

Global economy and rise of multinational corporations

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- ▶ **Businesses have spent much of the past nine months scrambling to adapt to extraordinary circumstances. While the fight against the COVID-19 pandemic is not yet won, with a vaccine in sight, there is at least a faint light at the end of the tunnel—along with the hope that another train isn't heading our way.**
- ▶ **Barring any unexpected catastrophes, individuals, businesses, and society can start to look forward to shaping their futures rather than just grinding through the present.**
- ▶ **The crisis sparks a wave of innovation and launches a generation of entrepreneurs.**
- ▶ **Digitally enabled productivity gains accelerate the Fourth Industrial Revolution.**
- ▶ **Pandemic-induced changes in shopping behavior forever alter consumer businesses.**
- ▶ **Supply chains rebalance and shift.**
- ▶ **The future of work arrives ahead of schedule (Home office).**
- ▶ **The biopharma revolution takes hold. Healthcare systems take stock—and make changes.**
- ▶ **Stakeholder capitalism comes of age.**

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Main trends in the global economy of our time and the growth of transnational business.

- ▶ • - Slight decrease (or absence of reduction) of the turnover of multinational corporations in times of crisis, their independence even from the long depressive phenomena in certain industries;
- ▶ • - Multinational corporations have the opportunity to flourish regardless of the state of the national economy;
- ▶ • - Transnational corporations receive less profit from improved domestic conditions.
- ▶ According to UNCTAD, there are 9 companies from developing countries in the ranking of the 100 largest companies in the world. At least 24 such companies are already in the top 150.
- ▶ This trend reflects strong economic growth in the countries of origin and regions relative to developed countries, as well as the liberalization of FDI regimes, governance reforms, deregulation and overall market policies. The growing attractiveness of TNCs from developing countries is reflected in the growing share of foreign direct investment coming from these countries
- ▶ The digital economy has not yet brought about major changes to the international investment regime or to the ways in which most MNEs structure their international operations. Foreign direct investment continues to play an important role for firms outside of the digital economy as a means of expanding internationally.

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5 trends in the global economy

1. The last 10 years saw global leaders take rapid action to mitigate the worst of the financial crisis, but this alone has not been enough to boost productivity growth.

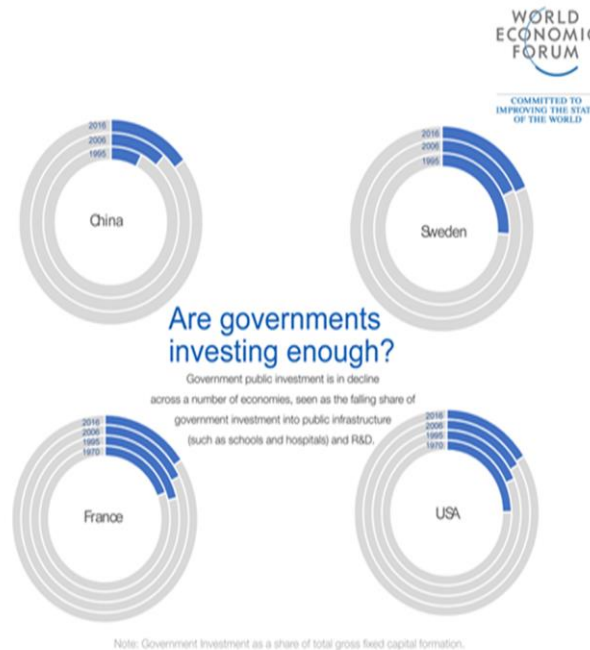
Since the Great Recession, policymakers have kept the global economy afloat primarily through ultra-loose and unconventional monetary policy. But despite the massive injection of liquidity – the world's four major central banks alone injected \$10 trillion between 2008 and 2017 – productivity growth has continued to stagnate over the past decade.

An over-reliance on monetary policy may have contributed to reducing productivity growth by encouraging capital mis-allocation, with banks becoming less interested in lending to businesses, favouring firms that are not credit-constrained, and prioritizing fee-generating and trading activities instead. There is no compensability between the 12 levers of competitiveness – a sound financial system cannot compensate for poor physical infrastructure, just as ICT adoption cannot compensate for the lack of an entrepreneurial and innovation ecosystem.

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- ▶ **2. With monetary policy running out of steam, policymakers must revisit and expand their toolkit to include a range of fiscal policy tools, reforms and public incentives.**
- ▶ Exclusive – and perhaps excessive – reliance on monetary policy has also meant that fiscal policy has been largely underutilized, as reflected in a steady decline in public investments globally. Despite the very low borrowing costs, the public sector has not stepped up investments (government expenditure as a share of total gross fixed capital formation in the US was 18.3% in 1995, and 15.7% in 2016; in France it was 21% in 1995 and 15.4% in 2016) – partly due, in some advanced economies, to concerns about the sustainability of public debt (public debt to GDP ratios have reached 237% in Japan, 121% in Portugal and 132% in Italy).

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Source: OECD featured in Global Competitiveness Report 2019, World Economic Forum

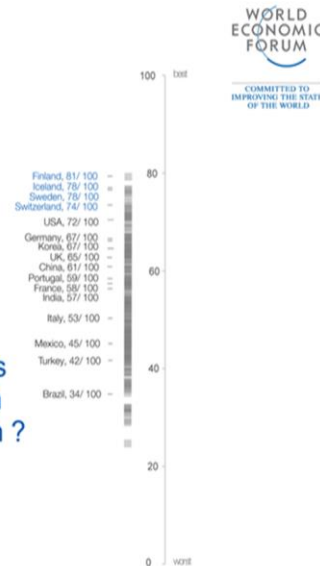
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- ▶ **3. ICT adoption and promoting technology integration is important but policymakers must in parallel invest in developing skills if they want to provide opportunity for all in the era of the Fourth Industrial Revolution.**
- ▶ While many advanced and emerging markets are embracing the new technologies of the Fourth Industrial Revolution, finding a balance between technology integration, human capital investments and the innovation ecosystem will be critical to enhancing productivity in the next decade. With the right skills and training, workers can become the agents embracing, driving and realizing the potential of technology, rather than being displaced by it. Investing in people can no longer be an afterthought – it is a fundamental building block of growth and resilience in the Fourth Industrial Revolution. Additionally, while scientific publications, patent applications, R&D expenditure and research institutions are all well-established aspects of developing innovation capability, they are not enough.

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Which countries have the digital skills to master the Fourth Industrial Revolution ?



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4. Competitiveness is still key for improving living standards, but policymakers must look at the speed, direction and quality of growth together at the dawn of the 2020s.

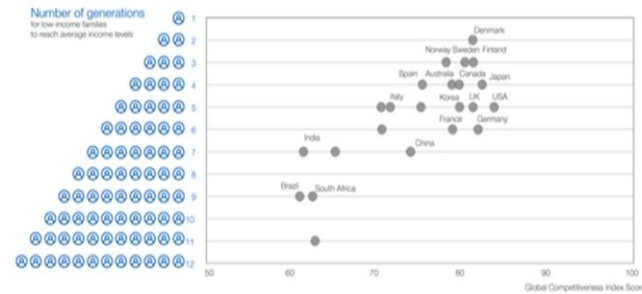
Sustained economic growth remains a critical pathway out of poverty and a core driver of human development and living standards. Yet, it is not enough on its own as we look towards solutions for the two greatest challenges of the next decade: building shared prosperity and managing the transition to a green economy. Data in the report shows a marked rise in market concentration in advanced and emerging economies (business leaders assessment of market competition over the past 10 years decreased by 15% in the US and 12% in Germany) as well as growing income inequality (for example, the share of income of top decile over the past 10 years grew from 43% to 47% in the US, from 36% to 41% in China and from 32% to 35% in Germany).

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Economies with high social mobility are also more competitive



Source: OECD and World Economic Forum

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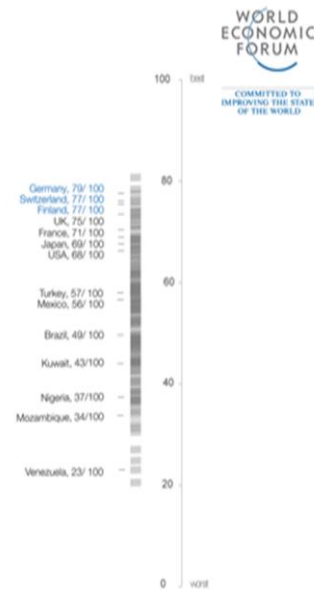
5. It is possible for an economy to be growing, inclusive and environmentally sustainable – but more visionary leadership is needed to place all economies on such a win-win-win trajectory.

The perceived trade-offs between economic, social and environmental factors may emerge from a short-term and narrow view of growth but can be mitigated by adopting a holistic and longer-term approach to growth. Some economies are already succeeding in doing so, for example, Sweden, Denmark and Finland have not only become among the world's most technologically advanced, innovative and dynamic economies in the world, they are also providing better living conditions and better social protection, are more cohesive, and more sustainable than their peers at a similar level of competitiveness.

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Which governments have the strongest future orientation?



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- ▶ The main trends in their further development are the expansion of the number of TNCs in the service sector, the merger of TNCs and the diversification of TNC production.
- ▶ Specifications of TNCs enable them to use the elimination strategy thanks to distinguish of activities with different inputs, required production abilities and financial risk, even within the same industry or production process. It results in general trend of functional specialization of the global value chain which is the opposite of vertical integration of structures (observed until recently in strategies of many TNCs).
- ▶ At the turn of 20th and 21st centuries significant changes in the rating rules of TNC activity locations were visible. It refers to the locations of technological centers and production plants as well as units responsible for marketing activities. The changes in international production system are therefore related to the increase in quality of the offer.
- ▶ The range of TNC activity increased, but operational integration of geographically remote locations through the creation of integrated business connections structures remains currently a clear trend.

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- ▶ Modern companies (especially transnational corporations) were forced to revise their strategies of development and adjusting them to the changing environment of conditions. It seems that the success of TNCs can be explained by their right approach to three aspects: quality of resources and processes, meaning of time as strategic parameter and interaction with the environment.
- ▶ Adjusting the structure to the development strategy of a corporation is based on use of interactive orientation. By implementing full scope of internationalization (global strategy) a corporation must be able to emphasize spheres of perfect unison of the organization and needs of the client, perceived through the prism of individual needs of particular individuals and specific groups.
- ▶ The ability of adjusting the organization to client's demand specifics enables the assimilation with the specific environment and at the same time creating brand based on the concept of common responsibility of the organization for quality of life and welfare of their clients. It is the highest level of adjusting organizational structures to developmental challenges of the 21st century. The organization implements transnational strategy, which means "sinking" of the company into system of global economy, with simultaneous integration with different local communities in a global economic space.
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- ▶ The 2019 Global Competitiveness Report draws on 40 years of experience in comparing long-term factors of competitiveness by incorporating the most recent knowledge on future drivers of productivity.
- ▶ The Global Competitiveness Index 4.0 is organized into 12 pillars: institutions, infrastructure, adoption of information and communication technologies (ICT), macroeconomic stability, population health, skills, the product market, the labor market, the financial system, the size of the market, the dynamism of enterprises and the capacity for innovation. The index has a rating system ranging from 0 to 100 (perfect score).
- ▶ Singapore remains the most competitive nation. Among the major economies, the United States ranks first and is a driver of innovation. Among the BRICS countries, China ranks first. Canada occupies 14th position in the index, a decline from 2018 (12th position).
- ▶ The World Economic Forum analyzes the top five trends in the global economy revealed by the index, along with the implications for policymakers:

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- Over the past decade, world leaders have taken swift action to alleviate the worst of the 2008 financial crisis, but it has not been enough to boost productivity growth. Between 2008 and 2017, central banks in the United States, United Kingdom, European Union and Japan injected more than US \$ 10 trillion into the global economy.
- As monetary policy falters, policymakers need to revise and broaden their toolkit to include a range of fiscal policy, reform and public incentives tools.
- Adopting ICTs and promoting technology integration are important, but at the same time policymakers need to invest in skills development if they are to provide opportunities for all in the era of the Fourth Industrial Revolution.
- Competitiveness remains key to improving living standards, but policymakers together need to consider the speed, direction and quality of growth as the year 2020 begins.
- An economy can be growing, inclusive and environmentally sustainable, but more visionary leadership is needed to put all economies on a winning trajectory from an economic, social and environmental perspective.

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▶ Thank you