TNCs IN THE WORLD INDUSTRY: NEW DEVELOPMENT TRENDS

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ABSTRACT

The article analyzes the dynamics of international trade and GDP, based on the slowdown in the growth of international investment flows of goods and capital. The analysis of the activities of foreign non-financial transnational corporations in the nationalization and reshoring development trends was carried out. An industry analysis of TNCs from the TOP-100 revealed a decrease in the share of mining and manufacturing industries in developed countries and a general trend of expanding business in the information and communication industries. The author emphasizes the slowdown in globalization processes and the decrease in the overall profitability of foreign affiliates. The author comes to the conclusion that the downward trend in commodity trade flows and shifts in global investment as a result of the influence of industry 5.0 makes TNCs look for new directions of development.

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Since the 1970s, the dominant process of the world economy has been the globalization of the world economy, understood as the formation of a single planetary economy. Among the features of globalization give out the growing volume of investment, which was mainly directed from developed countries to developing ones.

But for developed economies, participation in the process of globalization has resulted, first of all, in the withdrawal of manufacturing enterprises from them, a reduction in the number of employed people in the manufacturing sector and, as a result, the emergence of a whole range of social problems.

The economic slowdown was observed in the group of developed countries in the euroarea and in the group of developing economies countries. The last retained their leadership in GDP growth rates (on average 6.5% versus 3% for developed economies countries in 2015–2021 [1]), as well as in the dynamics of import and export of foreign direct investment (FDI). Similarly, the volume of international production of foreign affiliates of TNCs is still increasing, but its growth rates have decreased in recent years (table 1).

Table 1

Internationalization trend all over the world [2]

Index	1990	2005-2007 (pre-crisis average)	2015	2016	2017	2018	Index 2018/2017	2019	2020
FDI inward stock	2196	14607	25665	27663	33162	32784	98,9	36377	41354
FDI outward stock	2255	15316	25514	26826	32851	31219	95,0	34351	39247
FDI inows	205	1425	1921	1868	1647	1437	87,2	1530	999
Rate of return on inward FDI	5,4	8,8	6,8	7,0	6,3	6,9		6,2	4,7
Total assets of foreign affiliates	7305	70643	94781	98758	114441	110220	96,3		
Sales of foreign affiliates	7615	28444	27559	29057	30866	33203	107,6		
Value-added (product) of foreign affiliates	1588	6783	6457	6950	8244	8254	100,1		
Employment by foreign affiliates (thousands)	30861	68057	69683	71157	82 600	85504	103,5		
GDP	23627	52546	74407	75463	80834	85893	106,3	87345	84538

Average annual revenue growth rate (6.4%), value added (8.7%) and employment (7.2%) of foreign affiliates over the five years (2015-2018) was lower than the corresponding figures for the same period prior to 2010 (accordingly 9.7%, 10.7% and 7.6%). The volume of sales, value added and employment of foreign affiliates of TNCs in 2018 increased by 7.6%, 0.1% and 3.5%, accordingly. The number of people employed at foreign affiliates reached 85.5 million people.

Returns on FDI in foreign affiliates in host countries continued to fall, declining to 4.7% in 2020 (table 1). This contributed to the slowdown in the international movement of capital. The global inflow of FDI from 2005 to 2007 increased from 1,000 to 1,900 billion dollars (on average during the crisis amounted to 1,425 billion dollars), during the crisis of 2007 it decreased to 1,100 billion dollars, in 2015 it rose to 1,921 billion dollars, having reached the pre-crisis level, then there is a gradual decrease in 2016 to 1,868 billion dollars, in 2018 to the level of 1,437 billion dollars, in 2019 to 1,530 billion dollars, and in 2020 to the level of 2005, $999 billion.

The considered trend of slowing economic dynamics was also reflected in the growth rates of TNCs, which is confirmed by table 2. In 2020, the top 100 TNCs weakened their positions in international activities compared to 2019, increasing international assets on 2.5%, and national on 5.3% and international sales declined at a rapid rate of 8.7% compared with national sales of 7.4% (table 2). The share of foreign employees in the total decreased on 2.8%, while employment in the national market increased by 0.6%, following the reshoring trend. From 2018 to 2020, the share of sales and foreign assets decreased from 58% and 60% to 54% and 56%, respectively [2].

Table 2

Development trend of the 100 largest non-financial TNCs [2]

Index	100 largest MNEs, global					100 largest MNEs from developing and transition economies		
	2018	2019	2018–2019 (%)	2020	2019–2020 (%)	2018	2019	2018–2019 (%)
1. Assets (Billions of dollars)								
Foreign	9334	9403	0,7	9639	2,5	2593	2700	4,1
Domestic	6711	7869	17,3	8286	5,3	5691	6021	5,8
Total	16045	17272	7,7	17924	3,8	8284	8720	5,3
Foreign as share of total (%)	58	54		54		31	31	
2. Sales (Billions of dollars)								
Foreign	5937	5843	-1,6	5335	-8,7	2614	2476	-5,3
Domestic	3899	4491	15,2	4158	-7,4	3047	3370	10,6
Total	9836	10333	5,1	9493	-8,1	5661	5846	6,3
Foreign as share of total (%)	60	57		56		46	42	
3. Employment (Thousands)								
Foreign	9544	9339	-2,1	9076	-2,8	4931	4532	-8,1
Domestic	8571	10431	21,7	10495	0,6	8231	9238	12,2
Total	18115	19770	9,1	19571	-1	13162	13770	4,6
Foreign as share of total (%)	53	47		46		37	33	

The growth rates of both the world economy and the economies of most countries are declining. With the simultaneous decentralization of the world space, digital integration continues to accelerate. Scientists talk about a new model of globalization, i.e. as a result of 3D printing, the Internet of things, cloud computing, biochemistry and biomechanics, they are actively penetrating into the basic industries – mechanical engineering, instrumentation, energy, construction, chemistry. All this shows the transition of the leading countries to the trend of import substitution and the revival of the basic sectors of the national industry on a new technological basis. In the top 100 TNCs in developing economies, the rate of globalization for 2018-2019 have not changed (the share of foreign assets remains at the same level of 31% (table 2)), large national conglomerates dominate there.

As for developed countries, companies there in 2020 expanded their business in the automotive and technology industries. Automotive TNCs increased their foreign assets by an average of 15% as they invested significant sums in new product development by cooperating with technology companies.

Table 3 shows the dynamics of the share of foreign investment projects in 2019-2020 year in the Top 100 TNCs by industries, which confirms that globalization has most affected the information and communication industry. The structure of global companies has changed significantly over the past five years. Extractive industries significantly reduce their positions in the rating.

Table 3

Announced greenfield projects, by sector and selected industries [2]

Industry	2019		2020		Growth rate	
	Billions of dollars	%	Billions of dollars	%	Billions of dollars	%
Energy and gas supply	113	19,2	99	22,9	87,6	3,8
Information and communication	66	11,2	81	18,8	122,7	7,6
Electronics and electrical equipment	53	9,0	46	10,6	86,8	1,7
Chemicals	47	8,0	40	9,3	85,1	1,3
Construction	66	11,2	35	8,1	53,0	-3,1
Automotive	62	10,5	33	7,6	53,2	-2,9
Coke and refined petroleum	94	15,9	30	6,9	31,9	-9,0
Transportation and storage	43	7,3	26	6,0	60,5	-1,3
Trade	22	3,7	23	5,3	104,5	1,6
Finance and insurance	24	4,1	19	4,4	79,2	0,3
Top 10 industries in value terms	**590**	**100,0**	**432**	**100,0**	**73,2**	

The value of announced greenfield investment projects fell to $564 billion in 2020 (table 2), the lowest level ever recorded. The geographical focus of foreign investors shifted to developed economies. Consequently, developing countries faced an unprecedented downturn in greenfield FDI projects. The importance of the primary sector continued to wane. The aggregate value of announced greenfield projects in the sector halved to $11 billion, representing less than 2 per cent of the total.

Greenfield project announcements in manufacturing industries registered a 41 per cent decline to $237 billion. In developing economies, where such investments are most important for industrial development, the decline mirrored the global trend, with a 42 per cent fall to $129 billion. Manufacturing projects remained concentrated in Asia ($101 billion) (figure 1).

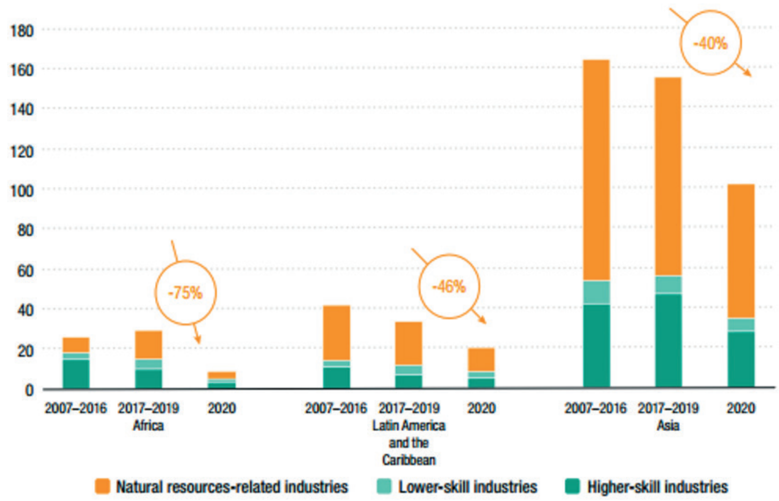

Figure 1. Developing economies: announced FDI greenfield projects in manufacturing by value (Billions of dollars and per cent) [2]

The number of new projects almost halved in the automotive and chemical industries as well. However, despite the decline worldwide, several large-scale investments in basic chemicals projects contributed to a minor increase in the value of projects in developing countries. The downward pressure on the value of announced investments in manufacturing was mitigated in part by significant projects in semiconductors and batteries for transport equipment.

Note: Natural resources-related industries include (i) coke, petroleum products and nuclear fuel; (ii) metals and metal products; (iii) non-metallic mineral products; and (iv) wood and wood products. Lower-skill industries include (i) food, beverages and tobacco and (ii) textiles, clothing and leather; higher-skill industries include all other manufacturing industries.

Natural in the world economy is the emergence of a new process – the return of part of the production to developed countries. The issues of creating national industrial production returned to the agenda again. The problem of national economic security has become aggravated, for the solution of which in modern conditions it is already insufficient to ensure one factor – the openness of world markets for goods, services, and capital.

It is obvious that ensuring the reverse process of transferring production from regions with cheap labor and reducing the value chains formed by TNCs will take a long time as a result of the unpreparedness of many countries for the resource rearmament of the manufacturing industry. Currently, TNCs in developed countries, in the conditions of competition with developing countries, a decrease in the overall flow of international capital flows and income received from the activities of foreign affiliates, move their activities closer to the parent company and leave foreign markets. Developing countries are building up national capitalism, especially in the financial sector, while attracting foreign companies in an effort to acquire intellectual property rights and provide employment for their citizens.

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