production and economic efficiency along with the company's sustainable development.

## **Conclusion.**

Although the very phenomenon of TNCs is relatively young (the mass distribution of this form of international monopoly began only in the late 50's), the consequences of their activities do not allow to avoid this issue. Despite certain achievements, the growth of TNCs in breadth practically does not slow down. They penetrate into all branches of the economy.

In this thesis TNCs reflect a state of the world in which the movement of capital and technology has acquired a very high degree of mobility and that it is the activities of TNCs that greatly contribute to

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<sup>61</sup> 'REFILE - Russia's LUKOIL sees investments cuts due to sanctions', Reuters < <https://www.reuters.com/article/ukraine-crisis-russia-lukoil-idUSL6N0Q645520140731>> accessed 8 July 2018.

the transformation of the world into a whole where the parts become functionally interconnected and where new trends and laws of development.

This thesis also indicates the inadequacy of the approach, which the world interaction considers mainly based on the interstate interaction. TNCs carry out economic, financial, trade, technological, and at a new stage and political and social interaction of the countries of the world. The activities of TNCs fundamentally change the picture of the world, and therefore without this we cannot study the processes taking place in the modern world.

There are various and contradictory assessments of the activities of these giant economic corporations that do not take national boundaries into account. The analysis of the economic and political consequences of the internationalization of economies shows that it is not possible to assess TNCs negatively or positively. In this regard, the phenomenon of TNCs needs further study. The problems associated with TNCs also require a thorough study. This is the problem of the interconnection of the activities of TNCs with national interest, national strategy and the problem of international law, and the problem of a global picture of the world in which the activities of TNCs unfold against the background of the distribution of global resources and global problems (exploitation, resources, etc.).

In the thesis, the activity of one of the most important institutions of the modern world political process is singled out, namely the activity of transnational corporations, the entire complexity and contradictoriness of this process. Its ambiguity is revealed and optimistic and pessimistic features are revealed in the framework of this approach. Here are very serious conclusions that transnational corporations as a tool, a subject of world politics, strengthens the attitude of confrontation, conflict between the main actors and turns the underdeveloped, backward into one of the most essential characteristics of the world. At the same time, it should be noted that many institutions and subjects of the global political process under the influence of mankind are significantly transformed and that transnational corporations themselves can serve not only as a serious factor of technological progress but also contribute to closing the gap between the core and periphery, underdevelopment and backwardness in the world economy as a whole.

According to experts, in the future in the global business will be three main types of entities:

- The first will be the smallest upper echelon of multinational companies. These companies will be even more deeply embedded in the economies of the host countries in order to reduce concerns in these countries regarding national economies. Many foreign companies will invest more actively in production in the US to avoid tariffs, if established by the new leadership of the country. This

strategy was followed by Japanese car manufacturers in the 1980s. However, it should be noted that this condition is feasible only for large companies. For example, the German industrial giant Siemens provides 50 thousand jobs in the US and has 60 plants in the country. Midsize companies will face difficulties in collecting resources for more in-depth investment in the economies of the host countries. Increasingly, politicians insist that companies, when buying foreign companies, are committed to maintaining their national focus, including jobs, R & D activities, and tax deductions.

-The second type of subjects of international business will be potentially high-tech transnational companies that are potentially exposed to various influences, as well as companies that have intellectual property. These companies include technology companies such as Google, Netflix, pharmaceutical companies, as well as companies that are actively providing franchising to local companies, which is a low-cost way to achieve an international presence and thus gain market advantages. Hospitality, including large hotel chains with strong brands such as Hilton and Intercontinental, is a prime example of this kind of tactics. The company McDonald's moves to the franchising model in Asia. Such companies, which do not have material assets, are growing at a high rate. However, since these companies create a small number of jobs, often represent an oligopolistic type of competition, and do not benefit from international trade laws that apply only to physical goods, they are subject to negative sentiments from national economies.

- The third category of participants in international business will include emerging small business companies that use electronic commerce to trade internationally. Up to 10% of US small businesses, which make up 30 million companies, use this type of activity to some extent. According to PayPal, which deals with electronic payments, the volume of cross-border transactions involving the activities of the above-described companies is \$ 80 billion per year, while volumes are growing at a fast pace. The chief administrator of the Chinese company Alibaba, which carries out activity in the field of electronic commerce, predicts that in the near future small businesses from Western countries will supply their products to Chinese consumers. Thus, this trend will replace the pattern that existed for two decades, when large American companies imported goods from China.



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