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AZERBAIJAN STATE UNIVERSITY OF ECONOMICS

INTERNATIONAL GRADUATE AND DOCTORATE CENTER

MASTER DISSERTATION
ON THE TOPIC

"THE İMPACTS OF TRANSNATİONAL CORPORATİONS ON ASİAN COUNTRİES"

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Elm andı

Mən, Abbaszadə Nurlanə Vüqar qızı and içirəm ki, “The Impacts of Transnational Corporations on Asian Countries” mövzusunda magistr dissertasiyasını elmi əxlaq normalarına və istinad qaydalarına tam riayət etməklə və istifadə etdiyim bütün mənbələri ədəbiyyat siyahısında əks etdirməklə yazmışam.

TRANSMİLLİ KORPORASİYALARIN ASİYA ÖLKƏLƏRİNƏ TƏSİRİ

Xülasə

Tədqiqatın aktuallığı: Müasir dünya iqtisadiyyatını transmilli korporasiyalar olmadan təsəvvür etmək qeyri-mümkündür. Asiya regionu transmilli şirkətlər üçün xüsusi əhəmiyyət kəsb edən, istər istehsal, istərsə də satış baxımından kifayət qədər geniş bazardır. Asiyanın sənayeləşən ölkələri, Yaponiya, inkişaf etməkdə olan ölkələri dünyanın diqqət mərkəzindədir. Ən sürətlə inkişaf edən iqtisadıyyat-Çin bu regiona daxildir. Çinin texnologiya transferi siyasəti, bu siyasətin nəticəsi olaraq Amerika Birləşmiş Ştatları ilə olan "ticarət müharibəsi", həmçinin Çinin "Bir Kəmər, Bir Yol" təşəbbüsü dünyanın diqqət mərkəzindədir.
Tədqiqatın məqsəd və vəzifələri: Tədqiqatın əsas məqsədi transmilli şirkətlərin Asiya regionuna daxil olan seçilmiş ölkələrin iqtisadiyyatlarına hansı təsirlərinin olmasını, bu şirkətlərin birbaşa xarici investisiya və autsoursinq fəaliyyətlərinin region ölkələrinin iqtisadi artımına təsirini analiz etməkdir.
İstifadə olunmuş tədqiqat metodları:Dissertasiyada əsasən deduktiv metoddan istifadə olunub. Müxtəlif mənbələrdən olan məlumatlar toplanıb analiz edilib ümumiləşdirilərək təqdim olunub.
Tədiqatın informasiya bazası: Tədqiqat işinin hazırlanması zamanı beynəlxalq təşkilatların hesabatlarından, mövzu ilə əlaqədar yazılmış məqalələrdən, kitablardan, müxtılif internet resurlarından istifadə olunub.
Tədqiqatın məhdudiyyətləri: Araşdırılan ölkələr üzrə tam istənilən statistik və nəzəri məlumatların olmaması tədqiqat işi üçün bəzi yerlərdə məhdudiyyət yaratmışdır. Birbaşa xarici investisiya qoyuluşlarının ölkələrin ixracına birbaşa təsirini əks etdirən məlumatlar tapilmamışdır.
Tədqiqatın nəticələri: Dünya bankının rəsmi saytından götürülmüş statistik məlumatlardan istifadə edilərək region ölkələrinə birbaşa xarici investisiya axınlarının və transmilli şirkətləri fəaliyyəti nəticəsind artan ixracın onların ümumi daxili məhsullarına necə təsir etdiyi araşdırılmışdır. Ayrı-ayrı ölkələr üçün 1960-2018-ci il intervalında seçilmiş illər üzrə hesablamalar aparılmış, sadalanan faktorların ölkələrin ümumdaxili məhsul buraxılışları üzərində müsbət, güclü təsiri olduğu sübut edilmişdir.
Nəticələrin elmi-praktiki əhəmiyyəti: Əldə edilən nəticələrin müsbət olduğunu nəzərə alaraq Azərbaycanın qeyri-neft ixracının artırılması yolunda hansı strategiyadan istifadə etməsi üçün tövsiyələr verilmişdir.

Açar sözlər: TMK, Birbaşa xarici investisiyalar , Asiya.

Abbreviations

AEC	ASEAN Economic Community
ASEAN	Association of South East Asian Nations
BOP	Balance of Payment
BP	British Petroleum
CLMV	Cambodia, Laos, Myanmar, Vietnam
ECB	External Commercial Borrowing
e.g	for example
Etc	and so on
EPZs	Export Processing Zones
EU	European Union
FCPA	Foreign Corrupt Practices Act
FDI	Foreign Direct Investment
FLNG	Floating Liquefied Natural Gas
FTAs	Free Trade Agreements
FTT	Forced Technology Transfer
FTZ	Free Trade Zone
GDP	Gross Domestic Product
GE	General Electric
GM	General Motors
GVCs	Global Value Chains
HFDI	Horizontal Foreign Direct Investment
ICT	Information and Communication Technology
IMF	International Monetary Fund
IPR	Intellectual Property Rights
IT	Information Technology
JIT	Just in Time
M&A	Merger and Acquisitions
MNC	Multinational Corporation
MNE	Multinational Enterprise
NIC	Newly Industrialized Country
OECD	Organization for Economic Co-operations and Development
OLI	Ownership, Location, and Internationalization
R&D	Research and Development
SOE	State Owned Enterprise
SOCAR	State Oil Company of Azerbaijan Republic
SOFAZ	State Oil Fund of the Republic of Azerbaijan
SCC	State Statistical Committee
SMEs	Small and Medium sized Enterprises
The US	The United States of America
TIVA	Trade in Value Added
TNC	Transnational Corporation

TNE	Transnational Enterprise
TPS	Toyota Production System
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNEC	Azerbaijan State University of Economics
UNRISD	United Nations Research Institute for Social Development
USSR	The Union of Soviet Socialist Republics
VFDI	Vertical Foreign Direct Investment
WTO	World Trade Organization
WIPO	World Intellectual Property Organization

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INTRODUCTION

The actuality of thesis: This thesis focuses on the impact of multinational companies on the Asian countries.

Multinational corporations play an important role in the modern world economy.

About 80% of the world economy is international trade. There is a general perception that a large share of world trade takes place within multinational corporation networks. According to UNCTAD's estimate, 80% of global trade is coordinated by multinationals.

On the one hand, corporations are trying to access the international markets to increase their profits. The Asian market is large enough for companies. On the other hand separately each country needs transnational corporations to achieve national economic growth and to attract foreign direct investments.

The Asian region is considered the "factory" of the global economy. A large portion of world production is taken place in Asia. The rise of East Asia, especially the fast growth of China, cheap labor and production costs make that region attractive for multinationals. Most of the multinational companies operate in Asia and these operations have affected the countries' economic development.

Statement of the problem and learning level: At first, I have looked at what these corporations and globalization process is and how multinationals act like main players of that process. Then I have focused on if they have an impact on the Asian countries or not. As multinationals are the main sources of foreign direct investment inflows, I have looked at if there is any relationship between investment inflows to the region's countries and their gross domestic product growth, or not. As well as multinationals increase the countries' export and how this increase affect their gross domestic product growth too. At last, I have looked as if the region has multinationals which can compete with western ones in the global market, or not. What is the role of the region in the modern processes of the world economy, like a global value chain?

The findings showed that multinationals are the main moving powers of the world economy and they are the main players in the globalization process. They have a significant role in the Asian economies too. The results showed that the relationship between investment inflows, exports and gross domestic product is positive and strong for each country which I focused on. In the modern world economy multinationals from emerging Asia play an important role. These multinationals are strong enough for competing with their western rivals in the global markets. Also, this region plays a significant role in the global value chain.

The purpose of the thesis: The main purpose of writing this thesis is the actuality of this theme. The work aims to analyse the impact of the transnational corporation's operations in Asia and to find out how they affect the countries in the region.

Objects and subject of thesis: The main objectives of the research are multinationals and Asian countries. The subject is to prove the positive impacts of these companies on the region.

Methods of the thesis: During the research, I have used the secondary data- the reports of the international organizations (World Bank, UNCTAD), articles, thesis, and as well as other normative and directive documents, online resources about transnational corporations, Asian emerging, developing economies, and Japan. I have used the qualitative method- analyzed the reports, thesis, articles, documents, and books.

I have made summarization, statistical analysis to measure the correlation relations and SWOT analysis for comparing the western and eastern multinationals. I have used "Excel" to calculate the correlation.

Literature review: Dunning J.H. and Lundan S.M. (1998, revised in 2008) have researched the theory and history of these corporations, facts, definitions and etc., about them, their foreign direct investment activities. Entry and expansion strategies of these firms, the impact of investment inflows on countries' economies, the role of multinationals in technology and innovation spillover and etc., have been described in their book named "Multinational Enterprises and

Global Economy". Hart J.A. (2015) have researched the globalization process and the role of multinationals in this process at his article which named "Globalization and Multinational Corporations". In the thesis by Chartas V. (2011) and the research paper by Tingting W. (2014) respectively the impact of investment and the impact of outsourcing on the Chinese economy have been researched. Today's actual global economic issue- "trade war" has been caused by Chinese forced technology transfer policy. This issue and its implications on the global economy have been researched by Lee G. B. (2018) in his article named "China's forced technology transfer problem-and what to do about it?". Since foreign investment has played an important role in the economic development of South Korea, it has been researched in the paper by Koojaroenprasit (2012)named "The impact of foreign direct investment on economic growth: a case study of South Korea". Asheghian P. (2005) and Paprzycki R. (2006) have researched the impact of investment inflows on the Japanese economy. Kanchan (2016) has written about the role of multinationals in the Indian economy.

ASEAN is a very attractive region for multinational corporations and these companies have played an important role in the economic growth of the region's countries. Ambashi M. (2017) has researched the impacts on ASEAN wholly, while Ramstetter E. D. and Sjöhölm F. (2006) researched the impact on Indonesia and Thailand, Toanthang T. and Manh Hai N. (2015) researched the Vietnam economy.

The impact of FDI inflows and multinationals on Azerbaijan's economy has been researched by Mammadova G. (2015).

Mathews J. A. (2006) has researched the dragon multinationals-multinationals from emerging economies in the 21st-century global economy. As Asian countries play an important role in the global value chain, that was researched by Khoi N. V. (2011) and by Azmeh S. and Nadvi K. (2014).

Limitation of the research: There have been limitations that I have faced during the research. This limitation is about the lack of information about outsourcing activities of multinational corporations in the region's countries

separately. The findings mostly were about the foreign investment activities by multinationals in the region.

Practical importance of the thesis: According to positive results gotten from the analyizes, there is a suggestion about Azerbaijan's improvement of non-oil production and export.

Structure of the thesis: Dissertation consists of Introduction, 3 Chapter, Conclusion and Recomendation, References and Apendix. There are 20 charts and 9 tables in it. The work consists of 99 pages.

In the first chapter of this thesis, I have focused on the theoretical basis of these companies.

We can't describe the modern world economy without foreign direct investments. Multinationals are the main source of investment inflows and outflows from countries.

Globalization is the main trend of the modern world economy. Multinationals are like the main players of this process. Globalization lets the nations trade between themselves without any barriers. The companies take advantage of globalization as using foreign resources- low-cost labor and etc.

Globalization has advantages and disadvantages for the countries. These implications are discussed in the chapter.

Along with the globalization process, multinationals have positive and negative impacts on countries' economies, especially for developing ones. These positive impacts can be about increasing the employment rate, increasing gross domestic product growth and etc. Increasing the employment rate can be the negative side of this issue- some researchers argue that multinationals exploit cheap labor across the developing countries. These issues are discussed below.

In the second chapter, I have focused on the impact of the transnational corporations on Asian economies. The Asian region is considered the "factory" of the world economy. This region provides low-cost labor, low taxes and etc. for the companies. That is why this region is very attractive to foreign investors. These countries have different policies on attracting foreign direct investment inflows.

Their emergence as a power in the world economy is a result of their such policies. These countries learn the technological skills, innovations, production methods from foreign investors and apply this knowledge on their local production and increase their export. Thus multinational corporations play an important role in the development of the region. In this thesis, I have focused on not all Asian economies. Emerging East Asian countries-China, Hong Kong, South Korea, and highly developed Japan, India from South Asia, and South East Asian countries are the main countries I have made research on. I have used the selective time series data between 1960 and 2017 for each country and calculate the correlation relations between foreign direct investment inflows and gross domestic product growth, export and gross domestic product growth.

Transnational corporations also play an important role in Azerbaijan economy. Along with the "contract of the century" investment inflows to our country has increased. Increasing foreign investment inflows increased our export and increased the cash flows to the country. It had a vital role in the social-economic development of our country. I have made the same correlations for the Azerbaijan economy too with data ranged 1995-2017.

In the third chapter, I have looked at the multinationals, especially Asian ones in the modern world economy. Comparison of eastern and western ones shows that although they are from emerging countries and their rivals are from developed economies, these companies do well. They can compete greatly in the global market. These companies play an important role in the global value chain too. I have given sufficient information about that issue below.

CHAPTER 1

THEORETICAL BASIS OF TRANSNATIONAL CORPORATIONS

1.1. General Understanding of Transnational Corporations

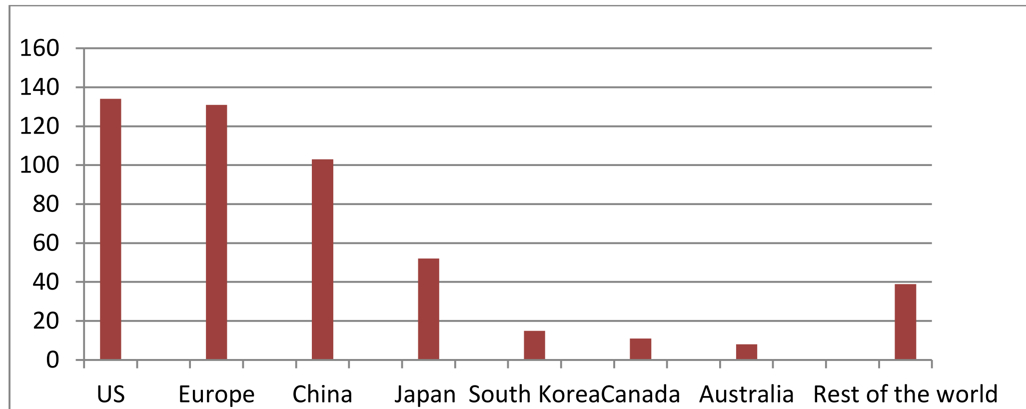
Transnational corporations have an important role in the world economy. TNCs are like the main engine of investment. Nowadays the budgets of some big TNCs exceed the budget of the small countries. They have strong effect on international relations within their economic power and large financial resources. In theory, there are several definitions of TNCs. "Transnational corporations are also known as multinational corporations (MNCs), multinational enterprises (MNEs), and transnational enterprises (TNEs)"(Dunning J.H, 2008: p.29). "A transnational or multinational corporation is an enterprise that engages in foreign direct investment (FDI) and owns or, in some way controls value-added activities in more than one country"(Dunning J.H, 2008: p.29).This definition is vastly accepted definition in academic and business spheres by governments and international organizations. We can also say that transnational corporation is a company that produces goods and services not only in the home country but also abroad (Dunning J.H., 2008).

TNCs have a significant role in the development of the world economy, internationalization of production, effective circulation of capital, application of scientific and technical achievements internationally in a complex way, creating new jobs, improvement of economic integration processes and etc.(Sabiroğlu N., 2006).

The history of these corporations is related to the history of colonialism. The first multinational corporation is The East India Company which founded in 1646 by the British. Its headquarter was in London and took part in international trade and exploration with trading posts in India. There are other examples such as the Swedish Africa Company which founded in 1649 and the Hudson's Bay Company which founded in the 17th century. After World War II the number of TNCs tended to increase, especially after the 1960s (Wikipedia.org). Nowadays the US is in the

first place for the number of multinationals it has. China, Western Europe, Japan, and South Korea are in the next places (Geolounge.com).

Chart 1. The number of TNCs countries have



Source: Geolounge.com, 2018

The basic criteria which used to classify TNCs are these companies being ethnocentric, polycentric and geocentric. According to these, if parent company dictates subsidiary companies decisions on production this is ethnocentric company, if parent company gives subsidiary one certain autonomy (while the first one is making strategic decisions on long-term growth, the second one makes decisions on short and mid-term ones) this is called polycentric ,and if company managers and investors are from different nations (decisions on long-term strategic plans are made mutually by parent and subsidiary companies) that is geocentric company. The first one is called traditional, the second one is initiative and the last one is called a professional enterprise (Sabiroğlu N., 2006).

So, why companies try to become MNC? The answer is simple: to make more profit. By increasing market share (to produce goods and services in foreign country may be more profitable than export them), securing cheaper premises and labor (these are cheaper in developing or less developed countries), avoiding tax or trade barriers (tariff, lower taxes or regulations) and government grants – foreign governments may offer money to companies to come to their countries (because such kind of companies creates new job places, pays taxes to the government, that’s why they are beneficial for country) companies can make more profit (Dunning J.H., 2008).

Due to Dunning J. H. and Lundan S. M., there are four main ways of production:

1. Globally concentrated production- most TNCs start with this strategy. They locate all production in their home country and export the goods to the rest of the world. For example, Toyota uses this kind of production its Lexus series of automobiles. This strategy doesn't work so well generally for the service industry. Because it is too hard to export the services.
2. Host-market production structure- it is used when there are considerable trade barriers in host countries. By using this strategy TNCs produce goods and services for the host country. The products are produced for local demand and companies don't sell these products to other countries.
3. Product specialization for a global or regional market- the industries like the electronics, automobile, petrochemical- manufacturing industries companies use this strategy. Each produces only one item to be sold in the market. This production is located near the resources. For example, Apple, Samsung realizes their production in China due to the resources.
4. Transnational vertical integration- this is the most developed and coordinated organizational structure, but it is difficult to manage. For example, Sony and Sharp- core components produced in Japan, assembled in China and Southeast Asia(Dunning J.H., Lundan S. M., 2008).

Multinationals have several modes of entry into the market:

Subcontracting or outsourcing- it means cheaper labor, specialization and fewer transaction costs. Outsourcing is using outside resources. "Strictly speaking, outsourcing is defined as developing a supply source which is located outside a plant, a factory or an office in charge of producing some final products and services." (Andreff W., 2009: p.6) What is the importance of outsourcing? Henry Ford- founder of the "Ford Motors Company" had been able to convert the small

company into big holding for 12 years. In 1909 the number of produced cars increased from 18.644 to 1.250.000. But from 1927 "General Motors Company" started to get predominance in the market by its produced cars. As a result genius manager Henry Ford lost the competition to his rival Alfred Sloan. What was the cause of this defeat? Henry Ford achieved to carry out each process of production and delivery to the consumer in the company itself. Unlike H. Ford A. Sloan used outsourcing strategy. He knew that using the services of some specialized companies would be more effective and profitable. How they say "it is not so important to reinvent the wheel." So, the competition of these two big companies proved how beneficial to use outsourcing service. Nowadays "Toyota Motor Corporation" almost relies 70% of its business process on outside companies.

Companies use different forms of outsourcing. The first one is the whole form of outsourcing (the company uses wholly service of the outside company for a certain process). For example, "Microsoft Corporation" empowers the improvement of the company workers' education to outsource company. The second one is partial outsourcing strategy (company empowers only one part of a certain process to the outside company). "General Motors" company uses this strategy. Company empowers only automation of one line in car production to "Electronic Data Systems" company. "Apple computer" corporation has outsourced 70% of its production functions to companies like "Tokyo Electric Power Company", "Regis Mckenna" and etc. This is called improved outsourcing strategy (this is a new orientation of outsourcing services- company empowers a few functions of itself to outsource companies)(Bakinar.com, 2017).

Franchising or licensing –this is the fastest spread of the business without taking any risks.

> *"Under a franchise, the owner (franchisor) retains control of the brand and licenses (that is, grants permissions to) the franchise to use its successful business model and brand. In exchange, the franchise puts up the initial capital for the business, helps to promote the brand and pays a license fee. The franchisor supports its franchisees by providing training, know- how, marketing and other resources and skills"*(Azrights.com, 2014).

Fast-food chains like “McDonald’s”, hotels like “Holiday Inn” can be an example for franchising.

Strategic alliances or joint ventures-This is mostly used in the oil industry, pharmaceuticals, technology and etc. For instance, in July 2011, a strategic alliance was announced among “Facebook”, “Skype” and “Microsoft” corporation. Because of this alliance “Microsoft” was able to quickly move into social networking space. “Skype” could get access to a large range of new users and “Facebook” was able to use video chat which is “Skype” technology while not making an investment in building it by itself. That month a joint venture contract was signed by “Dow Chemical” company and Japanese firm “Ube” for creating a factory for the particular high-tech battery. They share technology, and the risk of new product development(Slideshare.net, 2012).

1.2. Globalization and Role of Transnational Corporations

The “globalization” term began to seem in scholarly works about international political economy in the 1990s. “Globalization is the process by which the world is becoming increasingly interconnected allowing goods, capital and people to move around the globe efficiently” (Hart J.A., 2015: p.1)

There are various approaches to globalization. Some researchers who are against globalization suggest that globalization ruins national culture, makes society receive production standards which are strange to that society and etc. Another part states globalization is the collision of civilizations and dispute of civilizations. Although everything, globalization affects political life of countries, international relations, and even ethics and culture. Opponents of globalization are sure of globalization is the mechanism that works to take leadership on the world. They have a reason for saying that- because mostly rich and developed countries gain from globalization as they have huge companies (Hart J.A., 2015).

Economic crises in one country can affect other countries like “domino effect”. For instance, a debt crisis in 2010 which experienced by Greece effected to

all of Europe. Free trade can be a greater risk for small or new companies while competing in the global market(Investopedia.com, 2018).

Proponents of globalization state that globalization helps developing countries to catch industrialized countries by manufacturing, diversification, economic growth, and development in standards of living which are spread by globalization. The best example is China which has got many utilities for improving the national economy from globalization (Hart J.A., 2015).

Technology is a main moving power of globalization. Advancement in information technology and the flow of information beyond the national borders result in investment opportunities. Technological progress like digitalization has made straightforward and expedited the flow of financial assets among countries.

Public policy is another excursion factor of the globalization process. During the last 20 years, governments all around the world have united free market economic systems via trade agreements and fiscal policies. Evolution of economic systems have lifted financial opportunities abroad and industrialization, and nowadays governments focus on removing trade barriers and encouraging international trade(Investopedia.com, 2018).

The following example will show how the level of globalization in the modern world.

> *"When an American buys "Pontiac LeMans" from "General Motors" he is being included in international activity chain unawares. 20.000$ which is paid for a car to GM is distributed as: 6000$ goes to South Korea in return for routine workmanship and montage expenses, 3500$ to Japan for providing developed parts, 1500$ to Germany for design engineering, 800$ to Taiwan, Singapore and Japan for little details, 500$ to England for promotions, 100$ to Ireland and Barbados for data processing. The rest 8000$ is distributed among strategists in Detroit, bankers, and advocates in New York, lobby activities in Washington and shareholders"*(Sharp M., 1997: p.90.;Sabiroğlu N., 2006, p.101)

There is an intense relationship between economic globalization and multinationals. "Economic globalization is the increasing integration of input, factor and final product markets coupled with the increasing salience of MNCs in

the world economy and their creation of cross-national value-chain networks"(Hart and Prakash, 1999; Hart J.A., 2015: p.2)Globalizing of production shows itself in three fields:

- Foreign direct investments;
- Free movement of labor;
- Globalizing of information.

We can call MNCs as both heirs and agents of globalization. The globalizing strategies of MNCs would be impossible without a certain amount of globalization. Globalization increases as MNCs try to follow these strategies.

Some academicians state that international institutions such as World Trade Organization(WTO) or Organization for Economic Cooperation and Development(OECD) are the essential causes of globalization within the rules they build for the world economy. These organizations encourage to minimizingtrade barriers among countries (Hart J. A., 2015)

But the support for globalization by members of trade unions in the industrialized countries tends to be declining globally. The reason is downward pressure on wages caused by anamalgamation of the introduction of new manufacturingtechnologies and it is hard to compete with low wages labor in these countries (Hart J. A., 2015).

The main feature of multinationals is their producing goods and services in abroad-presence of foreign direct investments (FDI) (Dunning J. H., Lundan S. M., 2008).

In 2017, the total amount of FDI inflows was $1430 billion (23% less than the previous year) (UNCTAD, 2018).

FDIs are classified into horizontal and vertical forms. A company invests within the same business abroad that it operates domestically is a horizontal FDI (HFDI). If a firm invests in a business that plays the role of a provider or allocator this is a vertical form of FDIs (VFDI). In general, HFDI typifies relationships between developed economies and VFDI typifies relationships between countries wherever one is developed and the one is developing countries (Hart J. A., 2015).

MNCs typically found out “Greenfield” activities abroad instead of merely merging with or getting a neighborhood firm. Mergers and acquisitions accustomed account for the presiding share of FDI flows, especially to high financial gain countries. But “Greenfield” investments are expanding toward investing in developing or emerging countries. Most of the host countries prefer “Greenfield” investments to over mergers and acquisitions (Hart J. A., 2015).

In 2017, the total value of announced Greenfield projects was $720 billion (the number was 15927) and the total value of net cross-border M&A was $694 billion (the number was 6967) (UNCTAD, 2018).

With respect to VFDI, the central question is, however, a corporation can divide its production processes across totally different locations with various issue costs within the presence of “trade costs” and “disintegration prices”. VFDI flows between 2 countries won’t occur unless issue endowments are sufficiently completely various. However, an issue worth exploit can occur over time, partially because of VFDI flows and then VFDI might eventually get put back by HFDI (Hart J. A., 2015).

The more modern literature on global value chains states that a lot of multinationals have opted for commutation or supplementing the institution of overseas subsidiaries with written agreement relationships with domestic or regional companies. These MNCs have accepted modularization methods as a part of a broader international competitiveness effort wherever elements producing and assembly could also be tired out low-wage or cheap locations. This essentially involves a serious effort to fulfill international standards for technology and interfaces. “Because of lower coordination and transportation costs, the final products can be marketed anywhere in the world with sufficient guarantees of quality to make them globally competitive” (Sturgeon and Gereffi 2009; Hart J.A., 2015: p.2). So, as an example, Korean flat panel display companies contract with Japanese and U.S. glass companies to provide them with specialized glass for displays and Taiwanese assembly companies like “Foxconn” facilitate “Apple” to assemble iPods in Taiwan and iPhones in China (Hart J.A., 2015).

OLI model: Here, we can talk about a few models which are related to MNCs' activities. An eclectic paradigm or OLI model was created by John Dunning and his collaborators. The "OLI" comes from the first letters of ownership, location and internationalization advantages (Hart J. A., 2015).

> "*According to this model, an MNC must have market power that derives from ownership of some specialized knowledge. It must consider the particular foreign location advantageous for new investment relative to alternative locations including the home market. Finally, it must prefer to operate overseas facilities that it controls rather than simply contracting with local firms. Again the focus is on the importance of market imperfections and transaction costs in creating incentives for overseas activities of MNCs"(*Hart J.A., 2015: p.9).

The "International Product Life-Cycle" model: The "International Product Life-Cycle" is a theoretical model which describes, however, a business develops over time and across domestic borders. This theory was developed by Raymond Vernon. It concepts blend economic principles like market development and economies of scale with product life cycle encouraging and different commonplace business models. The four main elements of the international product life cycle theory are: the structure of the demand for the merchandise, manufacturing, international competition, and marketing strategies, and the marketing strategy of the corporate that made-up or innovated the merchandise. These elements are categorized depending on the product's stage in the international product life cycle. Introduction, growth, maturity and decline square measure the stages of the fundamental product life cycle (Slideshare.net, 2013).

The point of this theory is that the companies which operate internationally can achieve technological advantages, they will be well positioned to invest abroad. And the technological advantages are the essential determining factor of foreign direct investment. The transfer of technology can be advantageous for enhancing a developing country's productivity levels; however, it can also be damaging to that country's employment levels(Akalpler E., 2017)

Flying geese model: As this paper is about Asian countries, we have to talk about "Flying geese" (FG) model. This model is metaphorically used as a model of industrial improvement, explains how the development takes place in the less-advanced country following advanced ones. The model aims to appeals the catching-up process of industrialization in developing open economies. The author of the model was Professor Kaname Akamatsu in the 1930s, but the model becamepopular in the 1960s. According to this model, industrial improvement transmitted from the lead goose (Japan) to the follower geese (Newly Industrializing Economies (NIEs), ASEAN 4, China, etc.) and therefore, regional development unfolded. Why this model is called "Flying Geese"? The geese generally follow a "V" formation when they fly away. By flying in a "V" formation the countries add 71% greater flying range than if it few alone and staying united, they ease and pleasing the process to reach the goals.

This model explains how East and Southeast Asian economies started their industrialization strategies in tandem by focusing on foreign trade, foreign direct investment, and technology transfer, and economic development within stages. Due to this model, the development of the industry has the following stages:

STAGE 1: when an underdeveloped country first enters the international economy firstly essential products are exported and industrial goods are imported from advanced countries by the underdeveloped ones (Slideplayer.com, 2018).

STAGE 2: domestic manufacturing of imported goods is initiated with the domestic market as an outlet, close attention of purchasing power makes their domestic production profitable, consumption by imports lessen and self-production occured, and the national economic policy inspires this trend toward domestic production (Slideplayer.com, 2018).

STAGE 3: domestic consumer products industry improves into the export industry, most of the domestic markets turned into markets for domestic industrial goods, mass production leads to increase export to overseas markets, and domestic manufacturing of machinery shrinks the import of capital goods (Slideplayer.com, 2018).

There is a boomerang effect: if Japan exports capital, technology, and advanced equipment to NIEs, it finally makes new competitors for itself. This is what called “Pro-trade oriented FDI” by Kojima, which intensifies comparative advantages in both types of countries, increasing trade, and reinforces the productivity growth. As long as this kind of FDI is encouraged, a flying geese stimulus of industrialization is transmitted consecutively from a lead goose to follower ones, bringing about extended trade and co-prosperous economic growth.

Kiyoshi Kojima rephrased the flying geese model as “catching-up product cycle of development” by altering the Vernon’s “product cycle” model: depending upon taken technology and capital, increases economies of scale within “learning-by-doing”, and therefore, international competitiveness, and allows catching-up with the advanced world(Slideplayer.com, 2018).

1.3. Advantages and Disadvantages of TNCs

Do TNCs harm or help developing countries? They have both advantages and disadvantages for host countries. The presence and activities of MNCs in developing countries are issues of debates in discussions on development. According to Borensztein, Gregorio and Lee (1998) “Governments are liberalizing MNC regimes as they need come back to associate MNCs with positive effects for economic development and economic condition reduction in their countries”(Borensztein, Gregorio and Lee, 1998; Ukessays.com, 2016). Of course, in follow, objectives to distill in MNCs disagreement from country to country and also the impact of MNCs isn’t continuously interesting. However, the economic process and industry precipitate globalized world that permits MNCs to become a useful gizmo for the economic process.

Let’s firstly have a look at the advantages or positive impacts of MNCs. The role of MNCs varies from country to country. In some countries, it is relatively trivial, whereas in others it plays a key role. The positive case underlines net positive edges of FDI. The description of advantages square measure bestowed as follows:

Economic growth: MNCs may be thought of as a significant stimulant to economic process in developing countries. According to the researches, we can say factories owned by multinationals not solely less possible to shut down however last longer than domestic corporations. It because of multinationals richer, larger size and have greater production which helps them to achieve greater economic of scale and much more efficient in access cheaper finance. Possess these strengths, exporters are able to survive between international economy compare to factories that solely manufacture for the domestic market, whereas transnational corporations are able to stand apart from their competitors from low wage countries (Ukessays.com, 2016).

Export-based Industrialization: Building exports capacity is astonishingly necessary for developing countries if they require to learn absolutely from international trade and investment opportunities. Therefore, the government should get to improve a regulative framework that would help local and regional areas in coming up with and complying active policies for establishing export competitiveness (Ukessays.com, 2016).

Capital formation: Capital represents a vital economic plus in developing countries. A necessary advantage of MNCs is their injection of capital into developing economies, delivery money resources otherwise inaccessible within their own capital and access to international capital markets. An important portion of the full capital flow to developing economies comes from MNCs' investments: estimations differ from 14.9% to 51.5% of the full flows to developing countries. MNCs provide vital exchange earnings through their trade result of generating exports. By manufacturing products for export, the balance of payments of the developing economiesincreases the economic process, changing into a lot of enticing prospect prospects for more investment also as favorable to the growing role of developing countries in world trade. MNCs offer immediate access to foreign markets and customers which might take domestic corporations years of investment and energy to amass for themselves (Ukessays.com, 2016).

Technology/R&D: Technology development and work process improvement dissent greatly in developing countries and even in some cases between regions of the world. For instance, South of Thailand (Bangkok) is more developed than some Northern areas of Thailand. Multinationals contribute largely to providing the muse for technological improvement. A vital resource gap crammed by the MNCs, as proponents say, is technology. The willingness to get trendy technology is maybe the foremost vital attraction of foreign investment for developing economies. MNCs allow developing states to cash in on subtle analysis and development dole out by the multinationals. Multinationals make available technology that would otherwise be out of reach of developing countries. MNEs train local staff, stimulate local technological activities and transfer technology throughout the domestic economy. Accordingly, technology improves the standard of production and promotes development (Ukessays.com, 2016).

Cleaner environment: FDI by MNCs might facilitate increase the amount of overall domestic surroundings. MNCs area unit a lot of seemingly to provide a cleaner instead of a lot of ravaged natural surroundings. Corporations from developed countries, preferring to have a single set of rules for all competitors, may consequently prefer that developing countries have environmental standards similar to those in the developed countries. In addition, MNCs tend to bring their higher pollution management and energy-efficiency standards with different countries once fixing operations overseas. It is evident from a study on three hundred Indonesian enterprises that conducted in 1996. According to this study, comparison of the pollution levels in waste streams confirmed that the corporations that had foreign ownership had superior performance compared to the private and state- owned firms (Ukessays.com, 2016).

Poverty alleviation: MNCs are the key to poverty reduction. The transnational companies encourage individuals to supply a precise product, and these products make the workers' life improved. As an example, we can talk about the Daimler Chrysler project in Brazil. In 1991, Daimler Benz looked for ways to use renewable natural fibers in its automobiles. The life of Brazilians changed

dramatically for the better. Their children were able to attend school, health facilities have improved and people are more active in local politics. The liberals believe that industrialization through MNCs combined with a free market economy has allowed several antecedently rural- based economies to grow out of impoverishment. "The international operation of these corporations is consistent with liberalism but is directly counter to the doctrine of economic nationalism and to the views of countries committed to socialism and state intervention in the economy"(Gilpin 1987; Ukessays.com, 2016).Liberals show that for those who have chosen to become integrated into the global economy, the rewards are significant. In fifty years, Taiwan has remodeled from an agrarian economy which was poorer than Sub-Sahara Africa countries to a country which is now as rich and prosperous as Spain. From thirty million individuals entrapped in absolute poverty within the 1950s, it currently has nearly none absolute impoverishment and real wages are currently 10 times over they were fifty years ago (Ukessays.com, 2016).

Employment generation: MNCs play a role in creating new kind of jobs and therefore can contribute to employment generation and the increase of quality of life of the life employees in host countries. Those ones who argue for MNCs, state that these companies generate employment worldwide. Of the 73 million jobs created through MNCs, solely 12 million are located in developing countries amounting to 2-3% of the world's labor force. Multinationals account for 20% of all paid employment in non-agricultural sectors and create a huge number of jobs in the manufacturing industries, especially in which technology is concerned (UNRISD, 2010). Additional, TNCs have a positive impact on the welfare of the employees. Proponents say that the creation of new jobs, the provision of new and more better products, and programs for improving health, housing, and education for workers and local communities tend to improve the standard of living in the developing countries. Empirical data shows that foreign-owned or subcontracting companies in developing countries pay higher wages than the local ones(Ukessays.com, 2016).

Building Competence and skill: it has been proved that the essential to the successful transfer and diffusion of technologies and knowledge is building skills of local workers. Foreign investments provide management skills and ability that improve production. Whenever it is possible, TNCs prefer to hire local workers than the use of emigrant employees. However, the dearth of associate adequately skilled manpower within the developing countries presents a challenge to beat. Low education levels of potential workers area unit a selected impediment to increasing a local employee base. Therefore, MNCs sometimes deliver education and training to the workers in order to help them improve their performance for increasing production. There are needs for adjusting approaches to education and training based local conditions, local knowledge and skill levels, thus universities are seen by TNCs as a good pool of competencies that will help secure the sustainability of the technology transferred. Universities and R&D institutions understand the local context and own the knowledge that is valuable to multinationals. "They are considered as the right partners for conducting joint research projects for technology maintenance or improvement, leading in some cases to new and innovative products or services"(Worasinchai & Bechina, 2010; Ukessays.com, 2016).

Up here we have talked about the advantages or positive impacts of multinationals. As MNCs have advantages for host countries, there are also critics of multinationals who state they have negative impacts or disadvantages for host developing countries. These discussions are presented as follows:

Prevent autonomous development: "Dependency is a situation in which a certain number of countries have their economy conditioned by the development and the expansion of another placing the dependent countries in a backward position exploited by the dominant countries."(Santos,1970;Ukessays.com,2016).Dependency theorists understand global capitalism as a process which generates wealth and development in the industrialized world at the expense of creating poverty as an intentional by-product of the West and perpetuating underdevelopment in developing countries. They

know the current underdevelopment of developing countries to be a process within the framework of the global capitalist system. According to them, multinationals prevent the developing countries from achieving authentic autonomous development. For example, MNCs prevent local firms and companies from participating in the most dynamic parts of the economy; they use local capital rather than bringing new capital from abroad- it increases income inequalities in the host developing countries and they use incongruous capital-intensive technologies that contribute to unemployment (Ukessays.com, 2016).

The outflow of capital: some of the critics believe that foreign direct investments in developing countries actually lead to an outflow of capital from countries. South to North capital flows through debt service, profits, royalties, and fees, through manipulation of prices of import and export. Such flows are not unusual or improper. Indeed, to make money for the firm is the reason for investment. Such return flows are unjustifiably high (Ukessays.com, 2016).

Exploit worker: critics believe that MNCs enter developing countries for exploiting their cheap labor and abundant natural resources. Companies like Nike, Reebok, and Levi Strauss exploit human labor in Indonesia. Workers live in bad condition-infested apartments and earn only $39 a month in order to produce thousands of products which worth well over $100 for each. Indonesia's economy is booming because it attracts foreign direct investments, but at the same time, cheap labor is suffering from inhumane living conditions and illegal wages (Ukessays.com, 2016).

Environment pollution: MNCs have caused significant environmental damage in developing countries. Multinational oil companies have been the target of criticism for pollution and human rights violation in developing countries such as Nigeria, Indonesia, and the Caspian region.

> *"In all parts of the world, mining operations have generated severe environmental degradation and pollution, including the discharge of toxic substances into river systems, large volume waste disposal, the inadequate disposal of hazardous wastes, and the long run impacts of poorly planned mine closure."*(Stopford 1998; Ukessays.com, 2016)

Tax evaders: the issue of tax avoidance by TNCs continues to generate rancorous debate, despite guidelines produced by the Organization for Economic Corporation and Development (OECD). Multinationals protest that they pay their taxes regularly. But it is not always true. "Starbucks" has no company tax on $400 million, "Amazon" has paid $1.8 million on $3.35 billion, "Google UK" has paid $6 million on $395 million- these all are proof of tax avoidance by multinationals. International Monetary Fund (IMF) says that total loss is $600 billion a year.

Health and safety risks: Another variety of secondary consequences suffered by developing countries is health and safety hazards caused by the proliferation of substandard counterfeit medicines. According to some recent media accounts, 10% of the world's medication is counterfeit: fake baby infant formula, cough syrup, and other medicines have the light-emitting diode to serious ill health or death. However, most of those harms to human health and safety occur in developing countries, those have weak border management systems that enable counterfeits that are principally factory-made in China to pass through undetected. Almost no serious health or safety incidents have occurred in advanced industrial countries, like the US and lots of European countries. Consumers in these countries are too savvy and distribution networks are too skilled to permit low-quality medicines to penetrate distribution channels to achieve customers. As with the opposite harms related to counterfeiting, developing countries tend to suffer the foremost damage(Ukessays.com, 2016).

CHAPTER 2

TNCS' INFLUENCES ON ASIAN COUNTRIES

2.1. FDI Analysis in Asia

International capital flows are divided into 3 major categories:

- Foreign direct investment (FDI) ;
- Portfolio equity investment;
- Debt flows.

FDI comprises equity capital, reinvested earnings, financial transactions between parent and host companies. It gives a controlling stake in the local company. Portfolio equity investment involves acquisitions of a local firm's securities- it doesn't give controlling of the shares. Shares, stock participation, and similar vehicles that usually mark ownership of equity are including in it. Bonds, debentures, notes, and money market or negotiable debt instruments are as referred as debt flows (Sabiroğlu N., 2006).

In this part of the chapter, we will look at the FDI inflows to Asia and outflows from Asian countries in the year of 2017.

Because of the high-tech sector in China, recoil in Indonesia, and increases in most ASEAN countries FDI inflows to developing Asia stayed steady at $476 billion in 2017. This was sufficient to offset declines in other large economies within the region, including Hong Kong, Singapore, India, and Saudi Arabia. Although a significant decline in worldwide FDI, the portion of the region in global inflows rose from 25% in 2016 to 33% in 2017. The region is the largest FDI recipient in the world, ahead of the European Union and North America. FDI outflows from developing Asia dropped by 9% to $350 billion in 2017 or 24% of the globally general. This is the result of a necessary decline in outward investment from China.

Let's look at these trends region by region of Asia.

FDI inflows to East Asia were steady at $265 billion, with a decline in Hong Kong (China) but increase in China. FDI flows to China have risen by 2% to $136 billion during 2017. FDI in China's free trade zones have risen, and the

Government tries to get a better geographical spread of investment led to inflows to central China growing faster than other regions of it do. The significant rise (by 62% to about $40 billion) -29% of total inflows is in the high-tech sector (e.g. production of electronics, medical devices, communication equipment, computers, pharmaceutical products, as well as the digital economy). For example, Samsung Electronics (South Korea) is investing $7.2 billion to enlarge its production line of NAND flash memory chips in Xi'an (China); it follows an investment of $10 billion in the first stage of the project that was completed in 2016. An investor group involving Soft Bank of Japan and others invested a $5.5 billion to Didi Chuxing-a mobile transportation platform.

FDI inflows to Hong Kong (China) decreased to $104 billion. The amount of decline is about 11%. Inflows which serve as a hub for foreign MNCs' regional headquarters have been significantly affected by the fluctuation of intra-company loans in both 2016 and 2017.

After a decrease in 2015 because of a withdrawal of Tesco, inflows to South Korea hit a record high in 2017 with $17 billion, particularly in the IT and petrochemical sectors. The reason for increase is a large number of M&A sales in the country and the introduction of tax promotions for foreign companies to attract FDI. South Korea is one of the world 20th top host economies in terms of FDI inflows in 2017. Investments primarily were oriented to the finance and insurance, trade, producing, property, information and communication, mining and transportation. South Korea's attractiveness in terms of FDI is the result of its fast economic development and its specialization in new information and communication technologies. The Republic of Korea is a country which has a highly developed business environment as testified by its 5th position in the Doing Business 2019 ranking by World Bank.

An increase in investment in most ASEAN economies and strong recoil in Indonesia led to rising about 11% to $134 billion FDI inflows to South-East Asia region. Intra-ASEAN investment endured strong, accounting for a quarter of the whole inflows to the grouping and this reflected growing investment

opportunitiesto the region, as well as the financial strength of ASEAN-based MNCs and their escalated drive to internationalize. Indonesia has experienced the largest FDI increase in developing Asia as total, within inflows increasing to a new record of $23 billion. Because of Indonesian companies acquiring foreign-owned assets in Indonesia and the impact of a tax measure that decreased round-tripping investment resulted in large negative equity inflows in 2016. But the recovery in 2017 covered the sectors with FDI growing in agriculture, production of automotive and electronics, finance and trade. An important growth in cross-border M&A sales, especially by Chinese corporations' expansion into the South-East Asian market, also played a significant role. For instance, Alibaba Group acquired one of the top 3 e-commerce companies in Indonesia PT Tokopedia for $1.1 billion. Sinochem-is also Chinese company, acquired large stakes in Indonesia.

An increase in investment from the European Union and a lot of inflows from Japan and ASEAN led to the increase in FDI to Thailand 3.7 times. By contrast, Singapore which is the largest FDI recipient in the sub-region, because of an important decline in foreign investment in the financial sector faced inflows fall by 20% to $62 billion.

A drop in inflows to India has resulted in decline of FDI inflows to South Asia by 4% to $52 billion. India faced a decline in inflows from $44 billion in 2016 to $40 billion in 2017. A few large contributions in extractive and technology related industries drove cross-border M&A sales to increase from $8 billion to $23 billion. The second largest privately owned Indian oil company Essar Oil Ltd's 49% share was acquired by Petrol Complex Pte Ltd (Singapore), which owned by Rosneftegaz (Russian Federation) for $13 billion. eBay (United States), Microsoft Corporation (United States) and Tencent Holdings (China) acquired a share in Flipkart Internet for $1.4 billion, and Soft Bank of Japan acquired a 20% share in One97 Communications for $1.4 billion.

Inflows to the West Asian region have been almost continuously decreasing since its peak of $85 billion in 2008-declined from $31 billion in 2016 to $26 billion in 2017. Because of significant disinvestments and negative intra-company

loans by foreign multinationals, inflows to Saudi Arabia which is the traditionally the largest FDI host country in the region slid by four-fifth to $1.4 billion. For example, Shell (United Kingdom-the Netherlands) sold to its partner Saudi Basic Industries Corporation (SABIC) its 50% interest in the petrochemical joint - venture company (SADAF) for $820 million.

Turkey is another larger FDI receiving country in West Asia. The country accounted for more than a quarter of the whole inflows to the sub-region during 2007-2015. Since July 2016, the Turkish economy and FDI inflows to the country have declined due to political instability. Turkey's sovereign credit rating which has acted as a disincentive both to international borrowing and to foreign investment in the country has demoted by leading rating agencies. FDI inflows continued to decrease, to $11 billion in 2017.

Japan is no longer ranked among the top 20 countries which received the most of the FDI in 2017. FDI inflows to the country are relatively unstable-$11.4 billion in 2016and $10.43 billion in 2017. Disinvestments around the world in 2017 by European countries influenced Japan's inflows as they are the main investors in that country. But if we look at the view globally, we'll see world inflows decreased by %20 in 2017, while they decreased less in Japan (8%).

Up here we have talked about the FDI inflows to the region. But what about FDI outflows from the region? In 2017 FDI outflows from developing Asia declined 9% to $350 billion from $385 billion in 2016. Although that decrease, the region still remained a main source of FDI worldwide, nearly one-fourth of world outflows.

Although during the last five years outward FDI flows from China had been expanded from $88 billion in 2012 to $196 billion in 2016, in 2017 FDI outflows from China decreased by nearly 36% to $125 billion because of policies to clamp down on outward FDI, in reaction to significant capital outflows during 2015-2016. The government started to promote overseas investments (especially M&A) in certain industries, including real estate, hotels, cinemas, entertainment and sports clubs as it identified different areas of "irrational investment" and outward

FDI in these industries shrank by more than four-fifths in 2017. Overall, a 17% decline in FDI outflows was experienced by East Asia. That significant drop in China was partially offset by the increase in FDI outflows from Hong Kong (China)- from $60 billion in 2016 to $83 billion in 2017. Additionally, outflows from South Korea increased 6% to $32 billion, driven by leading multinationals such as Samsung Electronics and LG. East Asian multinationals are investing significantly in lower-income countries in the region, including CLMV countries. For instance, Samsung enlarged assembly plants for its products like smartphones in Vietnam. That company had about 160,000 employees in Vietnam and exported more than $50 billion worth of products in 2017.

Outward FDI inflows from South-East Asia and South Asia rose by 41% and 11.1%, respectively. Singapore, which is the leading source of FDI in ASEAN has reduced outflows by 12% to $25 billion. Thailand – now ASEAN's second largest investing country has increased the FDI outflows by 55% to $19 billion, driven by intraregional Thai MNCs. The main source of FDI in South Asia is India and outflows from the country were $11 billion. Country's state-owned oil and gas company ONGC has been actively investing in foreign assets in recent years. The company acquired 26% share in Vankorneft (Russian Federation) in 2016, and it bought a 15% share in an offshore field in Namibia from Tullow Oil (founded in Ireland and headquartered in the United Kingdom) in 2017. ONGC had 39 projects in 18 countries and producing 285,000 barrels of oil and oil-equivalent gas per day by the end of 2017.

In 2017 FDI outflows declined to $33 billion from $37 billion in 2016 from West Asia. United Arab Emirates which is the region's largest source of FDI increased outflows 8% to $14 billion in 2017, but it wasn't enough to offset decreasing outward from all other main West Asian economies.

In the next parts we will look at the impact of FDI inflows to the Asian countries separately. What is the impact of FDI inflows on East Asian, South-East Asian countries and also on Azerbaijan.

2.2. Impact of Western MNCs on the Main Economies of Asia

In the previous part of the chapter, we looked at the FDI analysis in Asia. It is very important because the source of FDI inflows and outflows are TNCs. In this part, we will look at the impact of these inflows and outflows on Asian countries.

The countries in East and Southeast Asia, who had attracted TNCs as part of their export-oriented strategies, provided clear evidence that TNCs could vitally assist in export-based industrialization in developing countries. TNCs helped such prosperous integrators, as an example, Malaysia and Thailand became a part of global value chains linking developing country producers to advanced-country buyers. Thus, throughout the 1980s and into the 1990s, several developing-country governments liberalized their policies on foreign direct investment. Singapore effectively tailored industrial policies to draw in multinationals and with success managed MNCs profitably to enhance native business. Singapore benefited from neither wealthy natural resources nor proximity to massive economic markets. Strong leadership, pro-active industrial strategy, and consistent policy towards MNCs enabled it to capitalize on MNCs investment (Ukessays.com, 2016).

Asia has 4 countries (South Korea, Taiwan (China), Hong Kong (China) and Singapore) together known as "The Asian Tigers". TNCs have an important role in their development. These 4 countries are considered as the first generation of NICs. Especially Japanese multinationals had an important role in their development as Japanese MNCs choose their less developed neighboring countries, particularly South Korea and Taiwan as a host nation for factories and manufacturing due to cheap labor and low costs for other things.

The Asian Tigers were heavily industrialized by manufacturing multinationals as they had the advantages for large TNCs: well-developed level of infrastructures such as roads, railways and ports, well-educated population with existing skills relatively, presence of cultural traditions which appreciate the education and the achievement, good geographical location (especially for Singapore as it is located between the Indian and the Pacific Ocean) which made them perfect for trading imports and exports, government supports such as offering low-interest rates in

bank loans and less rigid laws and regulation on labor, taxation and pollution than in home countries of multinationals, allowing more profitable operations.

With the help of the economic climate and government aid, large local firms began to grow as the economies of The Asian Tigers grew. All of the four countries are now considered as developed countries (Developmentandglobalisation.weebly.com).

China presents many opportunities for MNCs and MNCs continue to play a key role in the development of China's economy. Before 1978, this country was insulated by the Communist regime within an autarkic policy. As a result of these, there was a significant restriction for FDI inflows to the country. Amount of FDI in 1979 was being around only half billion US$ is prove of that. Afterwards, the country opened its market for foreigners by inserting new policies which encouraged foreign investments for achieving its economic growth targets. The government decided to allow entry of FDI just in limited zones-4 economic zones in 1980 and 14 coastal cities in 1984. Those times it also tried to restructure its legal structure and other sectors. As a result of these reforms, the coastal cities and regions of the country gained from the entry of foreign investments to the country. In the modern world this country is one of the FDI receiving countries of the world.

Foreigners' investments have played a significant role in the county's economic growth. This country is the world's biggest producing and exporter, second biggest importer country of the world and it has the fastest growing consumer market of the world. The country entered the WTO in 2001 and it gave the country better access to the world markets and it resulted in trade boom. China has FTAs with different countries. Australia, South Korea, Switzerland, and Pakistan are a few of them (Developmentandglobalisation.weebly.com).

Chartas V. (2010)has researched the positive and negative impacts of FDI inflows to China in his master thesis. He found out that it is generally, FDI has benefits on the country's economic development. But it also has negative impacts too.

The main impacts of FDI on economic growth are about increase of the manufacturing exports. The trade increase has impacts on the domestic industry. The adopting of the advanced technology, know-how, managerial skills, marketing strategies helped to develop the country's productivity and the infrastructure of native companies. It tended to the rise of the country's output (Chartas V., 2010).

Foreign investors paid taxes to the government. These taxes and tariffs increased the government's income. As Zhang (2006) mentioned, in the total taxable income of China the share of income taxes from foreigners was more than 20%. Regions of China have faced a higher economic growth rates as a result of increase in capital formation within FDI. According to Tseng and Zebregs (2002), the regions which received more FDI have faced the 4% average growth rate. Adopting ideas and using new inputs from MNCs have positive impacts on the TFP (total factor productivity). As Whalley and Xin (2006)mentioned, the productivity of multinationals in the country is 9 times greater than the productivity of the country's native companies (Chartas V.,2010).

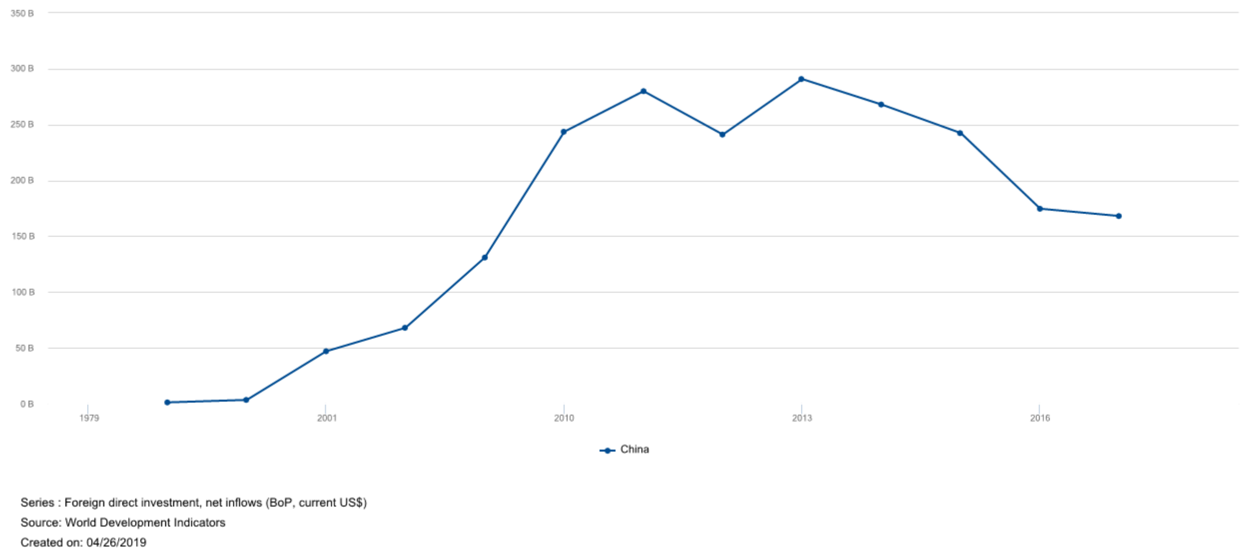
Foreign subsidiaries help to increase the country's employment rate. For example, in China in the year of 2004 23 million of local employees were hired by foreign companies.

Chartas V. found the negative impacts of FDI on the economic development of China. Firstly, "FDI might actually lower the domestic savings and investment. Therefore, foreign investment might decrease the growth rate of GDP in China (Solow growth model)" (Zhang 2006; Chartas V., 2010:p.15).

Another negative impact that he found that FDI increase the inequalities in provinces of the country. Because FDI is unevenly distributed according to special economic zones of the country. Thus it has resulted in income inequalities among the regions. He showed the being the majority of people who live in western regions of China below the absolute poverty line as prove.

The following chart shows the FDI inflows to China through the years:

Chart 2. FDI inflows to China (1979-2017)



Source:www.worldbank.org, 2018

As it is seen from the chart from the year the country opened its market, FDI inflows have increased through the years. After the 2008 financial crisis, there is a decrease in the FDI inflows, but then it started to rise again. In the recent years, we see the decrease in FDI inflows due to the situation in the global economy.

Except for FDI, MNCs have outsourcing activities in china. Tingting W., (2014) has investigated the impact of outsourcing on the Chinese economy. He found out that firstly, their outsourcing activities leads to the development of productivity. Outsourcing activities bring technological spillover which can be an important way to develop enterprise productivity. Also trainings, forward and backward link between manufacturers and the flow of the human capital can make technology spillover. Another finding by Tingting W. (2014) is that outsourcing can affect the increase of import and export trade. The country's advantage of abundant labor resource and low cost has attracted a lot of international outsourcing and it leads the increase of country's export. At the same time as country has a huge consumer market, outsourcing's products can be sold both in the domestic market and in foreign market. Thus outsourcing increase the import and export trade and the proportion of the total international trade of the country.

The author has found out that outsourcing cause an increase in the demand for labor. Outsourcing provides more jobs in China and it helps the country to solve

employment pressure on it. Another main finding is about the innovation. "Outsourcing can increase the likelihood of an enterprise attain domestic and international patent, outsourcing can make domestic companies gain knowledge of the strategic asset, especially for ones who are in the transformation of the economy in the manufacturing industry"(Boermans M. A., 2013; Tingting W., 2014, p. 212)."Employees who work in outsourcing enterprises may find the deficiencies and defects in the domestic production process, as a result, they can innovate new technology, and applied for related patents at home and abroad"(Boermans M. A., 2013; Tingting W., 2014, p. 212).Chinese enterprises and enhance the domestic enterprise's core competitiveness, on the other hand, outsourcing can improve the international competitiveness of an enterprise and attract more outsourcing business(Tingting W., 2014).

Most of the companies keep their outsourcing statistics secretly to a certain degree, that's why it not easy to state which companies do more overseas manufacturing than others. But it is clear that the following 5 companies are leading companies which outsource their productions in China.

It is known that manufacturing in China keeps costs low for companies, let them to get higher profits and sell goods at a cheaper price than would have otherwise been possible.

- Apple. This company has a well- known relationship with Chinese (Taiwanese) manufacturing firm Foxconn. It is the almost known fact that Apple wouldn't be able to sell its iPhones, iPads and other popular products at a reasonable price were it not for overseas production and as the company has most of its production done overseas rather than at home it has been criticized. Even it is so, Apple notes that as there is a lack of skilled workers in the United States it means that it could take up nine months for the company to find experienced employees who could create Apple's products. But in China, it took only fifteen days.

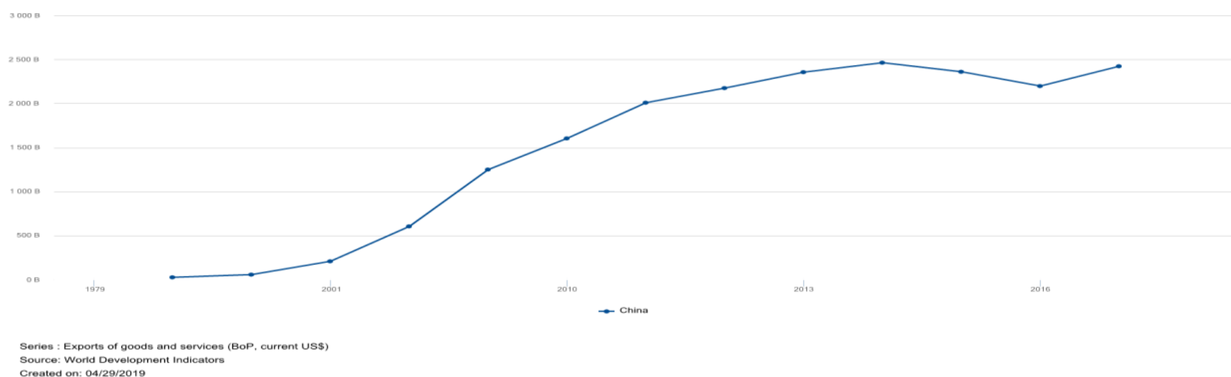
- Nike. World’s leading sportswear company Nike outsources the production of all its footwear to different manufacturing plants. China has a larger portion of the company’s manufacturing plants than other countries. But the company does preserve quite a few manufacturing plants in other Asian countries such as Thailand, South Korea, Vietnam, and India.
- Cisco Systems. This company’s just over a quarter labor force consisted of overseas workers in 2010. This number has dramatically increased to 46% in recent years. China is currently the greatest gainer of the company’s decision to move a large percentage of its operation abroad. Also, India is beneficiary too.
- Wal-Mart. This company also gains greatly from having the vast majority of its goods manufactured in China. Although the company has recently vowed that it would invest up to $10 million in moving some of its production work back to the U.S, it is fact that company still works with about ten thousand several manufacturing plants in China.
- IBM. IBM currently hires more workers in India than it does in the United States. China is also significant for this large company because IBM outsources literally thousands of high paying programming jobs to China in an attempt to lower costs for the company and consumer alike(Itimanufacturing.com, 2014).

Foreign direct investment inflows and outsourcing activities of the multinational corporations increase the export of the country. The following charts separately show annual export of the country and annual gross domestic product of the country through the years.

Due to these charts we can say that export of the country increases through the years.

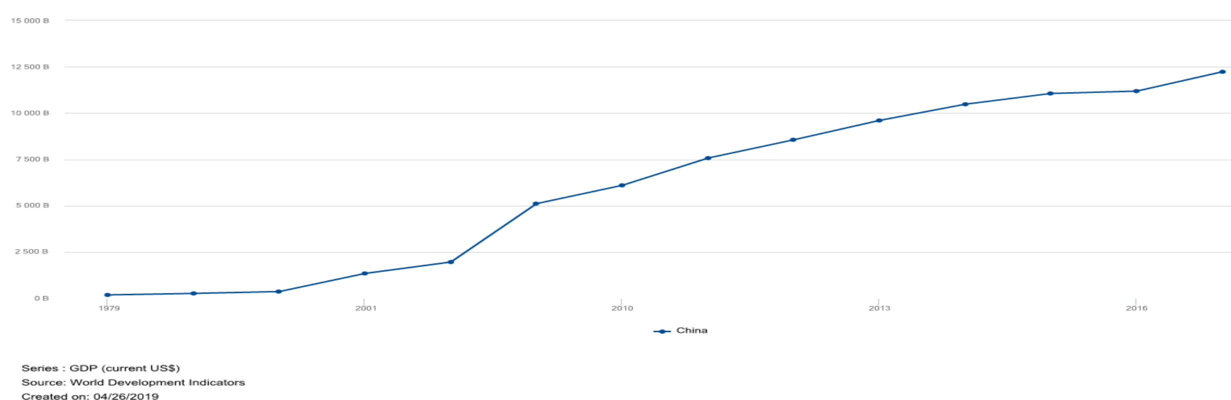
Also GDP of the country increases through the years.

Chart 3: Export of China (1979-2017)



Source:www.worldbank.org, 2018

Chart 4: GDP annual of China (1979-2017)



Source:www.worldbank.org, 2018

Unlike FDI inflows, GDP of the country only increase through the years. The reason is that the Chinese economy besides accepting FDI inflows attracts the outsourcing operations of the multinationals.And also country has a great amount of production of its own companies every year. As GDP, export of the country tend to increase from the year which the country opened its market for foreign companies.

Due to Keynesian cross,

$$Y=C+I+F+X-M \qquad (1)$$

Where, Y, C, I, F, X, and M are real GDP, real consumption, real domestic investment, real FDI inflows, real exports, and real imports, respectively. I will use the linear regression function: y=a+bx.

Table 1. FDI inflows, exports and GDP of China (1979-2017)

Years	FDI inflows(trillion $)	Export (trillion $)	GDP annual(trillion $)
1979	--	--	0,178
1984	0,0013	0,026	0,260
1990	0,0035	0,057	0,361
2001	0,047	0,208	1,339
2004	0,068	0,605	1,955
2009	0,131	1,250	5,110
2010	0,244	1,604	6,101
2011	0,280	2,009	7,573
2012	0,241	2,175	8,561
2013	0,291	2,356	9,607
2014	0,268	2,463	10,482
2015	0,242	2,360	11,065
2016	0,175	2,198	11,191
2017	0,168	2,423	12,238

Source:www.worldbank.org, 2018

By using the data at table1, I have found the casual relationship between FDI inflows and GDP of China:

GDP=0,820000088+34,571428*FDI r=0,8434 (2)

The casual relationship between export and GDI of the country:

GDP= -0,0759873021+4,4113385121*Export r=0,9807 (3)

Result: both correlations show that there is a strong, positive relationship between the variables. It means FDI inflows have a big impact on the GDP growth of the country (1). Equation (2) shows the relationship between export and GDP is stronger than the previous one. The dependency of the Chinese economy on foreign companies is intense.

Opening its markets to foreign companies China did not only attract the FDI inflows but also gained the transferred technology (SCMP.com, 2018). China's technology transferring policy is called "Forced Technology Transfer" (FTT) by the western world, especially U.S. One of the main economic events in 2018 "trade war" between the US and China was caused by that FTT.

> *"Forced technology transfer means that when a foreign company wants to enter the Chinese market, it has to surrender its technology to Chinese companies through a joint venture agreement, or in some cases regulations. Some foreign companies have said they were forced to do so."(SCMP.com, 2018).*

In China, State-Owned Enterprises (SOEs) are the main players in the key sectors of the economy. There is such a group of policies that designed to force foreign corporations to transfer strategically sensitive technologies to the domestic corporations. China's longstanding ambition to replace Western firms presently at the forefront of key technologies is the result of these policies. Because technology transfers are required by China's FDI regime. This regime closes off vital sectors of the economy to foreign firms unless they enter into joint ventures with Chinese entities, particularly with SOEs. Chinese firms misappropriate foreign technology and this is inadequate IPR enforcement. It is another part of the problem. In industries ranged from autos to information technology there's forced technology transfer. In the automobile industry, there are foreign ownership restrictions and high tariffs, thus foreign companies enforced through joint ventures which they are prevented from holding a controlling interest. That drive for turning into a leader in electric vehicles has resulted in complaints by Western automobile corporations that they're being pressured to turn over sensitive technology, including proprietary software code, to joint venture partners which may later compete with them in China and elsewhere. In IT industry China's Internet censorship regime which is referred as the "Great Firewall" effectively prevents US digital service corporations from operating freely in country's market, and the telecommunications services industry is generally closed to totally foreign-owned enterprises. Even in officially open sectors, foreigners must get approval from relevant regulators in a process which lacks transparency. It is subject to political influence- foreign companies can often be quietly made transfer technology to domestic enterprises in order to obtain these important approvals (Lee G. B., 2018).

The best example of FTT happens in the recent years. China for the sake of meeting the booming demand built its energy grid. General Electric (GE) wanted to enter this important market. Soon the company found out that power generation in China is dominated mainly by SOEs, and the top executives of these firms are effectively appointed by the Chinese Communist Party, as are all top governors of major Chinese SOEs their appointment is driven, in part, by the extent to which its

management of their firms contributes to the Party's objectives. If the part wants to create a domestic Chinese manufacturing industry which capable of producing high-tech products for energy plants, like advanced turbines, that can compete with GE and Siemens, then the head of the Chinese power company can insist any supplier of turbines transfer valuable technology to local Chinese suppliers, although this raises prices for his own firm, reduces product availability and reliability, and limits the choices for his consumers. As the Chinese market is too big to ignore and the short-run costs of abandoning the Chinese market are quite high (if one firm refuses to play, another is likely to accept), so GE and its multinational competitors play by Chinese rules.

What are the implications of FTT on the global economy? At first, fear of losing management of key technologies could prevent multinationals from shifting production to lower cost countries. It prevents low-cost countries from absolutely realizing their comparative advantage in producing established products; it also prevents advanced countries from absolutely realizing their comparative advantage in developing new products. As a result production costs are high, efficiency is lower, and the rate of innovation in the global economy is slower than it would be in equilibrium in which MNCs are able to retain management over their technology (Lee G. B., 2018).

China's misappropriation of foreign technology violates WTO principles and its obligations under its accession agreement to the organization. Finally, FTT allows Chinese companies to displace Western enterprises that created the technology in the first place; the global economy can be harmed in a different way. If Chinese government intervention succeeds in tilting the playing field in favor of less innovative Chinese companies limits resources flowing to the world's most innovative corporations. In the long run, the rate of innovation can slow, and consumers around the world could suffer(Lee G.B., 2018).

"*The Chinese government adopted a global development strategy "The Belt and Road Initiative (BRI)" or mostly known as "One Belt, One Road" which involving infrastructure development and investments in 152 countries and*

international organizations in Asia, Europe, Africa, the Middle East, and the Americas"(World Bank; Wikipedia.org).

"The initial objectives of the strategy are to construct a unified large market and make full use of both international and domestic markets, through cultural exchange and integration, to enhance mutual understanding and trust of member nations, ending up in an innovative pattern with capital inflows, talent pool, and technology database"(En.Uniview.com; Wikipedia.org).

"This presents considerable opportunity for corporations, with contracts being awarded for a range of projects, including transport, water and waste, energy, telecoms, social, and health. Organizations that are especially well placed to benefit from this include corporate and professional services companies, from engineering to telecommunications, and from banking to legal services" (The Economist, 2019).

In the late 1960s, Mattel (famous for their Barbie dolls) - the American toy company moved its major factory to the island of **Taiwan**from Japan because of its willingness to lower its labor costs. It was the first movement of the large scale production to Taiwan (in the late 1980s, because of rising incomes in Taiwan Mattel moved its factories to countries which had a cheap work force, such as China, Indonesia, and Malaysia). The economy of Taiwan has gained from globalization and is improving with its high-tech industries. World's laptops, personal organizers and MP3 players are made by Taiwanese companies (Developmentandglobalisation.weebly.com).

In **Hong Kong**(China), the manufacturing industry opened a new decennium as employing the large portions of the population in the 1960s. Hong Kong has the most attractive business environment in East Asia, in terms of attracting FDI inflows. Using its profits the roads, schools, hospitals and other infrastructures and services have been established by the government. In Hong Kong, the wages are relatively flexible. These factors resulted in the GDP growth 180 times between 1961 and 1997. The country now has one of the largest seaports in the world, opportunities for external trade, investment and recruitment were maximized by using skilled work force with modern British methods (Developmentandglobalisation.weebly.com).

South Korea is one of the developed countries in the world with an annual GDP amount of $1,530.75 billion in 2017 (UNCTAD, 2018). The country achieved dual- digit growth in the period of 1980s.

> *"Its transformation to a wealthy and developed country took less than half a century. It is often called the miracle on the Han River and earned the remembrance of "Asian Tiger" in the international community"*(Chin, 2004; Koojaroenprasit S., 2012: p.10).

South Korea is the 6th largest FDI receiving FDI in Asia and the 3rd home country of the outflows. This shows that there is a necessary presence of FDI in the South Korean economy. South Korea had abundant cheap and flexible work force although it lacks natural resources. As the government realized agricultural manufacturing wasn't the base for economic growth it attracted large multinationals such as Sony from Japan and encouraged FDI from the US. In South Korea there had been high import taxes, that is why domestic companies were ensured by sufficient market for goods and were stimulated by further production. Their own research and development of high-tech goods were improved by the government, firms were attracted by a large consumer market in South East Asia such as China. It had resulted in South Korea's producing world-leading products and technologies: Hyundai, Samsung, and Daewoo are some of the South Korean well known multinationals. Samsung is one of the largest consumer electronics manufacturers in the world. Its smartphones have now become the main competitor of iPhones (Apple) (Developmentandglobalisation.weebly.com).

> *"Before the 1960s, South Korea was one of the world's poorest countries, South Korea afterwards achieved and sustained rapid economic growth over a long period of time that lifted its status to a much higher level: country joined the OECD in 1996 and was the host for the G20 Summit in 2010"* (The Korean Economy, 2010; Koojaroenprasit S., 2012: p.10).

Besides a scarcity of natural resources and a limited local market, the South Korean economy's attainment is a model for the development of emerging economies.

“In the early stage of economic development, the government fostered import-substitution industries which produced such basic intermediate materials such as cement and fertilizers” (Koojaroenprasit S.,2012:p.10). “After that, they encouraged labor-intensive export industries like textiles and plywood, which had international competitiveness because of low labor costs and were able to absorb the unemployed and underemployed human resources” (The Korean Economy, 2010; Koojaroenprasit S., 2012: p.10). “Extensive export promotion measures were taken to support export industries. Low interest rate policy loans and various forms of preferential tax treatment such as tax exemptions and tax rebates were given to support export industries” (Koojaroenprasit S.,2012:p.10).“There were various established specialized banks and in order to promote foreign capital inflow, the Foreign Capital Inducement Act was passed in 1966 and government permitted foreign banks to open branches since 1967” (The Korean Economy, 2010; Koojaroenprasit S., 2012: p.10).

> *Korea's being a colony of Japan (1910-1945), had played an important role in its economic improvement. Because large-scale infrastructure in roads, railroads, electrical power, government buildings, and ports were made by Japan. But we should say that most infrastructures were destroyed during the Korea war* (Savada and Shaw, 1990; Koojeraoenprasit S., 2012: p.10).

In the beginnings of 1970s, the country faced both dramatic changes and challenges at home and abroad. Externally, due to the first oil crisis in the world, there was a stagflation all over the world, along with a new climate of protectionism. Internally, there were challenges with labor-intensive light industries, which competitiveness were slowly weakening as a result of rapid wage increases, and faced severe competition from other developing countries.

> *All these circumstances made the Korean government to alter its strategic objectives: industrial building up by encouraging heavy and chemical industries such as shipbuilding, iron and steel, automobiles, machinery, and petrochemicals was persuaded, investments in these sectors were promoted by tax and financial incentives* (The Korean Economy, 2010; Koojoraoenprasit S., 2012: p.11).

The country had a negative growth, the real GDP growth rate decreased from 8.4% because of the second oil crisis in the world and domestic political turmoil in the 1980s. It made the government change the priority of its economic policy from growth to stability, opened up its economy and also made deregulation.

> *"In 1990s, South Korea faced the problem of high cost and low efficiency. High costs had become endemic with high wages, high land prices and high interest rates. The financial and real sectors became less efficient because market principles could not operate properly in a socio-economic environment characterized by over-regulation"* (The Korean Economy,2010; Koojoraenprasit S.,2012:p.11).
>
> *"Due to the Asian financial crisis, on November 1997 the government had to turn to the IMF to request stand-by funds. In signing up for the financial aid package, the government had to pursue macroeconomic stabilization and structural reform in the financial sector, the labor market and accelerate trade. The Korean economy pulled itself out of the crisis in 1999, the GDP growth rate increased from -5.7 percent in 1998 to 10.7 percent in 1999"* (Koojoraenprasit S.,2012:p.11).

The Korean economy continued to grow stable until 2007-the global financial crisis that originally started from the subprime mortgage in the U.S. in 2007 and within the following bankruptcy of Lehman Brothers in September 2008 had a large influence on the Korean economy: the GDP growth rate decreased from 5.1% in 2007 to 2.3% in 2008. The country had a steady growth track in 2010 within a real GDP growth rate of 6.2%.

Through all these challenges what was the impact of FDI inflows?

During the 1960s and 1970s the interventionist approaches were adopted by South Korean policymakers. For promoting technology transfer in the 1960s technology transfer requirements to local companies were used by South Korea. FDI inflows were referred to the export- oriented producing industries and import substitution goods. On January 1970, Free Trade Zones (FTZ) were created based on the Free Export Zone Establishment Act for the government's taking a rather suitable toward export-oriented foreign firms. As the government understood that FDI could play a necessary role in the improvement strategy of South Korea, they made a few moves. The first one was in 1981- they opened up a great portion of

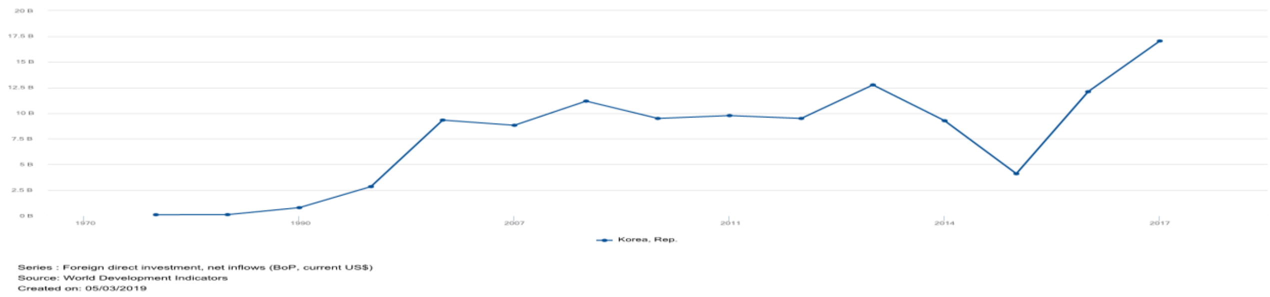
business categories to foreign investment. "In 1984 they revised the Foreign Capital Inducement Act which reflected a less strict Government control on FDI" (Seong, 2007; Koojoraoenprasit S., 2010: p.12). "The liberalization of FDI helped the country in its initiative to improve technologically and rebuild the industry toward higher value-added and more advanced technology. It was better to transfer the new technology via joint venture and wholly-owned subsidiaries" (Chaponniere, 1997; Koojoraoenprasit S., 2012: p.12).

The main reason for encouraging FDI to the developing countries is to transfer the technology which can be very expensive for them if it does not come through FDI. Foreign companies bring technology, local firms learn methods of productions and improve their efficiency and it raises the competitive advantage. Korean companies gained technological know-how from Japanese firms. Because Japanese companies were the leader companies which operated in South Korea during the 1970s.

There were three levels of shift in Korean inward FDI policy. The first between 1960 and 1980- the country established its industrial base and tracked an export-led growth development strategy, the second one was between 1984 and 1997- when Korea had begun to realize the significance of FDI, the last one began in 1998 after the Asian financial crisis.

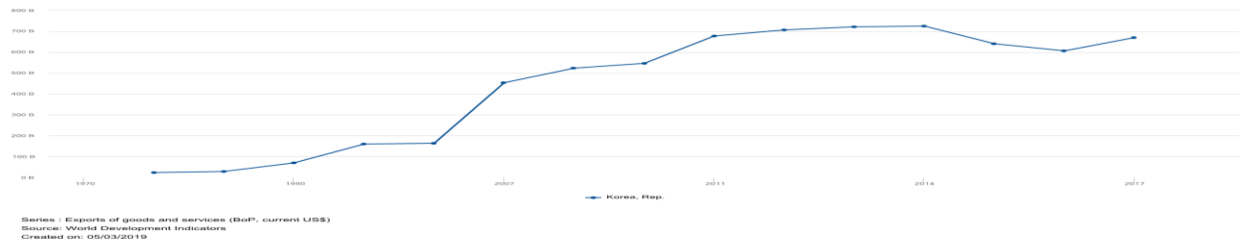
Before the mid- 1980s, FDI inflows were little and the real take- off appeared in the second half of the 1980s. As South Korea is not a natural resource-rich country and there were restrictive policies FDI inflows remained humble first. Across the world, 1980s was the period of liberalization and globalization and during this period South Korea's FDI policy changed from intervention to market-oriented economy. "Market oriented economists believed that FDI could play role in the restructuring of industrial sector through competition" (Bishop, 1997; Koojoraoenprasit S., 2012:p.12). Since 1984, the country has opened a lot of sectors even up to 100% for foreign investors. The following charts show the FDI inflows to South Korea, export and GDP of the country through the years respectively:

Chart 5: FDI inflows to South Korea (1970-2017)



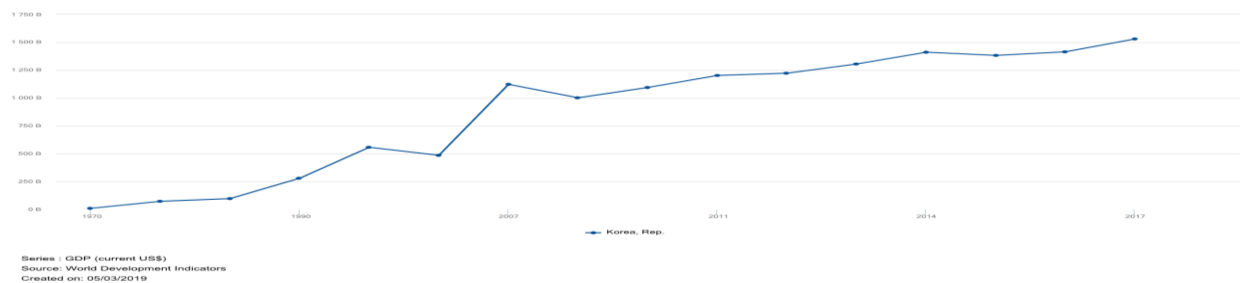
Source:www.worldbank.org, 2018

Chart 6: Export of South Korea (1970-2017)



Source:www.worldbank.org, 2018

Chart 7: GDP annuals of South Korea (1970-2017)



Source:www.worldbank.org, 2018

By using the data at table 2, we get the following equations:

The casual relationship between FDI inflows and GDP of the country is as following:

GDP= 268, 2150549797+84, 889239539*FDI r=0, 8179 (4)

The relationship between export and GDP of South Korea is as following:

GDP=-7223, 2170690217+18, 3786837971*Export r=0, 9691 (5)

These equations show that there is a strong, positive relationship between variables. The casual relationship between export and GDP (4) is stronger than the relationship between FDI and GDP (5). Because, in the recent years the country's export has relied on its own multinationals.

Table 2. FDI inflows, exports and GDP of South Korea (1970-2017)

Years	FDI inflows(in billion US$)	Export (in billion US$)	GDP (in billion US$)
1970	-	-	8,999
1981	0,102	24,162	72,426
1984	0,110	29,298	96,597
1997	2,844	160,620	557,503
1999	9,333	164,257	485,248
2007	8,827	454,216	1122,679
2008	11,188	523,955	1002,219
2010	9,497	546,783	1094,499
2011	9,773	677,773	1202,464
2012	9,496	706,799	1222,807
2013	12,767	721,718	1305,605
2014	9,274	725,299	1411,334
2015	4,104	640,581	1382,764
2016	12,104	606,735	1414,804
2017	17,053	670,012	1530,751

Source:www.worldbank.org, 2018

The South Korean development experience is so impressive and provides significantlessons for developing economies. We noticed that FDI by MNCs had an important role in this development(Koojaroenprasit S., 2012).

In the modern world economy **Japan** has a significant role as an outward investor. FDI to Japan historically is insignificant. This is the result of the Japanese government's protectionist policies until the late 1960s. During this period the government aimed to ameliorate technology and management know-how of Japanese companies by choosing technologies to be imported. In 1980 "Liberalization Act" was accepted and it played a significant role in FDI inflows to the country. But the country's economic environment which characterized by the high degree of vertical integration, relatively closed business networks, and the tradition of lifetime employment made difficulties for newcomers to country. Asian crises which tended to dramatic declines in the price of Japanese equities and land since the collapse of the bubble economy of the early nineties were accompanied by a significant increase in foreign participation in the country's economy. "Although the changes in economic conditions in Japan there are still problems in receiving FDI inflows to Japan: about accepted business practices,

regulatory hurdles, and high business costs and requirements which remain high in some industries" (Asheghian P., 2005:p.3)

Paprzycki R., (2006) has researched the impact of FDI on the selective industries in Japan. He suggests that,

> *"There is probably not a more suitable industry with which to begin the sectoral analysis of foreign direct investment in Japan than the auto industry. This is by far the country's most internationalized industry: motor vehicles and parts account for a large share of all Japanese merchandise exports, and overseas production by the car industry is far ahead of that of any other Japanese industry.Conversely, foreigners have been able to invest in the sector for decades, and General Motors (GM) and Ford acquired substantial stakes in Japanese auto makers in the early and late 1970s, respectively. As a result, even before the wave of FDI in the late 1990s, the auto industry was already the sector in Japan with the highest share of employment by foreign-owned companies"*(Paprzycki R.,2006:p.3)

Paprzycki R. has found that

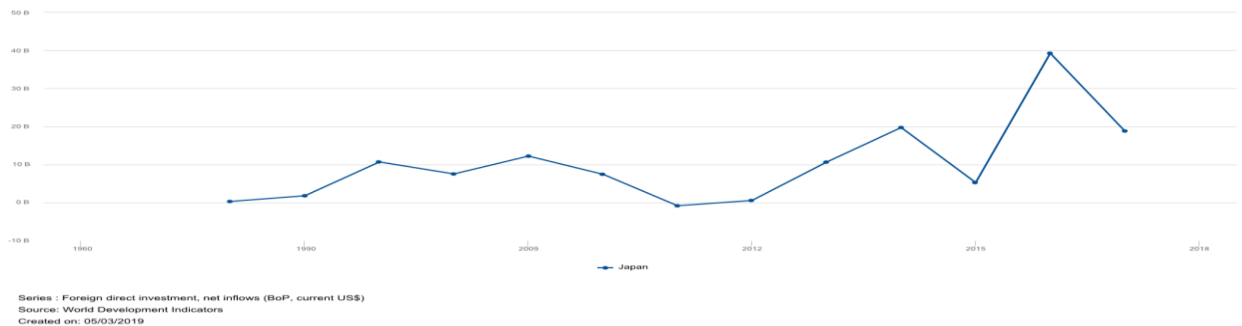
> *"... foreign participation in Japanese car makers has had little impact on the way the Japanese car industry operates. Despite substantial shareholdings by GM and Ford, the "Suzuki production system" or the "Mazda production system" have not been very different from the famous "Toyota production system" characterized not only by just-in-time production and lean manufacturing (now copied by most Western competitors), but also by a number of other Japanese business practices, such as close and long-term ties with dedicated (Japanese) suppliers, lifetime employment, and the reluctance to close factories in difficult times.Thus, though the car industry appears relatively internationalized by Japanese standards, in comparison with other countries it still remains very much a home-grown affair"(*Paprzycki R.,2006:p.4).

If we have to summarize the Paprzycki R.'s findings for the car industry we can say that in this sector there are no wholly-foreign owned manufacturing vehicles in Japan, but to some extent, it has begun to change in recent years: "Foreign companies have been able to make inroads, entering equity participations or joint ventures with Japanese companies. In the process, they have introduced advanced management techniques …and Western-style employment practices (like performance-based promotion and remuneration)" (Paprzycki R., 2006: p.10).

Paprzycki R.(2006) has also investigated the other sectors like banking and insurance sector, health care and beyond. He found that unlike the car industry in many other sectors like financial sector, domestic banks have copied products developed by foreign competitors and have become active in the fields such as project finance and derivative trading; and in the pharmaceuticals industry, the introduction of foreign firms' global blockbuster drugs has forced domestic companies strengthen their R&D, clinical trials, and marketing efforts overseas in Japan . Thus foreign companies force domestic ones to "shape up" and raise their productivity if they want to survive (Paprzycki R., 2006). Due to the author, foreign companies' endowment to the range of products and services available in Japan is considered main impact.

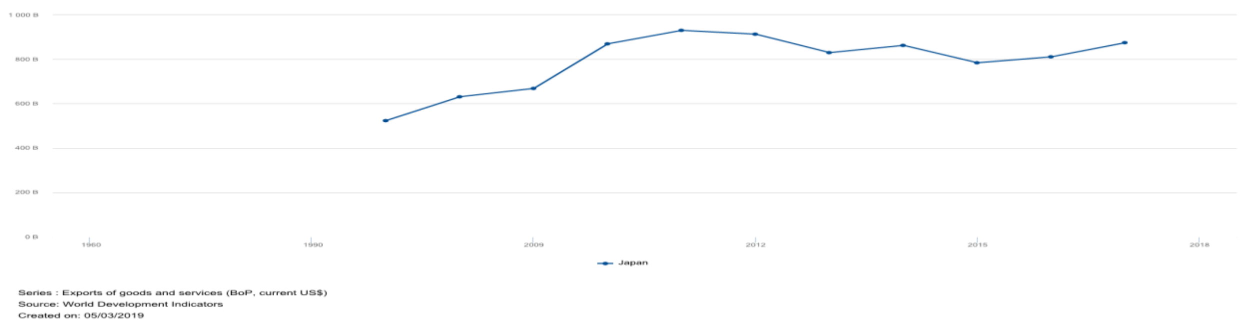
FDI inflows to the country, export and GDP of the country respectively are described below:

Chart 8: FDI inflows to Japan (1960-2017)



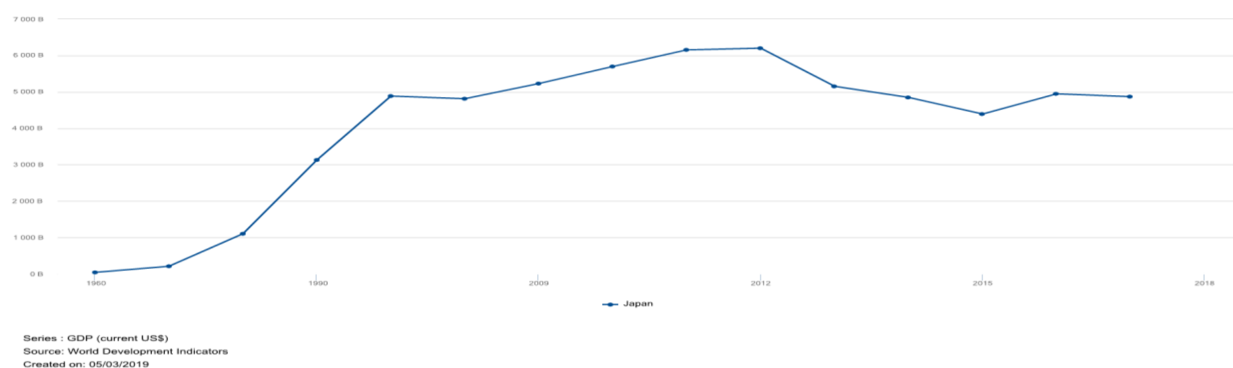
Source:www.worldbank.org, 2018

Chart 9: Exports of Japan (1960-2017)



Source: www.worldbank.org, 2018

Chart 10: GDP annuals of Japan (1960-2017)



Source: www.worldbank.org, 2018

As it is seen from the charts, GDP of the country has decreased in the recent years. What is the explanation of the recession in the Japanese economy? In 2017, the country produced $5.4 trillion, as measured by purchasing power parity. That's why Japan's economy is the world's fifth largest economy after China, the European Union, the United States, and India. The country's economy only grew 1.5%. Japan has 127 million people, and its GDP per capita is $42.700 or 41st in the world. It makes the country's standard of living lower than the US or the EU, but beyond its Asian competitors, China, and South Korea. The country's economy is mixed economy based on capitalism. However Japanese government works closely with industry and its central bank works closely with the government.

As we have mentioned Japan's largest exports are automobiles and parts, steel products, and semiconductors. Because of combating climate change, the world moves toward electric vehicles. It hurts Japan economy. Electric vehicles use 1/3 fewer parts than in gas-powered ones. For the sake of meeting these challenges, the government wants manufacturers to stop building conventional cars by 2050. By 2025, the world's biggest car market- China already has a goal of 1 in 5 vehicles on batteries. The country's major imports are oil and liquefied natural gas. Japan is trying to decrease these imports by increasing its use of renewable energy. The country is also restructuring nuclear plants which were shut down after the Fukushima nuclear disaster.

The country relies on its central bank to prop up the Japanese economy. The government spending is around 20% of its amount of GDP. But the country cannot

finance this within taxes. That is why it would grow slowly. Instead the central bank buys government debt. It bought $3 trillion in government bonds or about half of the total. To provide the growth, the central bank keeps interest rates low-discount rate is just 0.3%. The central bank promises the rates will stay low and people expect low rates and falling prices. Those expectations guarantee deflation. "The expectation means every time prices rise, consumers stop buying and just wait for prices to drop again" (Thebalance.com, 2019). Businesses can't increase the prices or hire new workers. Employees just keep savings. The Central Bank wants to keep yen's value low, but the trade that is carried out by the yen keeps raising it. Even in 2014, when the value of the dollar soared 15%, it didn't raise the imports' prices. Normally, a lower yen tends to increase in the price of imported commodities, triggering inflation. But declining oil prices kept prices low and that made the deflation worse. The government and the central bank try to provide the growth within expansionary fiscal and monetary policy. But as a result, Japan is into a classic liquidity trap (Thebalance.com, 2019).

Table 3. FDI inflows, export and GDP of Japan (1960-2017)

Years	FDI inflows (in billion US$)	Export (in billion US$)	GDP (in billion US$)
1960	-	-	44,307
1970	-	-	212,609
1980	0,280	-	1105,386
1990	1,777	-	3132,818
2000	10,688	523,723	4887,520
2004	7,528	631,341	4815,149
2009	12,226	669,059	5231,383
2010	7,441	869,990	5700,098
2011	-0,850	930,660	6157,460
2012	0,547	913,614	6203,213
2013	10,648	830,338	5155,717
2014	19,752	862,974	4850,414
2015	5,252	784,711	4394,978
2016	39,323	811,524	4949,273
2017	18,838	875,292	4872,415

Source:www.worldbank.org, 2018

By using the data at table 3, we get the followings:

The casual relationship between FDI inflows and GDP is as following:

$$GDP=3511,6554697941+67,722550321*FDI \qquad r=0,3579 \quad (6)$$

The relationship between export and GDP is:

GDP=1881, 5525922787+4, 2108020477*Export r=0, 8101 (7)

As it is shown from the equation (6), FDI and GDP is technically have positive correlation, but the relationship is very weak. Unlike FDI, the export has strong, positive impact on the Japanese economy (7). Unlike the other Asian countries, Japan’s export relies on its own multinational companies and we can see they have a strong affect on country’s economy.

We can summarize the whole paper by Paprzycki R.,

“...foreign direct investment in Japan, even at its current low levels,is playing a significant role in reshaping the country’s economy. Although greater competition may be painful for some segments of the economy (such as the country’s pharmaceutical and medical devices industries), foreign companies contribute to the revitalization of the Japanese economy and, in a break with the past, the government is now actively promoting inward direct investment. The impact of FDI on the Japanese economy thus can only grow”(Paprzycki R., 2006 p.42).

In South Asia, the **Indian** economy is the main recipient of FDI inflows. Unlike the other emerging Asian economies, Indian economy’s recent transformation has been relied more on the service sector than on the manufacturing growth. Until 1991 multinationals did not play significant roles in the country’s economy. Because then- in the pre-reform period the Indian economy was dominated by state-owned enterprises. Although multinationals played an important role in the promotion of growth and trade in South-East Asian countries, they didn’t play an important role in the Indian economy at that time. Because the followed development strategy was the import-substitution strategy. Since 1991 through the accepting of industrial policy of liberalization and privatization rote of private foreign capital has been recognized as a main reason for the rapid growth of the country’s economy.

The main reason makes India attractive for foreigners is the number of highly skilled and qualified professionals in its workforce whose skills are in demand in many areas across the English-speaking world. Outsourcing to India began in the 1980s with software improvement and India used the experience from outsourcing

and working under foreign companies and built their own firms. The Indian company Infosys became the first Indian company which listed on the New York stock market in 1999. The country has a large English-speaking workforce (over 50 million), has low labor costs and the fact that many developed countries had significant ICT skills shortages. India is also one of the world leaders in IT-enabled sectors or “back-office functions”. In the countries like UK companies’ some functions are operated by Indian firms: like operating call centers to deal with sales and customer inquiries, dealing with accounts, undertaking data entry and conversion such as medical and legal transcription and providing knowledge services which require specialists using the database to solve customer problems (Developmentandglobalisation.weeebly.com).

Role of MNCs in the Indian economy is as the following:

Promotion of foreign investment: As in recent years investment from the developed countries to the developing ones has been declining, multinationals can bridge the gap between the requirements of foreign capital for increasing FDI in India. Since 1991, the adjustment mentioned above allows multinationals to make an investment in India as subject to several ceilings fixed for different industries or projects. In some industries, 100% export-oriented strategy can be built up. FDI has a multiplier effect on income and employment in the country like domestic ones. For example, Suzuki (Japan) company’s investment in Maruti Udyog (India) manufacturing cars has positive impact on income and employment for the workers and employees of Maruti Udyog: many people are hired in dealer firms which sell Maruti cars, as many intermediate goods are supplied by domestic suppliers to that company and many people are hired by them to produce various parts and components used in Maruti cars. Thus the incomes of the workers increase by investment from Japanese multinational in Maruti Udyog Limited in India (Kanchan, 2016).

Non-debt creating capital inflows: before the reform, the Indian economy relied intensively on external commercial borrowing (ECB) which was of debt-creating inflows. The external debt of the country was 35% of their current account

receipts. That is why there was a flow of capital from the country and it resulted in the balance of payment crisis in 1991. As FDI by multinationals represents non-debt creating capital inflows, the country could avoid the liability of debt-servicing payments. Thus, the advantage of the investment by multinationals is that the servicing of non-debt capital begins only when the TNC reaches the stage of making profits to repatriate and multinationals play a significant role in reducing stress strains, and on India's balance of payments (BOP) (Kanchan, 2016).

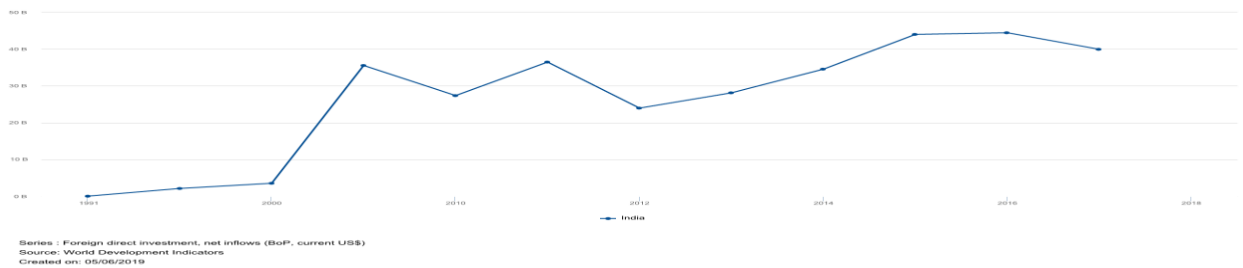
Technology transfer: to transfer the highly advanced technology to developing countries that are essential for increasing the productivity of the employees and allow the country to start new productive ventures which are requiring high technology is another significant role of MNCs. By setting up their subsidiary production units or joint-venture units, these companiesboth import new equipment and machinery which embodying new technology and provide skills and technical know-how to use them. Result of this activity the Indian workers and engineers gain the knowledge of superior technology and the way use it. In India, the domestic companies spend only a few resources on Research and Development (R&D), but multinational ones spend a lot on the development of new technologies and it can greatly benefit the technological improvement-graduation of the country's economy (Kanchan, 2016).

Promotion of exports: we have mentioned above the Suzuki has large investment in Maruti Udyog with a joint collaboration with the Government of India. They do not only sell Maruti cars in the Indian domestic market but also export them to foreign countries. As multinationals promote the export they allow the country to earn foreign exchange (Kanchan, 2016).

Investment in infrastructure: besides above -mentioned multinationals can invest in infrastructure such as power projects, modernization of airports and posts, telecommunication. The investment in infrastructure leads to industrial growth and helps to create income and employment in the country. It can stimulate the economic growth: the external economies generated by investment in infrastructure

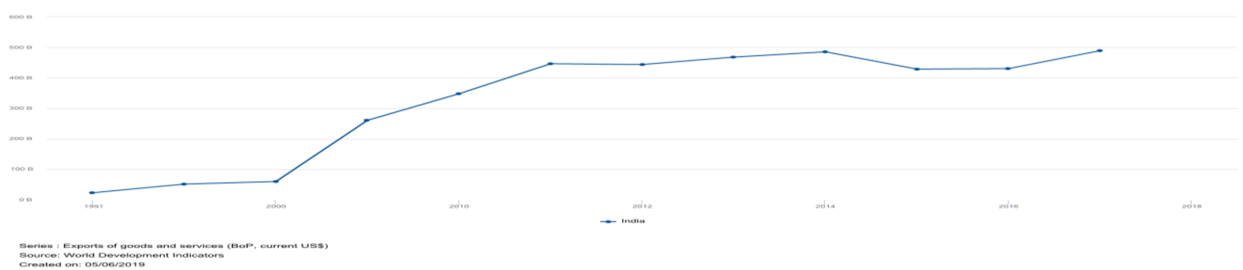
by MNCs will, therefore, crowd in investment by the domestic private sector and it will lead to economic growth(Kanchan, 2016).

Chart 11: FDI inflows to India (1991-2017)



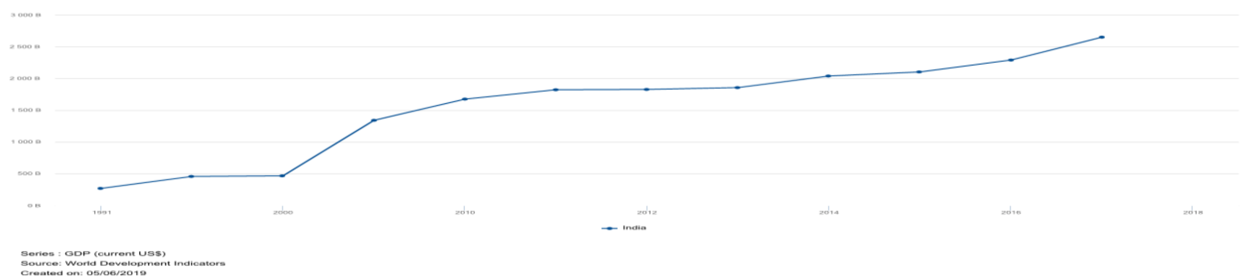
Source:www.worldbank.org, 2018

Chart 12. Exports of India (1991-2017)



Source:www.worldbank.org, 2018

Chart 13:GDP annuals of India (1991-2017)



Source:www.worldbank.org, 2018

These charts show that both export and GDP of the country tend to increase through the years. Also FDI inflows to the country except some fluctuations increase through the years.

By using the data at table 4, we get:

GDP=0, 433+42*FDI r=0, 9222 (8)

GDP=0, 2281147541+4, 0819672131*Export r=0, 9611 (9)

As it is seen there is a strong, positive correlation among the variables. Equations show that both FDI by multinationals and export on which these companies have huge impact play an important role in GDP of the country.

Table 4.FDI inflows, exports and GDP of India (1991-2017)

Years	FDI inflows (in trillion US$)	Export (in trillion US$)	GDP annual (in trillion US$)
1991	0,001	0,023	0,270
1999	0,002	0,051	0,459
2000	0,004	0,059	0,468
2009	0,036	0,260	1,342
2010	0,027	0,348	1,676
2011	0,036	0,446	1,823
2012	0,024	0,444	1,828
2013	0,028	0,468	1,857
2014	0,035	0,486	2,039
2015	0,044	0,429	2,104
2016	0,045	0,430	2,290
2017	0,040	0,489	2,651

Source:www.worldbank.org, 2018

South-East Asia is the main region of Asia. This region is developing rapidly. South-East Asian countries have an economic integration which is named **ASEAN**. “ASEAN economic integration has 10 member states: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam”(ASEAN.org).This region is very attractive to multinationals.

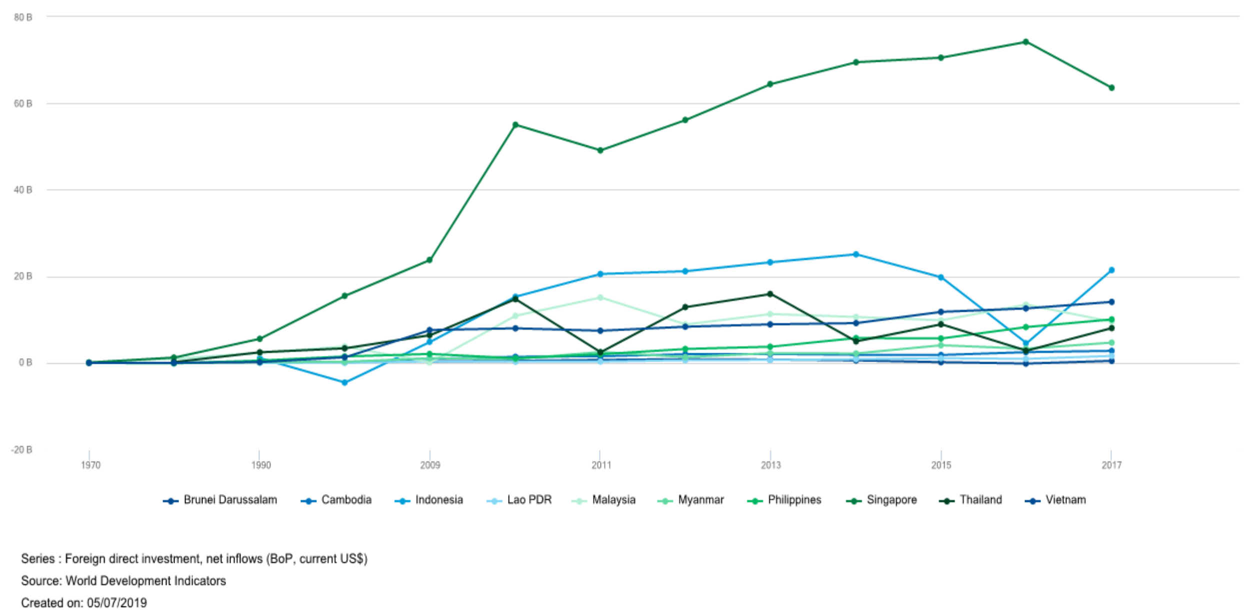
ASEAN has made its modern development for over half a century with the assist of foreign economies. Mostly Japanese corporations, also the United States and the European Union based corporations invest in ASEAN for taking advantage of the production networks in the region. The economic relationship between ASEAN countries and Japan has been built up since World War II, and it helped the ASEAN economy to develop. Besides Japan ASEAN has an economic co-operation with the following Asia-Pacific countries: China, South Korea, India, Australia, and New Zealand. Additionally, separately, member countries have established bilateral free trade agreements (FTAs) with developed economies, for example, Singapore, Malaysia, Thailand, Brunei Darussalam, Indonesia, and Vietnam have FTAs with Japan. This FTA provides benefit both to Japan economy as it operates its business activities in ASEAN because of resources and cheaper

labor force and to ASEAN economies as it promotes them to develop their production and export linkages globally within and beyond the region.

"*Whatever, Japanese firms have found more external business opportunities in ASEAN and achieved economic globalization by increasing export-oriented investments and cultivating consumption markets, ASEAN as economic integration has achieved its economic development as a significant production base worldwide*" (Ishikawa and Shimizu, 2015; Ambashi, 2017: p.5).

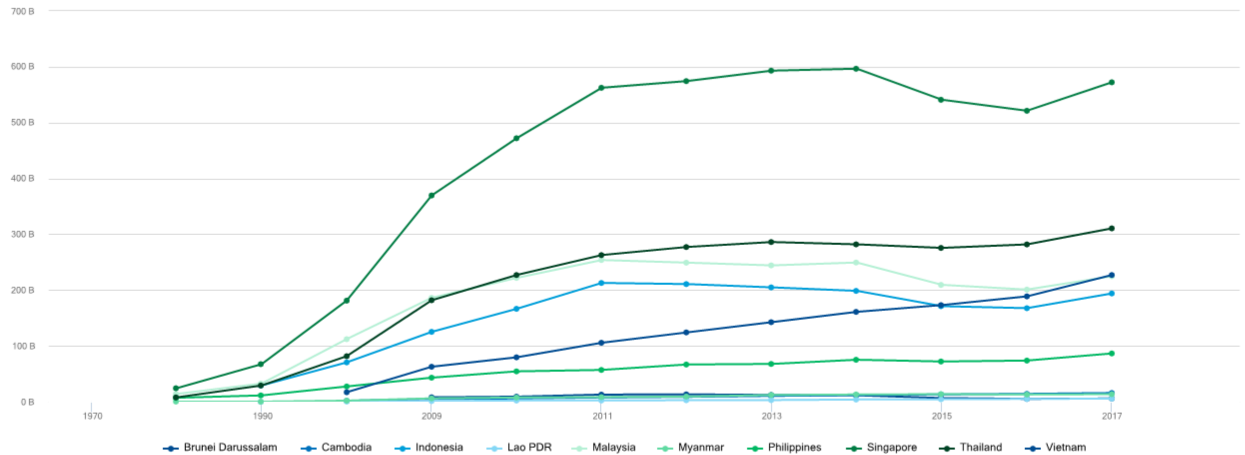
This is called "win-win" relation. It has been increased within efforts based on the AEC and the FTAs centering on ASEAN, where the production networks that are realized by horizontal trade structure have been integrating into the two economic entities (Ambashi M., 2017).

Chart 14: FDI inflows to ASEAN countries (1970-2017)



Source:www.worldbank.org, 2018

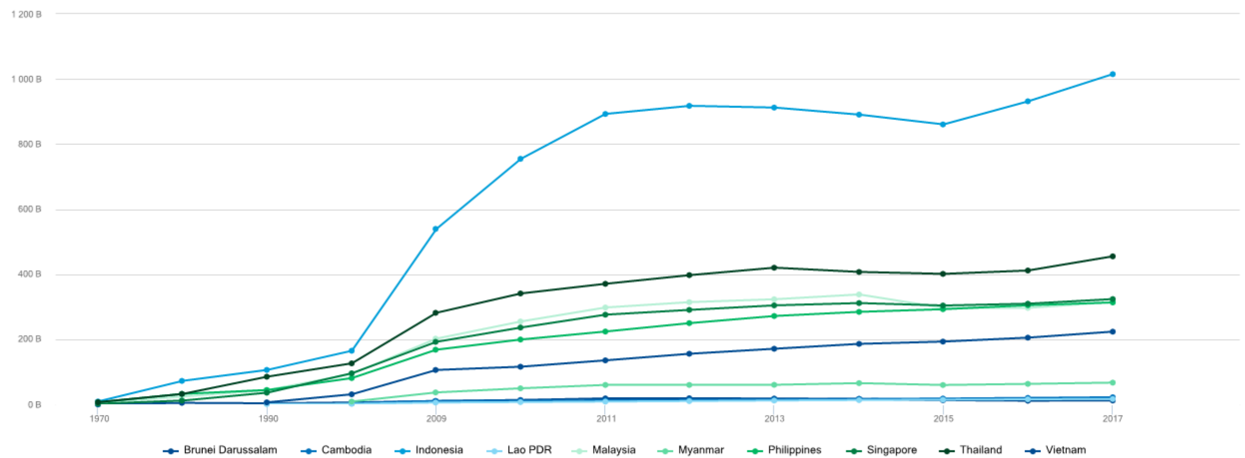
Chart 15: Exports of ASEAN countries (1970-217



Series : Exports of goods and services (BoP, current US$)
Source: World Development Indicators
Created on: 05/09/2019

Source:www.worldbank.org, 2018

Chart 16: GDP annuals of ASEAN countries (1970-2017)



Series : GDP (current US$)
Source: World Development Indicators
Created on: 05/09/2019

Source: www.worldbank.org, 2018

The charts show that Singapore is the main recipient of the FDI inflows and the export leader in the region. But Indonesia is the leader at GDP annual in the region.

Following sections show the impacts of FDI inflows and outsourcing activities by multinationals separately for a few member countries of ASEAN integration.

Singapore is the most FDI receiving country in the region. Singapore's improved vibrant and diversified corporate system grows its economy and creates good jobs for its population. However, TNCs play a significant role in the country's economic development. Investments by MNCs create new job places, also assisted to anchor and grow key new sectors, such as clean technology (Todayonline.com, 2015).

Singapore became independent from Malaysia in 1965. The population faced high levels of unemployment and poverty, GDP per capita was 516$ and half of its population was uneducated. So the government built up the Economic Development Board that makes Singapore an attractive destination for FDI. FDI rose rapidly and by 2001 75% of manufactured output and 85% of manufactured exports belonged to foreign companies. Singapore's strategic location is the ideal trade position connecting routes from Europe to Australia and west costs of America. Singapore now has a advanced, developed trade-oriented market economy and has the most open economy in the world (Developmentandglobalisation.weebly.com).

Singapore's small and medium enterprises (SMEs) gained as suppliers and subcontractors to multinational companies. Because multinationals transfer the technological knowledge to SMEs. Tax promotions support the country's economic growth and encourage investment as it is in many countries. Companies get granted promotions with substantive economic activities. It tends to add value to the country's economy and create employment. Besides tax incentives, Singapore is attractive to MNCs for its strategic location, strong connectivity, trusted legal and regulatory framework, and talent pool(Todayonline.com, 2015).

South-East Asia has two large economies like **Indonesia** and **Thailand**. These two countries are one of the most important destinations of MNCs, especially manufacturing MNCs, both in South-East Asia and the developing world.

Due to data, we can say that in 1996 electric machinery was the largest industry of multinationals activity, chemicals, non-metallic minerals and metals, and general

and transportation machinery followed it distantly. "Electric machinery remained thelargest industry in 2000, though its share fell some. In contrast the share of general andtransportation machinery rose markedly between 1996 and 2000, reflecting the rapidexpansion of MNCs in motor vehicles"(Ito 2006; Ramstetter E.D. and Sjöhölm F., 2006:p.87). Generally, we can say that MNC shares tend to be larger in electric and precision machinery than in other countries in Indonesia and Thailand. Literally, this industry is lead by multinationals in South-East Asia and in most countries in the world largely, because costs related to the development of firm-specific assets are relatively large and manufacturing process to be broken up into various stages with different factor requirements is allowed by production technologies. In these two countries, MNCs are engaged in labor-intensive assembly operations. For instance, multinationals are present relatively great in general machinery and transportation machinery in the Thai economy, and in Indonesia in chemicals, metal products, and less frequently in transportation machinery .As MNCs operate in these countries they raise the exports in both Thailand and Indonesia and also increase employment. Findings suggest that multinationals have significant positive effects on economic performance in these two developing economies and these positive impacts have generated important benefits for the Indonesian and Thai economies in the form of higher wages, higher productivity, and exposure to export markets. But we should also mention that there is little or no support for that idea which states transnational corporations exploit domestic workers(Ramstetter E.D., Sjöhölm F., 2006)

FDI by MNCs has asignificant role in **Vietnam**'s economy. Anadditional source of funds for gross national investment and developed balance of payment has been FDI for the past years. In Vietnam, the foreign-invested sector has the highest rapid growth and makes it the most economically spirited sector. FDI inflows are majorly in industrial sectors such as oil and gas exploitation, telecommunication, electronics, etc. FDI sector has the modest net export values because of FDI projects in the industrial sector mainly employing small-scale assembly lines and the majority of their inputs come from imports. FDI projects by

MNCs rise employment in Vietnam. Because, FDI inflows are mainly in capital intensive industries which use highly skilled labors. It explains why the wage level in FDI sectors is, on average, twice as large as that paid by domestic companies in the same industry. These employees are able to gain access to advanced technology, with good working disciplines, and modern working methods (Toanthang T., Manh Hai N., 2015).

MNCs also create many job places in the service sector indirectly and those have close linkages with FDI enterprise within providing raw materials, intermediate products, etc. MNCs play a necessary role in raising revenue for the State budget by paying taxes to the government. FDI increases the capital account surplus, thereby developing the overall balance of payments(Toanthang T., Manh Hai N., 2015).

Malaysia is one of the world's top 20 attractive countries for FDI by MNCs, according to the World Investment Report (UNCTAD). In Malaysia, there are more than 60 countries, over 3000 companies invested in the manufacturing segment. Dominant countries which invested in Malaysia are Japan, Singapore, Thailand, United States and etc. Toyota, Hitachi, Ford, and IBM are top corporations which contributed in country's economy. The assurance of government's that retain the business environment which provides the foreign investors with the profits and opportunity for improvement is the main factor of attracting the foreign corporations to open up their business in Malaysia (Ukessays.com, 2016).

Multinationals have a big influence on the country's economy. They have both positive and negative impacts on economy. Technology transferring to country, the rise in employment rate is the positive impacts on the economy. Although they provide benefit to the country they have disadvantages for the economy: big foreign corporations invest in the country, create their own production factories, etc. it gives a little chance to the local firms to invest in their own country. Another negative impact is that the technology of the country depends on foreign ones(Ukessays.com, 2016).

Table 5 shows the FDI inflows to the region, exports and GDP of the region's countries in total.

By using the table 5, we can calculate the casual relationship among FDI inflows, export, and GDP.

GDP= 0, 1995405405+18, 4324324322*FDI r=0, 9821 (10)

GDP=0, 0065369627+1, 6064684612*Export r=0, 9955 (11)

Due to these equations, there is a strong and positive correlation between FDI and GDP (10), and between export and GDP (11). We can say FDI and export which is result of multinationals activity in ASEAN play important role in GDP annual of the countries.

Table 5. FDI inflows, exports and GDP of ASEAN in total (1970-2017)

Years	FDI inflows (in trillion US$)	Export (in trillion US$)	GDP annual (in trillion US$)
1970	0,001	-	0,030
1980	0,002	0,054	0,179
1990	0,012	0,171	0,327
2000	0,021	0,495	0,614
2009	0,048	0,990	1,554
2010	0,108	1,248	1,985
2011	0,102	1,487	2,298
2012	0,116	1,538	2,430
2013	0,133	1,588	2,509
2014	0,131	1,605	2,531
2015	0,134	1,482	2,454
2016	0,122	1,473	2,571
2017	0,136	1,658	2,765

Source:www.worldbank.org, 2018

2.3. Role of TNCs on Social-Economic Development of Azerbaijan

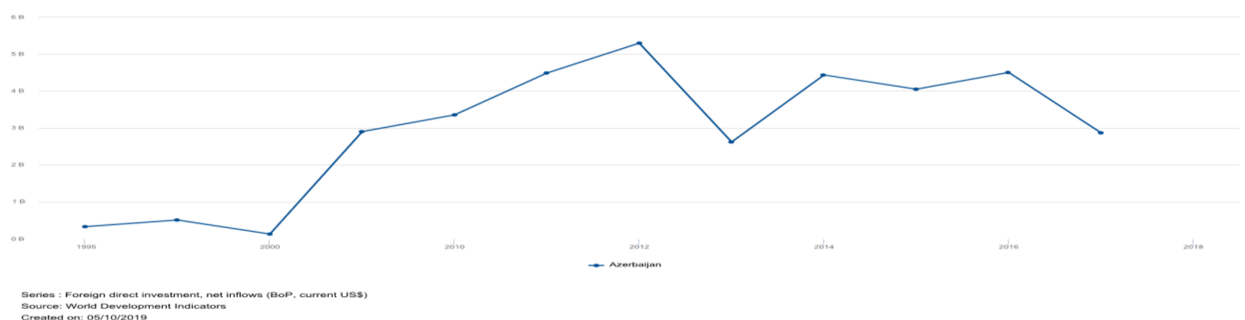
After the collapse of the USSR, a transition to the market economy was the main priority of Azerbaijan like other former Soviet countries. To attract investment to Azerbaijan, to present our country as a reliable partner to the world community, to create favorable conditions for foreign investors, and to fully protect the state interests of Azerbaijan required great political experience, knowledge, and skill. In 1993 when Heydar Aliyev returned to the state authority he took actions not only in the political area but also in the economic sphere. As a result of genius leader's efforts, on September 20, 1994, in Baku a contract was

signed for the production of oil extraction in the deep waters of the Azeri, Chirag, and Gunashli fields in the Azerbaijan sector of the Caspian Sea. This contract- "Contract of the Century" has played a significant role in the Azerbaijan economy. 8 countries of the world (Azerbaijan, the US, Great Britain, Russia, Turkey, Norway, Japan, Saudi Arabia) and 13 popular oil multinationals from these countries (AMACO, BP, McDermott, Unocal, SOCAR, Lukoil, Statoil, Exxon, Turkish Petroleum, Pennzoil, Itochu, Remco, Delta) have participated in the contract(Minenergy.gov.az).

After the contract signed, FDI inflows to the country started to increase. Oil and gas sectors of Azerbaijan have always been attractive for foreign investment.

> "*According to the State Statistical Committee (SSC), Azerbaijan had FDI flows of $125.5 billion between 1995 and 2017. Out of $77.8 billion of FDI to the economy between 2000 and 2017, more than 85%, or $66.8 billion went to the oil and gas sector, while the non-oil sector received 14.1%, or $19.9*" (Bakuresearchinstitute.org, 2018).

Chart 17: FDI inflows to Azerbaijan (1995-2017)



Source:www.worldbank.org, 2018

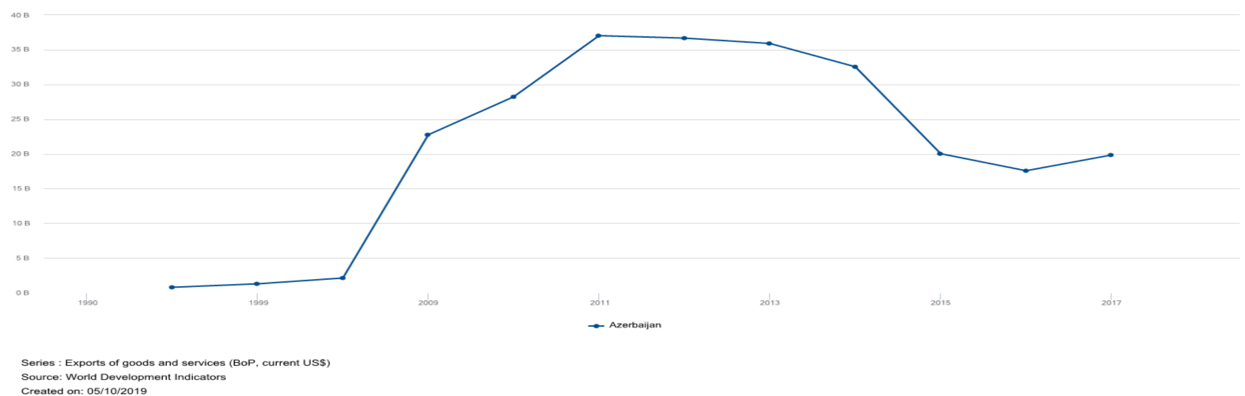
As the greater percentage of FDI inflows go to the oil sector, there are fluctuations in the FDI inflows to the country through the years. The reason is that oil prices are not stable. It affects the investment through that sector.

As Azerbaijan is an oil exporting country, it has benefited from the oil boom over the past years, and the government earned huge amounts income and wealth from oil. Because of the decrease in the oil prices in 2008, its revenues fell down

by 35% in 2009. For covering this economic deficiency, the government of Azerbaijan expanded the amount of the yearly transfer from the petrol fund to the government budget around 2 billion US$ and could overcome the economic crises (Mammadova G., 2015).

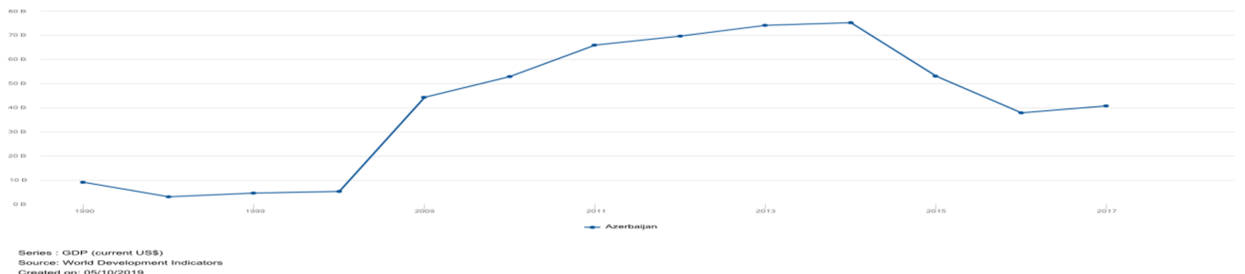
The attraction point of the Azerbaijan economy in terms of FDI by multinationals is the oil sector. Besides some bureaucratic obstructions, unhealthy investment area, and infrastructure constraints, FDI inflows to the oil sector continued to grow. On the other hand, competitive production costs, cheap and qualified labor, significant gas potential in the Caspian Sea, perspective of gas export to Turkey, then Europe, link between China and Europe, development of rail corridors with Iran, Turkey, and Georgia, substantial foreign currency assets in the State Oil Fund of Azerbaijan (SOFAZ) make the country attractive for foreign investors.

Chart 18: Exports of Azerbaijan (1995-2017)



Source:www.worldbank.org, 2018

Chart 19: GDP annuals of Azerbaijan (1995-2017)



Source:www.worldbank.org, 2018

It is seen from the charts, falling oil prices has decreased the export of the Azerbaijan and GDP respectively.

Table 6.FDI inflows, exports and GDP of Azerbaijan (1995-2017)

Years	FDI inflows (in billion US$)	Export (in billion US$)	GDP annual (in billion US$)
1995	0,330	0,784	3,052
1999	0,510	1,282	4,581
2000	0,130	2,118	5,273
2009	2,900	22,759	44,291
2010	3,353	28,235	52,903
2011	4,485	37,039	65,952
2012	5,293	36,686	69,684
2013	2,619	35,912	74,164
2014	4,430	32,557	75,244
2015	4,048	20,030	53,074
2016	4,500	17,579	37,868
2017	2,867	19,840	40,748

Source:www.worldbank.org, 2018

By using the data at table 2.3.1, we get the following equations for the Azerbaijan economy:

GDP=5, 8249669992+12, 8866439935*FDI r=0, 8504 (1)

GDP=3, 2760978918+1, 9132047143*Export r=0, 9780 (2)

As it is seen from the equations, both FDI inflows and export play significant roles in GDP growth- economic development of the country. Correlation between the variables is strong and positive. Export plays a vital role in GDP growth. This export is a result of FDI inflows from multinationals to the oil sector. Because the great portion of the export of Azerbaijan is oil.

Operations of the multinationals in the country provide benefit to the country by increasing both the employment rate and the number of experienced workers. In Azerbaijan oil sector international companies have a high level of experience and they transfer their experience to the local staff. It resulted in well-trained local staff. These companies make regular training programs to their workers and transfer the experience to the local employees within that way. Besides the education level and high literacy level, Azerbaijan faces well-trained staff in several business areas. In the country, there is a need for engineers with a high level of skill and technologically advanced in various fields of business life. That is why foreign investment is a good tool for training people. In Azerbaijan, companies spent less than in all other transition countries on R&D. Per-capita FDI

should be coupled with policies created to facilitate the transfer of knowledge and technology among the companies. The government was also able to build incentive schemes for enterprises to invest more in its staff education and R&D (Mammadova G., 2015).

BP has a role of encouraging human capital in the country with the Community Investment Program (CIP) which started from 2002. One of the CIP's projects has been the Sangachal Terminal Expansion Program, which aimed to increase the capabilities of the domestic labor force. The company signed cooperation agreements with SOCAR to work together to nationalize BP's staff. The aim is to improve professionals specializing in petroleum disciplines. A lot of educational programs, aimed at training workers in the skills and capabilities that the oil industry will need in the future are funded by BP and its co-ventures. The students have been supported with oil and gas scholarship since 2002 by BP and its co-ventures. The students are given a chance to continue undergraduate and graduate studies in engineering and geosciences at universities in Turkey and Azerbaijan by this program (Mammadova G., 2015).

In our country for creating a more competitive environment, the government should encourage a national banking system which actively supports mergers and acquisitions among banks, especially with the participation of foreign investors. Access to finance for entrepreneurs at all levels would develop in the case of these reforms being successful. After increases in FDI inflows, not only the banking sector but some other sectors would face competition, e.g. the agriculture sector needs a competitive environment and increasing FDI is expected to increase the competitive level at this industry (Mammadova G., 2015).

Azerbaijan has tried hard to renew the Silk Road and Europe-Caucasus-Asia transport corridor (TRACECA) located in Baku sponsored by European Union using its significant geographical location and well-educated labor force. Azerbaijan is aware of the fact management and governance practices contribute to an economy's great experience and new management and governance perspectives.

Our country is ready to play a linking role in the realization of prospective trans-regional projects, which are supported by international organizations. The country is a member of more than 20 international economic organizations and has observer status at WTO (Mammadova G., 2015).

"One Belt, One Road" project which prescribing the recovery of the ancient "Silk Way" has an important meaning for our country too (Hacıyev H.; Realtv.az, 2019). As this "road" passes through Azerbaijan to realizing this project will provide the strengthening our country as economically, will increase the geopolitical and geoeconomic penetration of Azerbaijan (Yap.org.az, 2019). Our President Ilham Aliyev supports this project and that is why he visited China to participate at the II International "One Belt, One Road" Forum in April, 2019 (Report.az, 2019). During his visit to China Ilham Aliyev had a meeting with Lian Xua- the president of "Huawei" company (Marja.az, 2019).

In Azerbaijan increasing FDI forces domestic companies to improve their technology and transfer technology from investing ones. For competing with more qualitative foreign products at the local market, domestic companies have to apply better technologies. That is not possible without FDI and cooperation with leading MNCs on equity and non-equity basis. Domestic companies which acquire advanced technologies and joint ventures can replace import needs a more effective manner. That is also can be a justification and significant step for further export-oriented production(Mammadova G., 2015).

In her research project Mammadova G. has found out that, in Azerbaijan increasing FDI by multinationals has led to some developments and projects in terms of technology transfer:

- *" The State Committee on Standardization, Metrology and Patent of the Republic of Azerbaijan requested the World Intellectual Property Organization (WIPO) to organize with the Committee a Regional Seminar on Technology Transfer Issues;*
- *At the Azerbaijan State University of Economics (UNEC) the Center for Technology Transfer was established;*
- *AzDRES Energy Efficiency Improvement Project;*
- *Sumgait Technologies Solar Park;*

- *Demonstration project of the hydroelectric power plant and etc"* (Mammadova G., 2015: p.145).

Mammadova G. has found out that foreign multinationals also have a negative impact on our country which is negative wage spillover. She states that big multinationals in the oil sector have great budgets and they can work with qualified staff as a result of high salaries. Due to this, domestic companies hire lower-quality staff. This results in many unwanted situations in productivity and operations (Mammadova G., 2015).

Azerbaijan has a deficit in net income from abroad, because of profit repatriation by foreign oil multinationals (World Bank, 2014). It would be highly doubtful that our country could survive at its current economic level without dependency on the oil and gas industry. The government should try to inspire the non-oil export for achieving economic growth in the future (Mammadova G., 2015).

CHAPTER 3

TRANSNATIONAL CORPORATIONS IN THE MODERN WORLD ECONOMY

3.1. Eastern MNCs versus Western MNCs: Comparison of the Main Ones

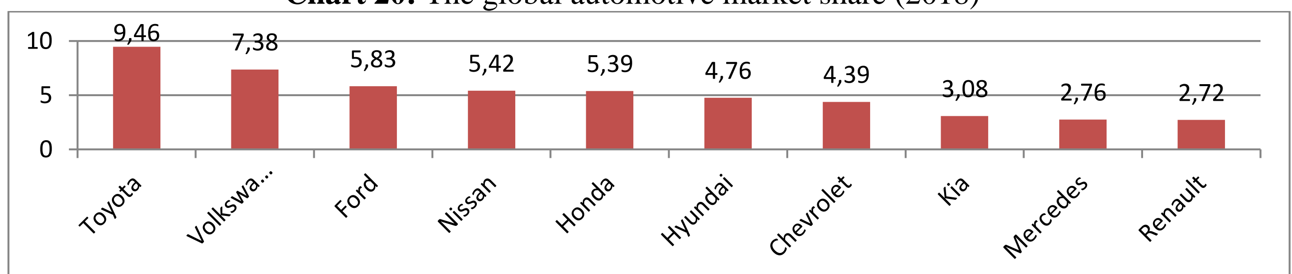
In this part, we will talk about the competition in the global market, Eastern MNCs, comparison of them with their Western rivals. The reason of this comparison is as they are rivals they try to win the competition by selling more goods; selling more goods means they try to produce more- to increase the productivity, it leads to increasing employment, the application of the new technologies and etc. All these have an impact on countries' economies.

Table 9 (p.98) shows the 25 largest companies in the world ranked by revenue in 2017 (in billion U.S. dollars).

As we see from the table, Toyota Motor is in the first place among automotive companies. Its main rivals are Volkswagen (Germany), Daimler (Germany), General Motors (US), Ford Motors (US).

> *"Toyota Motor Corporation is a Japanese multinational automotive producer. It's headquartered in Toyota City, Aichi, Japan. Toyota employed 364.445 employees around the world, in 2017. The company produces vehicles under five brands, including the Toyota brand, Hino, Lexus, Ranz, and Daihatsu. TMC is part of the Toyota Group, one of the largest conglomerates in Japan, holds a 16.66% stake in Subaru Corporation, a 5.9% stake in Isuzu, as well as joint-ventures with two in China (GAC Toyota and Sichuan FAW Toyota Motor), one in Czech Republic (TPCA), along with several "nonautomotive" companies. These numbers can make sense how great company it is"*(Wikipedia.org).

Chart 20: The global automotive market share (2018)



Source: Statista.com, 2019

This chart shows the global automotive market share (%) in 2018, by brand. Besides Toyota, Nissan (Japan), Honda (Japan), Hyundai (South Korea), and Kia (South Korea) belong to Asia.

Toyota's being a global force in the automotive industry is relied on the effective implementation of its generic strategy and intensive growth strategies.

Toyota's generic strategy (Porter's model) is a mix of the cost leadership generic strategy and the broad differentiation generic strategy. Cost leadership means minimizing the cost of the operations and selling prices. The company achieves it within the just-in-time (JIT) production method, which is also known as the Toyota Production System (TPS). This method provides the company's generic strategy by minimizing waste, inventory cost, and response time. Consequently, the company gets maximum business efficiency. The broad differentiation generic strategy provides Toyota's competitive advantage by requiring improving business and product uniqueness. The point of this strategy is innovation; innovation tends to unique and attractive outputs for all market segments. The company's global reach in all market segments is supported by the mix of these generic strategies (Panmore.com, 2017).

Toyota's intensive growth strategies are market penetration, product development, and market development. Market penetration strategy is the main intensive strategy of the company. The strategy states business growth by reaching and attracting more consumers in the company's current markets: the company provides that it suggests products for every market segment. For instance, for each type of customers, the corporation has sedans, trucks, SUVs, luxury vehicles, and other product lines. By providing the company to maximize its sales amounts, which ensures profits besides relatively low selling prices, this strategy supports the cost leadership component of Toyota's generic strategy. Product development is the secondary intensive growth strategy of the company which states the company's growth by attracting consumers to new products and the corporation uses this strategy in the form of rapid innovation. For instance, within the producing of Toyota Prius, this strategy empowers the corporation to attract

consumers who concerned about the environment. The company's broad differentiation generic strategy is supported by that intensive strategy by using innovative outputs which are attractive on the basis of uniqueness or advanced features. Market development strategy is just an encouraging intensive strategy for the business as the company has a global presence. According to this strategy, the corporation grows by entering new markets or selling to new market segments. However, the company already has a presence in most markets around the world and this intensive strategy supports Toyota's cost leadership generic strategy by maximizing the company's global market presence(Panmore.com, 2017).

SWOT analysis of Toyota:

1. Toyota's strengths:

This company has one of the strongest brands in the global car industry. Toyota's global supply chain is also one of its strengths which enable rigidity and market-based risk minimization. The company has an organizational culture that simplifies rapid innovation, which is pivotal for long-term competitive advantage (Panmore.com, 2017)

2. Toyota's weaknesses:

The company's weak points are its hierarchical organizational structure, confidentiality in organizational culture, and effects of product recall in recent years. The first one prevents maximum flexibility of regional operations. The second one decrease response times in addressing emerging problems. The company implemented massive product recalls starting in 2009. It weakens the company because this process consumes business capacity that could be used for product distribution instead (Panmore.com, 2017).

3. Opportunities for Toyota:

It is heavily based on technological and economic trends. This part identifies the external strategic factors that the corporation uses to develop its business. The company has the following opportunities: growing markets in developing countries, increasing demand for fuel-efficient automobiles, growing interest in improved electronics in vehicles, and weak Japanese Yen

vs. U.S. Dollar. Developing markets present the opportunity for the company to raise revenues by penetrating these markets. The opportunity for the company to focus its innovation is presented by the current trends of rising demand and interest for higher fuel efficiency and advanced electronics. Also, the weaker Japanese Yen in front of the U.S. Dollar means higher competitiveness of products and components exported from Japan to the U.S. (Panmore.com, 2017).

4. Threats the company faces:

These threats are based majorly on the competitive landscape. These external strategic factors could decrease the firm's performance. The main threats for the company are a growing market presence of low-cost competitors and rapid innovation of its competitors. The company faces a threat like competition with low-cost cars from Korean, Chinese, and Indian producers, which have been increasing their presence in foreign markets. The rapid innovation of the competitors like GM, Honda, and Ford is another threat for the company(Panmore.com, 2017).

Historically, Toyota has always been compared with General Motor. Unlike Toyota, General Motor's generic competitive strategy is only cost leadership. This strategy creates a competitive advantage based on the attractiveness of low costs and correspondingly low prices for products: GM's automobiles are offered at prices that are fewer than premium or luxury automobiles like Mercedes-Benz. The lower prices attract consumers, leading to GM's competitive advantage. A strategic object of this strategy is to enhance the producing process efficiencies within automation and continuous development to support the company's competitive advantage. The intensive growth strategies of the company are mostly the same as Toyota's, besides additional diversification strategy. This strategy supports business growth within new business. A strategic objective of this strategy is to grow the company within new acquisitions of business outside the automotive industry(Panmore.com, 2017).

SWOT analysis of General Motor:

1. Company's strengths:

A joint venture with local Chinese automotive companies has enhanced the company to overcome most of the foreign market entry barriers and accelerated its growth in China. GM and its joint ventures sold over 3612 million vehicles in China, captured 14.9% share of the market, in total has 11 partnerships in China, which employ 58000 employees. The company has a strong position in the US market where it holds over 17.3% share of the market. GM's commitment to the continuous and clean environment results in lower costs, happier communities around it and it attracts lots of positive publicity and strengthens its brand image. The company has strong product designing and development capabilities. $7.4 billion were spent on R&D activities by the company in the year 2012. This spent focused on designing and improving new products, developing existing ones, improving fuel economy and the safety of users. GM's strategic alliance with Honda Motors (Japan) will be called Fuel Cell System of Manufacturing Plant. Both companies are investing an equal amount and the plant is expected to start its production by 2020 (Strategicmanagementinsight.com, 2016).

2. Weaknesses of GM:

The company's cost structure is very high and it's driven by workers' compensations and benefits. The relation between workers and management of the company is very poor and it results in poor communication that lessens the productivity of the company. GM focuses more on its domestic market and it is like a barrier to expanding globally. Another weakness of the company is that the company does not focus on energy efficiency (Strategicmanagementinsight.com, 2016).

3. Opportunities for the company.

Potential growth in India can be an opportunity for the company.

Positive operations along with environment-friendly vehicles are other opportunities. Because people are more concerned about the environment nowadays. Growth within acquisitions, focusing on the global market and developing employee-management relationship can be opportunities for the company (Strategicmanagementinsight.com, 2016).

4. Threats for General Motor.

High raw material cost and rising fuel prices decrease sales. The new competitors, such as Tesla with its electric cars are competing directly against GM's Chevrolet Volt. The fluctuating dollar rate influences the company's profits in a negative way. The slowing down growth in the US car market is another threat to the company(Strategicmanagementinsight.com, 2016).

In the electronics industry, Asian firms are counted as a leader. Samsung Electronics (South Korea), Hon Hai Precision Industry (Foxconn) (Taiwan), Hitachi (Japan), Sony (Japan), Panasonic (Japan), Amer International Group (China), LG Electronics (South Korea), Honeywell International (US), Mitsubishi Electric (Japan), China Electronics Corporation (China) are the leader companies in the electronics industry by their revenues(Manufacturingglobal.com, 2018).As it is seen, 9 companies belong to the East, while only one belongs to the West.

Here there is an analysis of the global smartphones market:

Table 7. Market share of smartphones (2018)

Rivals:		2018 market share:
1.	Samsung	20,9%
2.	Huawei	15,8%
3.	Apple	12,1%
4.	Xiaomi	9,3%
5.	Oppo	8,6%
Others		33,2%

Source: Forbes.com, 2018

Besides Apple (US), the others belong to Asian countries. Huawei, Xiaomi, and Oppo belong to China, Samsung belongs to South Korea.

Samsung and Apple are considered in a worldwide corporate battle.

Samsung focuses on vertical integration and product volume. The company operates like many Asian producers, such as NEC Corporation or Sony Corporation, with an emphasis on vertical integration and a flood of products. It operates in several markets, like flat panels, sensors, LED lights, batteries, gaming systems, cameras, TVs, appliances, cell phone carriers, tablets, smartphones, and even medical electronics. Samsung spends high amounts of money on R&D and capital expenditure. The company's vertical integration strategy is as a chief

competitive advantage. While Apple still imports billions of dollars' worth of details from its rival every year, Samsung does not depend on anybody. Declining profit margins in 2014 and 2015 made the company respond within mergers and acquisitions and partnerships. This was a historical shift in focus for the company. Likely, signaling a departure from its self-funded R&D and into outsourced innovation.

Apple's strategy focuses on design, integration, and outsourcing. Due to these, we can say Apple is a much more focused company than Samsung and also a much more profitable company. The company successes in design and there is no small degree of risk. Almost three-quarters of Apple's revenue come from iPhones and it makes the company one product-dependent. Apple lets other companies spend time on R&D and early market expansionbefore swooping in and developing everything- because the company does not race to be first (Investopedia.com, 2015).

"Apple vs. Samsung: Endless Patent Lawsuit: these companies have been in court over patents since 2011, when Apple filed a lawsuit alleging that Samsung's smart phones and tablets "slavishly" copied its products"(Investopedia.com, 2015). Samsung had to pay $539 million to Apple for infringement of some of the patent issue(Nytimes.com, 2018).

For oil and gas industry, I want to look at Sinopec (China) and Royal Dutch Shell (Anglo-Dutch).

> *"Business of Sinopec or China Petroleum & Chemical Corporation includes exploration of oil and gas, refining, and marketing, production and sales of petrochemicals, chemical fibers, chemical fertilizers, and other chemical products, storage and transportation of crude oil and natural gas, import, export and import/export agency business of crude oil, natural gas, refined oil products, petrochemicals, and other chemicals. The company has a market leadership position in China"*(Wikipedia.org).

SWOT analysis of the company is as following:

1. Strengths of the company:

The company is highly successful at "Go to market" strategies for its products. High level of consumer satisfaction and automation of activities

brought consistency of quality to its products and has allowed it to scale up and scale down based on the demand conditions in the market. The company is investing so many resources in the training and development of its workers and it results in a labor force being both highly skilled and motivated to achieve more. Good returns on capital expenditure, strong dealer community, strong free cash flow, and successful track record of developing new products-product innovation are strengths of the company (Fernfortuniversity.com).

2. Weaknesses of Sinopec:

The company does not make financial planning accurately and efficiently. Sinopec's profitability ratio and Net Contribution are below the industry average. The company is not good at demand forecasting and it results in keeping higher inventory both in house and on the channel. The company spends more than its competitors on the training of workers. Even though Sinopec is successful at integrating small companies, the company has its share of failure to merge firms that have different work culture (Fernfortuniversity.com).

3. Opportunities for the company:

New environmental policies represent a great opportunity for the company to drive locally its advantage in new technology and gain market share in the new product category. The investment of the company is an online platform has opened a new sales channel for it- the company can know its buyers better and serve them. It needs to use big data analytics. The lower inflation rate in the local market, stable free cash flow, economic uptick, and increase in customer spending, the new technology provide an opportunity for Sinopec to practice differentiated pricing strategy in the new market. It will assist the company to maintain its loyal customers with great service and lure new customers within other value-oriented propositions (Fernfortuniversity.com).

4. Threats the company faces:

New technologies improved by its competitors are the main threats for the company. The company can face lawsuits in several markets, increasing trend toward isolationism in the American economy can influence negatively on

international sales. Rising raw material can decrease the profitability of the company. There is no regular supply of innovative products- it has improved numerous products over the years, but those are often response to the development by other competitors(Fernfortuniversity.com).

> *"Royal Dutch Shell, which is commonly known as Shell, a main rival of Sinopec, is an Anglo-Dutch oil and gas company who headquartered in the Netherlands and incorporated in the United Kingdom. This company is one of the six oil and gas "supermajors" and the fifth-largest company in the world measured by 2018 revenues"*(Wikipedia.org).

1. Strengths of the company:

It has strong market position-the company has upstream and downstream operations in over 70 countries around the world. It gives Shell a significant bargaining power in the industry. The company has successfully integrated its business operations vertically by engaging in the exploration and production of natural gas, crude oil, etc. This strategy gives it a competitive advantage over quality control and cost benefits. Shell also has strong exploration capability. The company has invested heavily in developing and implementing technology for exploration. Like other competitors, Shell has made the sustained investment in its R&D and also has a wide series of patents under its banner. It provides a competitive advantage and helps in reducing expenditure (Marketing91.com, 2018).

2. Weaknesses of Shell:

The company was fined $30 million because of violating corruption laws in the US in the case of using freight Panalpina and violating corruption rules from the Foreign Corrupt Practices Act (FCPA). Brand image and goodwill are influenced by such violations. It has also experienced an increase in debt. It increases business risks and a subsequent share of the cash flow is paid in interest. The business may be influenced by increasing financial obligations in the future (Marketing91.com, 2018).

3. Opportunities for Shell:

The company's Prelude Floating Liquefied Natural Gas (FLNG) partnership will assist it to access offshore gas fields those are hard to develop. This program

will produce 5.3 million tons of liquids per annum once fully operational. It will take care of the demands in the future. Rising global energy demand is another opportunity for the company. Strategic merger of the BG group gives the company stronghold in the offshore of Brazil and Australia. The company has been focusing on expanding its operations strategically across the globe for catering to energy demands of the developed and emerging nations in the future. Shell has also entered a merger with companies of other countries like China to build up its footprint in those markets (Marketing91.com, 2018).

4. Threats for the company:

Climate change concern is a threat to the company. It needs to find a solution to decrease its carbon dioxide emissions. Otherwise, the company may have to face rising costs and stricter regulations. Another threat to the company is susceptible to political volatility. As oil and gas have been the most important subject of discussions between countries, operating in many countries puts Shell in a disadvantage of becoming a victim of any political arguments in the future(Marketing91.com, 2018).

3.2. Multinationals from Emerging Asia

"The dominance of U.S.-based MNCs was greatly reduced from the 1970s onward when first MNCs based in Western Europe and Japan and later MNCs based in Southeast Asia (particularly Korea and Taiwan) began to establish a strong presence outside their regions. The latest set of big players in global FDI flows includes Brazil, Russia, India, and China (the BRICs) and the formerly communist countries of Eastern Europe. That group of countries is often referred to as the "emerging economies.""(Hart J.A.,2015:p.16).

Mathews J.A. (2006) called firms from Asia-Pacific-world economy's historically outer region-which have successfully internationalized, even sometimes have become leading ones in some sectors as "Dragon Multinationals". He suggests that "these corporations started from behindhand, and get the better of their deficiencies to appear as industry leaders, in sometimes incredibly short periods of time, without any of the advantages of the occupant industry leaders"

(Mathew J.A., 2006: p.2). He found out that "these corporations did it without primary resources, without skills and knowledge, without accessibility to major markets, and without the social capital that it is easy to find in regions like Silicon Valley" (Mathews J.A., 2006: p.2).

We can take a look at the differences between emerging multinationals and traditional ones briefly on the following table:

Table 8. Difference between emerging and traditional MNCs

Dimension	New MNEs	Traditional MNEs
Speed of Internationalization	Accelerated	Gradual
Competitive advantages	Weak: improving of resources required	Strong: required resources are available in-house
Expansion past	Dual path: entry into developing countries getting access for market and developed countries for resource upgrading	Single path: from less to more far countries
Preferred entry modes	External growth: alliances, joint-ventures, and acquisitions	Internal growth: wholly owned subsidiaries
Organizational adaptability	High, because of their current and relatively limited international presence	Low, because of their entrenched structure and culture

Source:www.bbvaopenmind.com, 2019.

"The rise of East Asia as an industrial power, built on skilful learning and adoption cum-adaptation of advanced technologies combined with relentless focus on penetrating western markets, held the world in admiration through the 1980s and 1990s "(World Bank, 1993;Mathews J.A.,2006:p.7).

"More recently, however, Chinese outflows are directed toward industrialized nations as a 16 means to gain access to advanced technology and markets for high-value-added goods and services. Chinese outward FDI is controlled disproportionately by state enterprises and not by private firms"(Hart J.A.,2015:p.16).

MNCs from developing countries have a necessary role in the increase of outward FDI. That means that multinationals from emerging economies, especially

from Asian economies become the important players in the global economy (Mathews J. A., 2006).

"The trade between … firms has been increasing faster than world trade overall, while investments by these firms … is also increasing faster than world trade growth. It is the activities of these firms which define the emergent global economy" (Mathews J. A., 2006: p.9).

While the author was researching these "latecomer MNCs" from Asia, he made research on Acer, Li & Fung from Hong Kong, Hong Leong group from Singapore, Ispat International from India, is now the world's most globalized steel company and etc. The author has focused on the some own characteristics of these latecomers or newcomers. The first one he found out is "…these companies all internationalized very fast- accelerated internationalization" (Mathews J. A., 2006:p. 13). The second characteristics he found is "…these firms have been able to be attain such kind of internationalization both via technological innovation and via organizational innovations which are well adapted to the terms of the emergent global economy"(Mathews J. A., 2006:p. 14). The last thing he found, "…these companies have been able to accomplish these approaches within strategic innovation that let them to exploit their latecomer and outer status to advantage"(Mathews J. A., 2006:p. 15).

Mathews J. A. has compared Samsung and IBM and found that Samsung became a world principal in the memory chip industry, within 10 years of its entering the industry by starting with a little, while IBM stands a main player in the industry by having a wealth of resources to elucidate its success. He states Samsung's success as "it was able to use what little it had to place itself in world production networks to obtain and adapt the technological and market know-how needed, and to set the company's competences out of these ingredients" (Mathews J. A., 2006:p. 21). Mathews J. A. has also found "Acer's become a worldwide actor in the PC and IT industry is a result of using the strategies of market leverage and partnership to dilate in peripheral markets, rather than to account for the going on international achievement of HP" (Mathews J. A., 2006:p. 21). He also explains Ispat's

becoming world number 1 in the steel industry as it's being able to take advantage of opportunities obtainable to a latecomer at a time of globalizing tendencies, and this company's success must be connected in some way to its severe emphasis on establishing global scale, and globally integrating its activities in order to attract global consumers, in advance of any of the occupants in the industry.

Mathews J. A. explains latecomer or newcomer multinationals not being dependent on prior possession of resources for their international expansion, as was the case for most traditional ones from Triad countries expanding abroad in past decennium as a result of their tapping into temporary advantages. He also states that before the Dragon Multinationals' appearances, globalization was accounted dominant tendency driven by a handful of huge global firms creating a uniform world in their own way and in the 21st century, this process is likely to be characterized by the increasing integration of a variety of small and medium-sized companies in global networks of production, movement of products and flows of information and knowledge (Mathews J. A., 2006).

3.3. Global Value Chain and Asian Firms

"International production, trade, and investments are increasingly organized within so-called global value chains (GVCs) where the different stages of the production process are located across different countries" (OECD.org). Due to OECD explanation, the companies are motivated by globalization to reshuffle their activities internationally through outsourcing and offshoring of activities. They try to advance their production processes by locating the assorted stages across different sizes, as a result there is a strong trend towards the international diffusion of value chain activities such as design, production, marketing, distribution, etc. (OECD.org).

The goods and services are carried out of inputs from different countries around the world (OECD.org). The flows of goods and services within these global production chains are not always reflected in ordinary measures of international trade (OECD.org). There is an initiative which addresses this issue by considering

the value added by each country in the production of goods and services that are consumed worldwide-joint OECD-WTO Trade in Value-Added (TIVA) (OECD.org). These indicators are created to better inform policymakers by providing new intuitions into the trading relations between nations. In the modern world trade, GVC is a superior feature and developing, emerging, and developed economies are actively participating in it. All levels of producing goods, from their raw materials to the made ones, are increasingly carried out wherever the necessary skills, all materials needed to produce are available at competitive cost and quality. Also trade in services is important for the adept functioning of this process. Because they both connect activities across countries and they help firms to increase the value of their products (OECD.org).

A large share of world trade takes place within MNC networks. Due to UNCTAD, 80% of global trade is coordinated by MNCs. We can say that MNCs play an important role in GVCs.

Khoi N.V. (2011) found out that GVCs first emerged in East Asia in the 1970s, when the US and Japanese based investors took the supremacy positions in the region and generated flying geese pattern of investment and trade here. Then, "…a US semiconductor firms which production as very labor intensive, settled its assembly factories in East and South East Asia, and Japanese companies arranged low-cost transistor radio production in Taipei-China and in Hong-Kong-China"(Khoi,2009;Khoi N.V., 2011: p.2).

60% of total trade flows of Asia are driven by GVCs. Asia has gained largely from GVC-linked FDI. Most economies in Asia, especially in East and South East Asia owe their strong economic performance over the past decennium to export-oriented development strategies based on connecting FDI to GVCs. As it is mentioned previously, many East and South East Asian economies provided encouragement to attract multinationals into labor-intensive industries in order to achieve employment. These countries settled into higher value-added segments of the value chain along with industrial and investment promotion policies. We can

show the eastern seashore of Thailand and the Penang export hub in Malaysia as an example (Khoi N. V., 2011).

Even in the absence of good governance, economies of developing Asia can still attract TNCs by improving the environment along with industrial policies such as building special economic zones (Khoi N. V., 2011).

Great trade growth of developing Asia was largely nourished by FDI from Japan and later South Korea, mainly within Greenfield investments that result in building assets from the sod up as opposed to acquiring existing ones. Most Asian siblings are still owned by Japanese or Korean companies, but MNCs from emerging economies are internationalizing rapidly, e.g. a third of China-owned affiliates in the region are committed in GVC-linked activities, mostly in Vietnam (Khoi N. V., 2011).

Mergers and acquisitions have become a significant part of intra-regional FDI, especially in the service sector. For example, Singapore's business services sector has been the most popular harbor for Indian MNCs (Brinknews.com, 2017).

Engaged in GVCs has separated the Asian countries into two groups: "governing group" and "governed group". Asian companies from Japan, China, South Korea, Taiwan, and India have set up a large number of multinationals. These belong to the Governing Group. According to the Fortune Global, more than 130 of the 500 big companies are from Asia. For example, more than 90 companies belong to China; three Chinese companies made to the top 10, beating the US and 12 Chinese companies are at the top 100. Japan has 10 big brand names in the top of the list. Also, companies from India, Taiwan, Singapore, Thailand, and Malaysia stand on the list (Khoi N. V., 2011).

While domestic MNCs of the region create a large demand on outsourcing the production part or assembly plants to other Asian developing countries, the rest of the region still remains as downstream processes of GVC and take a little portion of the final profits of goods.

> *"As proved in the research of Gereffi and Korzeniewicz, in low-wage labor-incentive production, the principal profits are not realized in manufacturing itself,*

but rather in the corporate coordination and control of entire "global assembly line", especially design, marketing and retailing, which are typically done by MNCs based in core countries (including Western developed countries and Asian developed countries or Asian emerging economies)"(Khoi N. V., 2011: p.3).

In the Asian production network, "main" countries with advanced technology and the activities of big domestic multinationals such as Japan, South Korea, Taiwan, Singapore, China, and India take the most significant role in creating demands for outsourcing, offshoring, and new markets seeking in Asia. As it is mentioned above, these countries act as governors of value chains in the region, they increase regional investment and develop intra-trade between regional countries. Japan's facing intermediate goods surplus with all of its Asian trading partners including South Korea, Taipei, China is a good example. This country is the single most necessary supplier to over a third of Indonesia's intermediate goods imports from Asia and plays a main role in high technology equipment or electronics as well as capital goods. In Asian production and trade network Hong Kong and Singapore also the main distribution and logistics hubs (Khoi N. V., 2011).

Small Asian developing countries including many regions of China, Thailand, Taiwan, and Malaysia, represent "export processing zones" (EPZs), which are industrial zones with special inducements established to attract FDI, in which imported materials undergo some degree of processing before they are re-exported (Khoi N. V., 2011). In this convoluted chain of production functions, these countries still remain mainly a common characteristic as "export platform" for smooth low-technology, labor-intensive goods made by low-wage unskilled workers.

Global value chains' trend has shown the larger dependence of developed countries on the "Asia Factory". For example, intermediate inputs from Asia represent 56% of goods trade and 73% of services trade in OECD countries and imports of intermediate goods increasingly determine the export competitiveness of countries (Khoi N.V., 2011).

Azmeh and Nadvi (2014) have made research on the restructuring of global value chains in the garment sector of Asia. They have investigated the Crystal

Group (Hong Kong), TAL Group (Hong Kong), and Makalot Industrial Co (Taiwan) companies. They have found that the growing role of these firms in managing the GVC in the garment sector has 2 aspects. The first one, design, product development, and logistics fit within the upgrading glimpse in the GVCs. The second is about these firms as the managers of the geographical and organizational restructuring of GVCs by materializing rapid market, production, and organizational shifts in their internationalization trends and in the ways that they deal with different host locations. That shift is often undertaken in collaboration with key buyers, entails significant organizational capacities to orchestrate flows of product, capital, managers, and supervisors, and in some cases workers, across diverse production locations across the globe. At the same time maintaining an organizational model allows limited entrence in host countries and high overall locational and organizational flexibility. Accordingly, they view these companies as not just first-tier suppliers but as strategic and pivotal actors that increasingly shape the geography of the GVC.

More broadly, due to the authors, the emergence of companies from the "rising economies" is not limited to the case of garments but can be seen in different formats in other sectors. This process is driven by "upgrading from within" through which these companies capture more activities within GVC and emergence of "new value chains" centered on growing consumer markets in the rising powers. Both of these trends have significant implications for the geography and organization of GVCs including issues around locations of production, division of chores between several locations, distribution of income, dealing powers, and standards. In the case of textile and garments discussed in their paper, a unique combination of rapid shifts in trade policy and the relatively low capital investments needed in garment production have all led to an internationalization strategy by Asian companies in their search for global flexibility and embellished competitiveness. It has senior developmental and policy implications in sectors which have long been the "entry point" for industrialization in developing

economies and also in the sectors which have preferential trade agreements has a strong impact (Azmeh S., Nadvi K., 2014).

CONCLUSION AND RECOMENDATION

Main moving powers of the world economy are multinational corporations. They are the main source of FDI inflows and outflows. These companies are also key players of globalization. As a result of globalization, removing economic barriers between the countries allow multinationals to operate in the Asian region. Asian economies have gained more from these operations.

Empirical studies show that FDI by multinationals and outsourcing activities of them in East Asia have played an important role in their economic growth. Especially in China, FDI and activities of MNCs play an important role in economic growth. By using its FTT policy, this country has applied technological skills in its domestic production and "Made in China" has become a popular phenomenon. The rise of South Korea has become an inspiration for developing countries. But FDI inflows haven't played a significant role in the Japanese economy. Empirical study showed that there is a weak relationship between FDI inflows to the country and economic growth of the country.

For South East Asian countries FDI inflows and multinationals play a vital role in their economy. Operations of these firms increase the employment rate in these countries, increase the export of the countries and play a significant role in GDP growth. The empirical study proved it.

All these are characteristic for the Indian economy too. Indians have learned more from the multinationals and could gain the economic development.

As it is mentioned previously, MNCs play an important role in the social and economic development of our country. Azerbaijan has benefitted FDI inflows to the country and operations of multinationals in the oil sector as cash flows to the country. The empirical study proved that FDI and increasing export as a result of MNC operations have played an important role in the economic growth and development of our country.

Multinationals from emerging economies, especially from Asia have inspired from western ones. As these MNCs learned production methods and technological skills from western companies which outsource its production in these countries,

they apply all the learnings to their domestic production. As a result, they have become main players in the 21st century's globalization. For example, Chinese smartphone multinational Xiaomi has learned its technology from Apple. Hyundai-Kia in South Korea is another example and etc.

The emergence of their own MNCs increases the export of the countries.

These countries also have become the main players in global value chains. These countries are accounted like the "factory" of the world economy. Experience of western MNCs has played an important role in getting this.

On the one hand, corporations are trying to access to the international markets to increasing their profits. The Asian market is large enough for companies. On the other hand separately each country needs TNCs to achieve national economic growth and to attract foreign direct investments. Thus, transnational corporations play an important role in the economic development of the Asian region.

The realizing of the "One belt, One Road" project will provide big opportunities for Azerbaijan. Because of this project Azerbaijan-China economic relations will be stronger. Our country can effectively use this situation. It is possible to create joint-ventures with Chinese companies in Azerbaijan. This can affect the employment rate in a positive way. The most importantly, owing to these joint-ventures Azerbaijan companies can learn technological skills and experience from the Chinese. Then can apply it to our domestic production. It can lead to increase in the non-oil products both for domestic market and for export. It can create a basis of decreasing the dependency on oil.

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APPENDIX 1

The correlation coefficient (r) measures the strength and direction of a linear relationship between two variables. When r gets closer to 1, that means a correlation between the variables is strong and positive. (r) is calculated like:

$$r_{xy} = \frac{n\sum x_i y_i - \sum x_i \sum y_i}{\sqrt{\left(n\sum x_i^2 - \left(\sum x_i\right)^2\right)\left(n\sum y_i^2 - \left(\sum y_i\right)^2\right)}}$$

Source: planetcalc.com

APPENDIX 2

Table 9. Top 25 MNCs by their revenues (2017)

Walmart	500.34
State Grid	348.9
Sinopec Group	326.95
China National Petroleum	326.01
Royal Dutch Shell	311.87
Toyota Motor	265.17
Volkswagen	260.03
BP	244.58
Exxon Mobil	244.36
Berkshire Hathaway	242.14
Apple	229.23
Samsung Electronics	211.94
McKesson	208.36
Glencore	205.48
UnitedHealth Group	201.16
Daimler	185.24
CVS Health	184.77
Amazon.com	177.87
Exor Group	161.68
AT&T	160.55
General Motors	157.31
Ford Motor	156.78
China State Construction Engineering	156.07
Hon Hai Precision Industry	154.7
AmerisourceBergen	153.14

Source: Statista.com, 2019

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