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ECONOMIC-POLITICAL POWER AND THE ROLE OF GLOBAL CORPORATION IN MODERN WORLD

Abstract

The paper presents the role of global corporations in the modern economic - political world. Without getting into the legal form of organization of international companies on the role of institutions in creating a new, global world. Global corporations have entered into all sectors of the economy, especially in those that are technologically and financially cost-effective, such as the software industry, pharmaceutical, oil and petrochemical industries, banking and the all financial service sector. Due to the increasingly oligopolistic and even monopolistic positions in certain markets, global corporations are the target of economic analysts, thus creating a somewhat distorted picture of reality. Since their business is based on very scattered but dependent coordinated structure of branches and most of all a huge capital sometimes, consciously or not, violates the basic laws of economy. Global corporations are the creators of global changes and as such have a great influence on the adoption of economic, political and other decisions of sovereign states. In order to safeguard its position in the market sometimes ignores national laws and violate the basic rules of business, by offering bribes to civil servants and officials. Establishing communication with the countries in which they are present, with global institutions, political parties deliberately developed a new form of non-state diplomacy. Corporate diplomacy as a product of global corporate activity is increasingly gaining in importance and becomes a subject of research and study.

Key words: global corporations, global changes, economic – political power, corporate diplomacy

JEL Classification: F61, F68, P13

ЕКОНОМСКО-ПОЛИТИЧКА СНАГА И УЛОГА ГЛОБАЛНИХ КОРПОРАЦИЈА У САВРЕМЕНОМ СВЕТУ

Апстракт

У раду се презентује улога глобалних корпорација у савременом економско – политичком свету. Не улазећи у правни облик организовања ових светских предузећа, представљена је улога ових институција у стварању новог, глобалног света. Глобалне корпорације су ушле у све секторе привреде, посебно у оне које су технолошки и финансијски најисплативије, као што су софтверска индустрија, фармацеутска, нафтна и петрохемијска индустрија, банкарски и цео услужни финансијски сектор. Због све чешће олигополске, па чак и монополске позиције на одређеним тржиштима, глобалне корпорације су на удару економских аналитичара, стварајући на тај начин донекле ис-

кривљену слику стварности. Пошто се њихово пословање заснива на веома разуђеној али координисаној структури зависних филијала и пре свега огромном капиталу понекад, свесно или не, крше основне законе привредјивања. Глобалне корпорације су креатори глобалних промена и као такве имају великог утицаја на доношење економских, политичких и других одлука суверених држава. Да би заштитиле свој положај на тржишту понекад занемарују националне законе и крше основна правила пословања, нудећи мито државним службеницима и функционерима. Успостављањем комуникације са државама у којима су присутне, са светским институцијама, политичким партијама свесно су развиле нови облик недржавне дипломатије. Корпоративна дипломатија као производ деловања глобалних корпорација све више добија на значају и постаје предмет истраживања и изучавања.

Кључне речи: *глобалне корпорације, глобалне промене, економско – политичка моћ, корпоративна дипломатија*

Introduction

Before we can define the role of global corporations in the modern world, it is necessary to distinguish the concepts of transnational and multinational corporations. Both terms refer to large global companies that employ large numbers of workers, have an enormous amount of capital, have broad management structure, they are present on at least two national markets, tend to take new markets, have a major impact on economic and political situation in the world, and they are the driving forces of globalization, they are shaping the contemporary global economy and the multilateral economic system.

Global corporations are the most important form of organization in modern enterprise business. They are often referred to as multinational corporations, transnational companies, multinational enterprises or mega companies, regardless of the fact that there are some differences between these forms of business organization that are reflected in the way of running a business, ways of presenting themselves on the international market scene, in the ownership structure.

Companies that do business in other countries, but their business is based only on the capital of one main government, are called transnational companies. Companies that do business in other countries, but their business is not based not only on the capital of one main government, but also on the capital of other countries, are called multinational corporations. Multinational corporations or transnational companies, that have business strategy based on the concept of living and working in one world are, in fact, a global corporations.¹

It may be concluded that the multinational corporation, in relation to the transnational company, differs in because its leadership can be found in several countries, so it can not be said that only one country is the home country, or a country of origin, but more countries are its home countries. Also, from a legal point of view, there are differences in the founding documents, but also in legal liability and legal organization of the business. In order to avoid mixing of the terms, in this paper the term global corporation will be used, because in this paper we will not be dealing with the legal aspects of these companies.

Global corporations are large companies, whose headquarters for business operations is located in one country, but they operate in more than one country through

¹ Dašić D., *Savremena diplomatija*, Multidisciplinarni centar za podsticanje integracionih procesa i harmonizaciju prava & Privredni savetnik d.o.o., Beograd, 2008.

a network of subsidiaries, in which they have majority or minority ownership. They are present in all economic sectors, the finances, the media, in almost every industry, transport, trade ... Their capital is of huge proportions, with the large-scale production and circulation, and continuously growing market on a national and regional scales.

The origin and development of the first multinational corporation is linked to the period of the second half of the 16th century. During this period, multinational corporation functioned on the principles of transnational companies, and their main holders were the royal families of England and Holland, the biggest colonial powers of the world at the time. The first such company was the *British East India Trade Company*. *Bayer* becomes transnational company in the 1865., and *Singer* in 1867. Thanks to Isaac Merritt Singer, an American Jew, founder and owner of the *Singer Sewing Machine Company*, transnational companies became multinational corporations. Singer based development of his company on today's model of franchise, not realizing that he creates and develops the model of growth and development of companies that, in the 21st century, will become a general economic hit. Later, on similar principles, David Rockefeller developed for oil production, *Standard Oil Company*, later were also formed *General Motors*, *IBM*, *Merryl Lynch*, *McDonald*, and many others. Of course, the main motive for the creation and development of global corporations is to maximize profit.

Role of global corporations in the world

Any increase in export of goods and services has always had a great significance for the national economy of each country and its political position and influence in the world. Today, most of the export business in the world is realized by means of a global corporation. Value of their total annual export exceeds the gross domestic product of all countries that are not members of groups such as the G20. Turnover of the 250 most powerful corporation reaches a value of third of global gross world product (GWP).²

Global corporations have become the engine of the economy of each country, but also of the world economy. They have great influence on the shaping of foreign policy and diplomacy of individual countries. In the past 20 years, global corporations have reached a high degree of ability to participate in the formation and implementation of foreign policy of their home and host countries. Many researchers and analysts are inclined to say that transnational companies have become substantially immediate and independent participants in international relations in general.³

Economic and political prestige for some countries in the world are often identified with the prestige that its global corporation has in the world. The names of some global corporations have become synonymous, with the recognition of the state of origin. Thus, for example, the names of corporations *Coca Cola*, *McDonald's*, *Nike*, are linked to the U.S.; *Nokia* for Finland, *Sony* for Japan, *Nestle* for Switzerland, *Fiat* for Italy, *Rolls-Royce* for the UK, *Peugeot* for France, for Germany synonymous is "three-pointed star" *Mercedes Benz* and others.

Informal groupings such as the G7, G8, G20, Bilderberg elite social clubs, Club of Rome and other social clubs in their membership and organizational structures have the leading men of these global corporations. At their meetings, decisions are made about

² See: Dašić D., *Savremena diplomatija*, Multidisciplinarni centar za podsticanje integracionih procesa i harmonizaciju prava & Privredni savetnik d.o.o., Beograd, 2008.

³ See: Mitić M., *Diplomatija kao sredstvo za promociju, ostvarivanje i zaštitu poslovnih interesa*, Zavod za udžbenike i nastavna sredstva, Beograd, 2003.

the new presidents, prime ministers, new draft strategies of the national government on a global scale are made, new legal systems for the members are made or existing legal systems are changing. Within the circle of the wealthiest people in the world are the leading figures in global corporations. Thus, for example, without the support of the American corporate elite, which is embodied in the existence of the *Chief Executive Officers* - CEO (leading personalities (leaders, managers, owners) of global corporations), no American candidate for president of the United States can not officially take that position.

Concentration and centralization of capital as a result has forming the global corporations. As stated above, the first appearing is in their home countries, and later by investing abroad or by buying existing firms, with the use of technological advances, a giant corporations around the world is created, forming in this way a global market for their needs.

Global corporations are investing their funds in the scientific - technical progress, application of automation, computer technology, cybernetics, and the scientific work to the highest possible level, and because of that they have become the generator of the development in the whole world. However, they also cause a negative connotation in the world economy, primarily because they are driven by their goals, and that is to maximize profits worldwide. They have worked out the mechanism of drawing the accumulation from countries where the accumulation was made and directing it in regions where the profit is higher, and the gap between developed and developing countries is continuously deepening.⁴

Economic-political power of global corporations

Global corporations have become a first-rate world power because of its economic power, centralization and concentration of capital, distribution practically all over the world, and because they took a position in almost all key sectors of the economy. In achieving its goals, they may change not just international economic relations, but they can also affect on issues of social and political life.⁵

To many countries corporations impose development policy, as well as a social system. No one can isolate himself from this companies, because they are investing, developing cooperation and sale with all of the countries for which they are interested, and corporations are combining factors of production all over the world in order to be more competitive and achieve the higher earnings .

It is estimated that at the beginning of the 21st century in the world there are over 60 thousand stem global (multinational) companies and over 500 corporate subsidiaries (in the early 90-ies of the last century there were around 37 thousand stem global corporations and more than 200 branches). The global (multinational) corporations have penetrated into all sectors of industry and services, especially in those which are technologically and financially most propulsive, who make the most profit, such as computer technology, pharmaceutical, oil and petrochemical industries, banking and other services.⁶

The largest number of multinational corporations (about 90%) is concentrated in the triangle of the world economy - the U.S., EU and Japan. Within the triangle, the so-

⁴ See: Unković M., *Medjunarodna ekonomija*, Univerzitet Singidunum, Beograd, 2008.

⁵ Unković M., *Osnovi ekonomije*, Zavod za udžbenike i nastavna sredstva, Beograd, 2001.

⁶ Dašić D., *Diplomatija, Ekonomska multilateral i bilateral*, Univerzitet „Braća Karić“ i Multidisciplinarni centar za podsticanje integracionih procesa i harmonizaciju prava, Beograd, 2003.

called “Triad” of global corporations is created, which consists of three clusters (groups): (1) American cluster - American hemisphere countries, without Brazil and Peru, plus Singapore, (2) European cluster - countries in Europe, Africa, and Middle East to Sri Lanka, plus India, and (3) Japanese cluster - Japan, South Korea, Thailand, Malaysia, and spreading of the influence to other ASEAN countries.

The global (multinational) corporations control over 80% of the world’s financial capital (foreign direct investment and portfolio investment) and about 70% of world trade of goods and services.⁷ Economic power of global corporations that is so great has led to turning the global economy into the corporate economy, has led to the transformation of the economic power of corporate power.

Corporate power is the material basis of real political power, both among corporations and countries where they are most concentrated. Thus, for example, behind American political power there is, among other things, economic power of its global corporations. This power is reflected in the creation of corporate diplomacy of these institutions, and that diplomacy will be discussed in this paper.

Some global (multinational) corporation income is greater than the GDP of many national economies. For example, only 30 countries in the world in 2008. had GDP revenues greater than U.S. Corporation *Wal-Mart Stores*, the largest multinational company in the world.

Global corporations and their political power

Transnational companies often exert their influence on the global and international stage by affecting relations between countries and the international organizations. When analyzing the international political influence, it can be noted that there are three actors:⁸

1. Impact subjects - transnational companies;
2. Instruments of influence - countries, international organizations, informal groups, by which the impact is made and
3. Objects of Impact - actors it affects ie. states and international organizations.

With the growing of economic power of global corporations, their political influence is also growing, not only in the country where the head office (headquarters) of the corporation is, but also in countries where its subsidiaries are, or that contain its contractual business partners.

As an illustration of the dramatic political impact of global corporations on the political situation in another country, commonly we are referring to events that occurred “between the 1970. and 1973. in Chile, where ITT, along with the Central Intelligence Agency (CIA), has helped overthrow the government of Salvador Allende, all in order to achieve, from the perspective of ITT, a favorable environment in which it could operate. America’s largest investment corporation ITT in Chile at the beginning of the seventies was *Chilteleko*, branch of telephone industry that was estimated at 153 million U.S. dollars. ITT has established good relationships with a number of Chilean government, has made substantial profits and has expected that the future for him to will be good. Although the Chileans demanded nationalization of *Chilteleko* company, ITT believed that in this situation he will be paid the full value of the company *Chilteleko*. Salvador Allende, the candidate for president had strong nationalistic intentions toward highly-profitable companies in the country, because this was the base of his campaign. Although

⁷ Raičević M., *Internacionalna ekonomija sa osnovama ekonomske diplomatije*, Fakultet za internacionalni menadžment, Beograd, 2000.

⁸ Belić D., *Multinacionalna kompanija*, Fakultet organizacionih nauka, Beograd, 1998.

he came to power in the 1970., in the 1973. he was overthrown by the military coup. Advocates of the opposing political opinion acknowledged that the military coup was carried out with the help of the Central Intelligence Agency, and that the significant financial and logistical support was provided by the ITT.

Connection between power, profit and bribery

Global corporations have a special capacity to adapt to the political situation in the country in which their headquarters are located and also in the countries in which their subsidiaries are. In order to maximize profits they are using some illegal ways of doing business, such as threats, conditioning, bribery. In such cases both sides have benefits. Corporations provide a market for marketing their products and services, while representatives (mostly governments) are provided with political, economic assistance by the top management of corporations.

A fresh example is Daimler, a company that by the U.S. Justice Department brought in federal court because of the illegal behavior of German auto giant in the world market. The German auto giant has reportedly paid three million dollars to government officials in Russia to secure car sales worth U.S. \$ 64.6 million on the Russian market, while for bribing Chinese officials the company spent 4.1 million dollars. On the list of countries involved in the scandal are Egypt, Greece, Hungary, Indonesia, Ivory Coast, Latvia, Nigeria, Thailand, Turkey, Uzbekistan, Vietnam, Iraq, North Korea and Liberia. This list of countries is not final, Serbia and Croatia, Italy are mentioned, and other developed and developing countries if the investigation gets expanded.

To suppress and stop the trial, and therefore save the reputation and market, owners and management extra judicially settled this matter with the federal prosecutor in the United States. Because of the violation of American law, the Corporation will pay U.S. \$ 185 million, but is still present in the U.S. market.

Corporate diplomacy as a product of global corporations

Changes caused by globalization caused changes in the shaping of the foreign policies of the state, through overlapping national, regional and global interests in economic, environmental and security issues, and because of that there is a need for diplomacy to be able to operate on the same number of levels. This means that the operational activities are not only present in the host country, but also globally. Setting of new goals and demands toward economic diplomacy began intensively after the end of the Cold War. Economic diplomacy is based on classical foundations, she is a „maid“ of political diplomacy, no longer able to respond to requests from national foreign policy.

Diplomacy that is able to communicate with the consequences of globalization on all levels of the world system, is called geo-economic, and in all contemporary conditions it is also called corporate diplomacy. Although the geo-economic conduct of foreign policy is, as a rule, limited only to economic superpowers, a neologism of geo-economics has a wider meaning. This means that the offensive and defensive geo-economic policy can and must be taken, in addition to large, also by a medium and small countries that are trying to secure a favorable position in the new world order. Geo-economic diplomacy as a new diplomacy, though it has some characteristics of diplomacy that was led to the end of the Cold War, in fact, is quite different from that kind of diplomacy. In a word, the connection between economic issues and issues of security, national economic interests and global interests, requires diplomats who were

trained in a global economy, as well as other multinational questions on which the power and prosperity of the state they represent depends. Diplomats in their activities must use the technologies that have enabled globalization and changes in foreign policy and international relations. Increasing interdependence between countries requires diplomacy that will be less of a speculation and deception, and more of a process of harmonization of global and national interests.

Need for geoeconomics diplomacy has not occurred over the night. Its evolution can be traced through the history of diplomacy, but only economic globalization, with its impact on sovereignty and national interests of the country as well as on the connections with the world system, provided that the geo-economic diplomacy can be identified and conceived as, apparently, a new kind of diplomacy. In this sense, the claims that on the process of economization of international political relations current economic diplomacy can adequately respond to, seem entirely logical. That would be true if the change in foreign policy would not be meaningful and comprehensive. Because geo-economic diplomacy in a certain way symbolizes the return of diplomacy to its own resources, for diplomacy has passed a long path of development - from trade diplomacy in Venice, where the trade was the primary function, to U.S. geo-oriented diplomacy. However, the differences between the trade diplomacy of the cities and geo-economic diplomacy are enormous, as are the differences between the operation and understanding in the 13th and 21st century.

As holders of geo-economic changes, global corporations are identified. Hence, we use the other name for this, new diplomacy - corporate diplomacy. Global corporations have become an important subject of international relations and modern diplomacy in general. Its functions, in this regard, they are implemented in relations with the state, in relation to other corporations, but also in relations within the corporation that is located in countries outside of the corporate governance locations. Such relationships between corporations and the state, and within the corporation itself, are subject to many theoretical investigations.

Corporate diplomacy is a form of non-state economic diplomacy, created in the lap of global corporations, but to expand the business worldwide. It is a expression of a long-term interest and the current needs of global business. Diplomatic representatives of global corporations communicate directly not only with the governments of countries from which they are, but with the highest bodies of international institutions.⁹

Relations between global corporations and the state, during the establishment of new forms of diplomacy are not always harmonious and idyllic. As owners of the huge capital, global corporations are increasingly conditioning national governments with their presence on the territory of a particular country. The relationship between the corporation and the state is often contradictory and even diametrically opposed, especially in situations where corporations are in a monopoly position. They are even blackmailing the government with their presence, for the sake of paying taxes as low as possible while manipulating a profit.

Conclusion

The processes of globalization, trans-nationalization and multinationalization of the world economy is the inevitable reality that must be accepted. Financially weak and

⁹ See: Dašić D., *Savremena diplomatija*, Multidisciplinarni centar za podsticanje integracionih procesa i harmonizaciju prava & Privredni savetnik d.o.o., Beograd, 2008.

under-developed countries and regions, global corporations as holders of the globalist process look like slave owners and exploiters of resources and people. Although the behavior of some global corporations on international economic - political scene can be rightly criticized and challenged, their advent has enabled economic growth and development of many countries, they are employing large numbers of workers, raising the standard of living, regardless of whether they were in developed or developing countries. Because of the economic power they possess, and therefore and political power, global corporations must not be left out of the global economic - political system, nor should they behave outside the global rules.

Global corporations are now, in addition to trade, economy and industry, active in world politics, where their decisions can sometimes be more important than decisions of the governments of certain countries in the world. When it comes to the activities of global companies in the world, especially in developing countries, there are different, mutually contradictory views. It is not difficult to find people which believe that the income of the company leads to an increase in capital and economic development only in countries where the headquarters are located.

As holders of global change, global corporations have developed a new type of business organization and management, they are the holders of the new ways of thinking, understanding and addressing global economic - political and other issues, the creators of the new types of non-state diplomacy.

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