MULTINATIONAL COMPANIES AS CARRIERS OF FOREIGN DIRECT INVESTMENT

MSc Marjanovic Darko, teaching assistant, Faculty of Economics Subotica, Serbia
MSc Ahmetagic Deniz, associate in project center, Faculty of Economics Subotica, Serbia

Abstract: Multinational companies are the main drivers of the world economy and the globalization process, and therefore the most important drivers of foreign direct investment. The beginning of the XXI century is characterized by complex processes of world development in which the developed countries, multinational companies and the latest technology to dominate the economic and other fields.
When we talk about foreign direct investment and their investment in a particular country, we think first of all the multinational companies that have the capital, technology and know-how to countries that do not have their own resources to finance development, but aim to attract foreign investment. The main motive of every multinational company to invest capital in a foreign country is a profit, a new market, favorable conditions for the use of resources, the benefits of the tax system, etc. To prevent delay in development, many countries offer multinationals a variety of tax benefits in the form of low tax rates, tax incentives and exemptions, and thus contribute to creating a favorable investment climate for foreign investment.

Keywords: Multinational companies, FDI, Tax competition, Investments

INTRODUCTION

The rapid development of the globalization of business has caused an increase in competition in the international market . Number of organizations different forms be increasing according to the development level of the business. Starting from a possible approach and the level of market engagement, Keegen performed the classification of companies: national, international and multinational. However, in this classification , which is characteristic of the Anglo-Saxon area of most confusion relates to a multi-national company, as this term covers a wide range of participants in the international market, from national to multinational companies.

However, if we ignore this view of things, we are given the opportunity to accept the classification of an organization that is now widely accepted in most parts of the world. We distinguish the following forms of business: national company bases its activity on the domestic market export company is a national company that sells products to the international market through its subsidiary, or perform licensing technology for use abroad; company of an international character, performs its activities in domestic and foreign market. The road leading to the international and the national export-oriented enterprises. International company based its strategy of growth and development on the equal treatment of national and international markets, as part of his activity at the same time on both. These companies did not matter the size of the market. For positive about business conditions, with sometimes more favorable conditions on the international than in the domestic market; transnational companies base their business on the capital of a country which is present in several countries. Multinational companies are all companies that operate on the principle of equity investments from several countries and have control over the property for at least two or more countries. These organizations have a well-developed network of its own affiliates, which are located around the world, through which they control the production, distribution of products and services.

THE PROCESS OF FINANCIAL GLOBALIZATION

At the beginning of the seventies of the twentieth century, the international financial system have taken very significant changes caused by changes of the economic power of the most developed countries of the world. Having lost a dollar convertibility to gold world currencies are definitely lost by then formal backing of currency in the noble metal. In response to the new conditions of international currency and financial markets have appeared numerous, previously unknown, financial instruments, whose far-reaching impact on the effectiveness of economic policy, especially in the three main segments - monetary, fiscal and exchange rate policy. In fact, this development is a kind of struggle between powerful financial corporations, with a high degree of freedom in their business policy and developments in the world economy, on the one hand, and state governments attempt to actively influence the direction of the business cycle and to drive economic growth on the other side.

Globalization is a process of economic, social, cultural and political activity that crosses national borders, is reflected in the transfer of knowledge and information, the increased volume of world trade in goods, capital, services and energy, protect the environment and so on . It is increasingly common in the modern world of the past 20 years brings many changes in the world economy. Closely associated with the development of the communications that allow you to connect the world in different ways. Thanks to the connection until recently unimaginable scale, the world is increasingly common trend is the creation of multinational companies. Their share of the world economy recorded a dynamic growth , and reflect on the national borders of certain countries of the world. While on the one hand, the process of globalization the world is becoming "big yard" or "global village", is both more pronounced strengthening regional sense.

The International Monetary Fund financial globalization is defined as a complex process that consists of four segments:

- ✓ technological level of equipment for the analysis, management and execution of activities related to financial risks;
- ✓ integration of national markets into global financial markets;
- ✓ minimize the differences between the financial institutions, activities and market segments in which it occurs and
- ✓ development of global banks and international financial conglomerates.

Globalization of the economy is coming to the fore only in the tertiary and quaternary level of development, ie. in the post-industrial age. In today's world economy are undergoing numerous changes that are reflected in the changing role and importance of certain industries , ie. comes to its restructuring. Large and comprehensive watershed in the modern economy is experiencing an industry that employs many workers and participate in the creation of new values and is still the dominant industry. While developing countries are still at the beginning of the industrialization process in the economically developed countries of the industry restructuring and transition to postindustrial society, is widespread. As in the past, human society has moved from agrarian to industrial civilization, today we talk about the transition from industrial to postindustrial civilization, which is accompanied by the development of computer science and application of atomic energy.

Financial globalization brings many advantages that are primarily available already prepared actors operating in global markets. From the standpoint of the debtor global financial markets offer many more possibilities to use savings achieved in other countries / regions at a lower cost. Compared to borrowing in the local market borrowers have significantly more possibilities to use a large number of financial instruments in international markets while simultaneously being able to secure financial transactions using derivative instruments. Financial globalization, indirectly, can lead to improvements in the financial system of the country of the debtor, as the local financial institutions are faced with foreign competition, increasing the level of knowledge, lowering costs and using more advanced technology. From the point of saving financial investors and lenders financial globalization allows a wider choice of investments in a number of financial instruments with dispersed structure of return and risk, allowing more efficient structuring portfolios to increase returns and reduce risk.

THE STRUCTURE AND GROUNDS OF MULTINATIONAL COMPANIES IN OTHER COUNTRIES

Multinational companies dominate in those industries in which the costs of research and development and advertising is very high. They have the advantages of each technology, image and reputation they have acquired, as well as the methods and techniques of management. Characteristically, the multinationals producing in many countries tend to specialize, and those that produce a small number of countries produce a wide range of products.

Table 1 The structure of MNCs by country of origin

Country	Number of companies	Country	Number of companies
SAD	185	China	12
Japan	104	South Korea	11
France	37	Switzerland	31
Germany	34	Netherlands	9
Great Britain	33	Other	49
Canada	15		

Based on data from the UN estimate that there are about 37,000 companies that can be classified as a multinational company. They have about 170,000 individual branches spread worldwide and achieved total sales volume of 5.5 billion dollars. More than 90 % of the branches are located in developing countries. List of the 500 largest companies in the world shows that it is more pronounced dominance of U.S. companies, as was the case at the end of the twentieth century.

There are two basic motives of establishment abroad: one is caused by the need to secure raw materials, and other needs of providing more customers. In the first case of multinationals in their investment does not take into account the level of development of the economy, but the capital invested in countries where there are natural resources and raw materials that are needed. The country has deposits of specific natural resources are present, as a rule, multinational companies that perform and control the exploitation of these resources.

In the case of other motives, the company first established companies in developed countries, which have a large population and a large income that each of them has an average of, and later invested in less developed countries. But that phase have been through almost all the companies, so they started to invest capital and in less developed countries, starting with the fact of the conviction that in each of them there is a well developed middle class, which has the purchasing power to be worth starting your own business.

Due to the rapid growth of investment and foreign direct investment was imminent, the research center of international political economy have become multinationals, which have become major players on the international economic scene as carriers of foreign direct investment. Looking at multinationals and their impact on international trade relations, it should be noted that these companies stand behind the interests of the mother country to countries that are investing capital. The use of new technologies and knowledge production through the use of external factors in the host country capital, it is necessary to achieve such production in the circumstances and to subordinate their own interests. Multinational companies aim to make the concentration of strategic factors in the home countries, while the economy of the country you are investing capital aims to integrate the global system of production as a source of cheap resources and markets for their products.

THE IMPORTANCE OF FOREIGN DIRECT INVESTMENT IN TRANSITION COUNTRIES

Attracting foreign direct investment in most countries in transition is a necessary condition for increasing production and exports to a level that would enable the country's steady economic growth and a successful debt service. Accordingly, one of the most important objectives of economic policy makers, is to create an investment climate conducive to attracting foreign direct investment. One of the instruments to increase investment refers to the stimulatory fiscal environment in which the greatest impact on the company and investors alike a tax on corporate income. Income Tax Law is one of the most important tax instruments to stimulate economic activity in the local environment, but also to attract the necessary foreign capital. Various tax incentives in corporate profits have become a key determinant of tax competition to attract foreign capital. The European Union is now the most successful countries in transition that are no doubt made a significant inflow of foreign capital investors just giving preferential tax treatment of a number of incentives in corporate profits, but also by providing the necessary economic and social conditions. Since the transition countries are aware of the importance of foreign direct investment have for their rapid economic development, there has been competition for investment among these countries, which, among other things, approving and implementing various tax privileges to investors.

In developing strategies and policies to attract foreign investment is necessary to take into account the specific characteristics and comparative advantages of the country , and when it must be borne in mind and purpose , growth and development, which is set strategy and policy in the economic development. Many countries have tried to implement such a policy to foreign investors, which allows them to control those sectors that have significant strategic importance for the development of the national economy. In doing so, they sought to provide the opportunity for the free entry of foreign capital in the rest of the production. For foreign investors in most cases this means a limitation, but for the country in which to file this creates conditions for the free development that manages the country. The strategic objective of the country in which to invest should be based on attracting foreign capital to those projects which were unable to finance, attracting technology and knowledge which they lack, export promotion programs and ensure that these projects using local resources. One of the main goals should be to increase employment and competitiveness in certain companies in the country, and the entire national economy. In order to achieve planned goals is necessary to build a climate investment strategies and policies aimed at attracting foreign capital, which must be based on the liberalization of economic flows, the opening of the domestic economy and the European integration. A prerequisite is a stable political situation and an environment that must be the guarantor of foreign capital inflows. The special role of the state to achieve such a legal framework that would guarantee equal treatment of foreign and domestic investors , foreign investors without bringing in an inferior position relative to domestic investors. It is allowed to state the reasons strategic interests of the national economy may impose certain restrictions or privileges to specific projects, but to the restrictions and prohibitions should be kept to a minimum.

In the modern business environment foreign markets are not overwhelmed traditional exports for foreign direct investment. Dislocation of their production systems, multinational companies achieve the best supply of raw materials, energy and labor, and on the other side of their products or services sold on the world market in the most profitable manner. It is possible to distinguish several periods that are marked by investment booms:

1) The first jump of FDI followed a long oil crisis of the late 70s of the last century. As these investments were oriented primarily to manufacturers of oil this trend was short with a small volume of investment. During this period, after the United States, Saudi Arabia was the largest recipient of investment, most investors were the Netherlands, the UK and the U.S..

2) The second jump of FDI is related to the developed countries, where the development of information and telecommunication technologies support this growth and enable multinational companies to easily and quickly coordinate their activities located in various parts of the world.

3) The third positive jump has led to the fact that foreign direct investment was marked by far greater value of investment flows, as well as the very high growth rates. This period was marked by a significant share of the developing countries, especially in the entry of FDI flows. In addition to the U.S. and UK , which have retained the role of the world's leading investor there is a geographic shift of the investment scene with the participation of several countries as investors (Germany, France, the developed Asian economies) and as host countries (China and the countries of Latin America)

4) The fourth jump of FDI is related to recovery after the recession of the early 21st century. The period was marked by a high share of developing countries, both at the input and the output side of the investment. Special emphasis this record investment wave given by the BRIC countries (Brazil, Russia, India and China).

Foreign direct investment as a form of foreign investment often take place in the form of direct investment in the construction of production facilities and the network to sell products in foreign markets. In addition to this type of investment, a growing form of an investment and joint ventures, as partners in addition to mutual benefit and common bear the risk of such an investment. Based on the characteristics, from the standpoint of investors, there are two main types of foreign direct investment: (a) American type of direct foreign investment - multinational companies use their branches in foreign countries to produce and sell products, while expanding its network as part of a global strategy all with the goal of maximizing profits and increasing market share of the company in a given market. This type of investment is present in high-technology industries, and the task is to multinational companies through its network of branches at the same time reduce costs. In the case of a multinational company solely interested in the rapid growth and increase profits, and not the interest of the country to which invests. (market-oriented type of investment), (b) type of Japanese direct foreign investment - differs from direct investment company of other developed countries. Multinational companies, especially from Japan, are seeking to invest their capital in the country's environment and their industry in a situation when there is no comparative advantage in this country. For this land is important that the basis of technology, capital and knowledge they receive most of their assets. For Japan it is important that the best use of its comparative advantage as a superior technology, commitment to the company and knowledge to develop new technologies and new products. In this situation there is a better industrial structure and the home countries of multinational companies and the countries in which it invests, as well as the development of trade with the possibility of expanding the market. (trade-oriented type of investment). The task of Japanese companies is that capital investment help countries that are investing in the best possible manner to accept the knowledge and technology that is offered, all with the aim over time and take on the management and improvement of their development. Therefore, these companies are given the opportunity of a free trade while making the most of the comparative advantages of the two countries.

Based on this we can conclude that Japanese guy supposed to direct investment should take multinationals in those industries where the country from which it makes no comparative advantage, whereas the American type is assumed to undertake direct investment in industries where the country from which it has invested pronounced comparative advantage.

MULTINATIONAL COMPANIES AS CARRIERS OF FOREIGN DIRECT INVESTMENT

The beginning of the XXI century is characterized by complex processes of world development in which a multinational company, modern technology, especially the Internet and the powerful developed countries dominate the economic and other fields. The dynamic processes of scientific - technological innovation, creativity and continuous changes completely change the world. Accelerating the creation of the global economy, information and communication networks have created a unique area of the world. For multinational companies created a climate of successful business through liberal distribution of branches and the business opportunities around the world. The rapid development of the globalization of business has caused an increase in competition in the international market. Number of organizations different forms be increasing according to the development level of the business. By moving parts company in the country with cheaper labor , accessible legislation and the dynamic expansion of the domestic market, multinational companies retain the competitive advantage gained. The inflow of foreign direct investment and the arrival of the leading multinational companies, realize significant benefit developing countries. It reduces the massive unemployment, and providing modern technology, better organization, management, and facilitates exports to third markets.

Multinational companies are companies that have their own facilities and other resources, in addition to the mother country, in at least one country. Such companies have branches or factories in different countries and usually have a centralized administration which managed globally. Very large multinationals have budgets that exceed the budgets of many small countries. Sometimes they can be found under the name of multinational corporations. The term multinational understood in the broadest sense, the transfer of certain activities outside the home country. For any company that has a plant abroad, it can be said that the multinational.

The first multinationals occur in the late seventeenth and early eighteenth centuries. Activities of multinationals are more related to the sale and purchase of the product, but the investment and production outside of their country of origin. The real impact of multinational companies began cross-border investing and managing these investments. This process began as part of the internationalization of economic processes in the nineteenth century. The dominant form of foreign investment at the time were portfolio investments. Were led by financial intermediaries, and included individual investments in shares or bonds originated by the across - oceanic base company. This type of investment is tied to the company's needs for raw materials such as coffee, oil, gold, diamonds, sugar, etc. Therefore, the European and American companies did everything they could to ensure their access to these resources. During this period there have been multinational companies such as British Petroleum, Royal Dutch Sell and American Tobacco.

The importance of multinationals say the following facts:

- ✓ 100 most powerful economic entities, including individual states, as many as 60% percent of the multinationals,
- ✓ about half of the industrial output of the most developed countries of the world is formulated in multinational companies,
- ✓ estimated that a third of global production and over 50% of the planetary exports realized just multinationals.

Table 2. Top 10 multinational companies in the world

Rank	Company	Revenues (million $)	Profit ($ million)	Assets ($ million)	Equity ($ million)
1	Wal-Mart Stores	421.849	16.389	180.663	68.542
2	Royal Dutch hell	378.152	20.127	322.560	148.013
3	Exxon Mobil	354.674	30.460	302.510	146.839
4	BP	308.928	-3.719	272.262	94.987
5	Sinopec Group	273.422	7.629	225.388	76.539
6	China National Petroleum	240.192	14.367	399.101	211.793
7	State Grid	229.294	4.556	315.268	115.413
8	Toyota Motor	221.760	4.766	359.862	124.696
9	Japan Post Holdings	203.958	4.891	3.535.277	115.020
10	Chevron	196.337	19.024	184.769	105.081

Looking at the table we see that dominate the oil industry, which only confirms what is their importance in the world economy. In the first place there is a manufacturing and sales of consumer goods (Wal-Mart stores). However, it was not always such a structure, as in previous years dominated by companies that manufacture cars, while at the present time starts to weaken their significance. You follow their example and companies in the telecommunications and electronics industry, as well as their significance begins to decline. All this left a space oil companies to strengthen their position in the global market.

More specifically, the growth and organization of international production under the governance of transnational corporations has several implications for the organization of domestic labour markets:

- The conditions underlying firm-level competitiveness are changing, relying less on traditional natural assets and more on created assets, above all assets in the form of skills and knowledge. Such assets are therefore an important factor influencing the locational advantages of countries as hosts to transnational corporations.
- The importance of skilled human resources, as well as the proliferation of cross-border production linkages via foreign direct investment, subcontracting arrangements and strategic alliances and the adoption of complex integration strategies by transnational corporations create both challenges and opportunities for mutually beneficial relations between employers and employees.
- As the organizational scope of transnational corporations widens, both geographically and functionally, and as the mobility of capital increases, labour and governments must adapt more quickly to changes in the international competitiveness of their industries and firms.
- Increasing reliance on market forces redefines the relationships of firms, labour and governments with one another, including those in the areas related to employment and the workplace.

Table 2. The strategies and structures of transnational corporations

Strategy	**Intra-firm linkages**	**Foreign affiliate type**	**Degree of integration**	**Environment**
Stand-alone, e.g., multi-domestic	Ownership, technology, finance; mostly uni-directional	Miniature replica of the parent firm	Weak	Host country accessible to foreign direct investment; trade barriers; costly communications and transportation
Simple integration, e.g., outsourcing	Ownership, technology, markets, finance, other inputs; mostly bi-directional; subcontracting	Rationalized producer of one or a few elements in the value chain.	Strong at some points of value chain, weak in others.	Open trade and FDI regimes, at least bilaterally; non-equity arrangements permissible.
Complex	All functions;	Product or	Potentially	Open trade, technology FDI and

integration at the regional or global levels, e.g., networks	mostly multi-directional	process specialist; functional specialization	strong throughout value chain	related regimes; use of advanced information technology; convergence in tastes, heightened competition, low communication and transportation costs.

That one country was able to attract foreign capital must first create a favorable investment climate that will be created if there is a stable economic conditions, the political and social stability, a favorable foreign trade, customs and foreign exchange treatment of joint ventures, as well as available, reliable and skilled labor power and access to raw materials and other domestic sources of supply. Each country tries to offer the best conditions for conducting economic activity and investment. Particular attention is paid to the tax conditions and tax treatment of the company, on the way to base corporate income tax significantly expanded, while the tax rate is much lower that almost close to zero or even disappears completely. Consequence of this behavior is a significant erosion of the state tax base, and create a very "unfair" tax environment in comparison with the conditions of operations of the neighboring countries.

CONCLUSION

All countries undergoing the process of transition they want to achieve stable and long-term economic growth, which is based on increasing investment, improving the technological base of these countries in enhancing the competitiveness of their products in the international market. In transition countries where foreign ownership industry achieved good results and promote the overall economic recovery. Foreign affiliates or local companies connected with foreign partners, often defined as' “bright spots” East economy in terms of export performance, current level of productivity and speed reconstruction of existing facilities.

Multinational companies are a huge market for its products in countries in transition and developing countries. All these countries tend to have conditions to attract foreign direct investment, as they have a huge market, the industrial base, natural resources and skilled and cheap labor force with experience in industrial production. All this is enough to attract multinational companies in these countries establish their affiliates, and through pressure on developing countries help build market institutions and assist the transition of the economy to market economy.

Creating favorable conditions for domestic and foreign investment, a major challenge for all countries, given that increasing globalization and the pressure to be competitive in the business creating the framework and the need for continuous improvement of the general business environment and the performance of companies.

REFERENCES

[1] Arsić, M. (2005). *Međunarodno ulaganje kapitala*, časopis Finansije, br. 1-6., Beograd.

[2] Chatelais, N. and M. Peyrat (2008), *Are small countries leaders of the European tax competition*?,*CES* Working Paper No. 2008.58.

[3] Davies, R.B. and J. Voget (2008), *Tax Competition in an Expanding European Union*, Oxford University Centre for Business Taxation Working Paper No. 08/03.

[4] Dunning H. John, Zhang F. (2007), *Foreign Direct Investment and Locational Competitivness of Countries*, from the "Whither Competitivness" conference, Geneva.

[5] Feld, L.P. & Heckemeyer, J.H. (2009). *FDI and Taxation: A Meta Study*, CESifo Working Paper No. 2540.

[6] Nicodème, G. (2006), *Corporate Tax Competition and Coordination in the European Union: What do we know? Where do we stand?,* MPRA Paper No. 107.

[7] Popovčić Avrić S., Đenić M. (2010), "Strane direktne investicije kao dinamički faktor svetske privrede", Ministarstvo za nauku RS, Beograd, str. 198.

[8] Voutilainen, T. (2005), *Foreign Direct Investment (FDI) theories explaining the emergence of Multinational Enterprises (MNE's) -- Who, Where and Why* --Department of industrial engineering and management institute of strategy and international business. Helsinki University of Technology.

[9] World Economic Forum (2008),*The Global Competitiveness Report 2008-2009*, Geneva.

[10] World investment report (2008), *Transnational Corporations and the Infrastructure Challenge*, United Nations Conference on Trade and Development, New York and Geneva, UN.

[11] World investment report (2009), *Transnational Corporations, Agricultural Production and Development*, United Nations Conference on Trade and Development, New York and Geneva, UN.