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## THE CONCEPT OF TNC AND EVOLUTION OF ITS DEVELOPMENT

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## ABSTRACT

*This article defines the essence and definition of the "transnational corporation" phenomenon and examines the main features of transnational corporations. The stages of formation and development of transnational corporations in world history and international law are also revealed.*

The activities of transnational corporations (TNCs) can be characterized as one of the main levers for the development of the world economy, which also contributes to the strengthening of the process of globalization in the modern world.

Since the 60s of the twentieth century, the activities of TNCs have become the subject of study of many researchers. They applied various scientific approaches to explain the essence of TNCs, the characteristic features of their development and the factor of influence on both the national and the world economy as a whole.

However, due to the complexity and versatility of the phenomenon under consideration, a single concept of TNC has not yet been formed. Among scientists there is no clear definition of the concept of "transnational corporation".

Professor I.A.Karachev in his work "Transnational Corporations in the Modern World Economy" points out that in 1960, the American economist D.Lilinthal first used the term "transnational corporation" to define a corporation that operates in accordance with the laws and customs not only the country where it is located, but also other states<sup>1</sup>.

It should be mentioned that in addition to the term "transnational" in scientific circles, as well as in some international legal and national acts, the concepts of "multinational", "multinational", "international" are often used, and in addition to the term "corporation" - "companies", "enterprises," "monopolies," etc. But despite the presence of the above terminologies, the term "transnational corporations" has become widespread in scientific and legal doctrine.

Modern authors who study the phenomenon of TNCs put forward their own definitions of this concept. According to many researchers, a TNC should be understood as a legal entity of

<sup>1</sup> Transnational corporations in the modern world economy: educational manual / I. A. Karachev; Yarosl. state University named after P. G. Demidova. - Yaroslavl: YarSU, 2019. - 31 p.



international scope that owns and manages a production complex with its headquarters in the country of origin and divisions operating in two or more foreign countries.

From Chin Thi Thuy Linh's point of view, transnational corporations are international companies that own overseas branches in two or more foreign countries and coordinate these foreign enterprises from a single or several management centers based on the decision-making method. This method, as a rule, allows TNCs to pursue policies based on consistency and have a common strategy to achieve a common goal - making the most profit<sup>2</sup>.

The United Nations offers its own version for defining the meaning of transnational corporations. According to the interpretation of the UN Commission on TNCs, transnational corporations should be understood as companies that operate in the territory of two or more states and manage foreign branches from a single center<sup>3</sup>.

Referring to the UN formulation, a TNC can be characterized as a large company that owns production facilities in two or more countries with a single control center. As it can be seen, the definition, which belongs to the UN, contains a quantitative criterion.

An important tool in defining the concept of TNC is a detailed consideration of the criteria for classifying legal entities (companies) as transnational. In other words, it is necessary to analyze the most important features that TNCs possess. It should be mentioned that there is ongoing debate in the scientific literature about what criteria should be used to distinguish between MNCs and other organizations. Some researchers propose narrower formulations of TNCs, since it is sometimes extremely difficult to determine whether a given company applies an international approach or not. Let us consider the opinions of representatives of scientific doctrine on this issue.

Russian scientists N.G. Belyaeva and Y.A. Bondarchuk think that in matters relating to the possible classification of a company as a transnational corporation, the following criteria can be used:

- the number of countries in which the company operates;
- the minimum number of countries in which the production facilities of this company are located;
- a certain size that the company has reached;
- a certain minimum share of foreign operations in the company's income;
- multinational composition of the company's personnel, including its senior management<sup>4</sup>.

When considering the criteria proposed by N.G. Belyaeva and Y.A. Bondarchuk, it becomes necessary to take into account two quantitative indicators: the number of countries in which the company operates and the minimum number of states in which its production facilities are located. The presence of two quantitative criteria can create dilemmas and questions, since these indicators are mutually duplicating. Therefore, from the considered list of criteria, it is recommended to use only one quantitative criterion - the number of countries in which TNCs

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<sup>2</sup> Chin Thi Thuy Linh. The concept of transnationalization, transnational corporations and their prototypes // Century of Quality. 2010. No. 5. P. 34.

<sup>3</sup> World Investment Report 2005. Transnational corporations and the internationalization of R&D / United Nations. NY; Geneva, 2005. P. 6.

<sup>4</sup> Belyaeva N.G., Bondarchuk Y.A. Legal nature of transnational corporations // Eurasian Legal Journal. 2009. No. 7. P. 111.



operate. It is also worth noting that the multinational composition of the company's staff and management is not a mandatory criterion for classifying a company as a multinational corporation, but is one of the signs of a TNC<sup>5</sup>.

Our national author M.Kamalov, in his work "Problems of legal regulation of transnational corporations", points out the following distinctive features of TNCs: large dimensions of ownership and production activities, a high level of transnationalization of production, the formation of many TNCs into diversified concerns.

Based on the criteria proposed by our national author M.Kamalov, it can be emphasized that international presence and global large-scale production are criteria, referring to which it is possible to determine whether a particular company is transnational or not.

The UN criteria show that the presence of a single TNC center and representative offices in several countries is not a mandatory feature of a TNC, it is enough to have a representative office in one country in addition to the state where the company's head office is located. The number of management centers may vary depending on the internal organization of the activities of TNCs.

Based on all the above criteria, it can be concluded that the main features of a transnational corporation are international presence and global scale.

International presence should be understood as the presence of multinational corporations in several States with branches, subsidiaries or other divisions that are active participants in international trade. The international presence is one of the main factors of the economic power and influence of multinational corporations.

Scale can be described as the high production and sales volumes possessed by multinational corporations. It should be remembered that TNCs have access to a large number of markets and resources, and, as a rule, are the main producers of a particular product, due to which they have a large audience of consumers and receive huge profits.

Additional features of TNCs include international staff, economic impact, global brand and the versatility of TNCs.

There is no generally accepted clarification of the definition of TNCs in the scientific literature, besides, there are disputes about the criteria for distinguishing multinational corporations from other companies and organizations. When determining the nature of TNCs, many authors, both foreign and national, single out the presence of international operations and international presence as the main features of TNCs. There are several similar definitions in the economic literature, and in the draft UN TNC Code of Conduct, which has been developed for decades, they are described as enterprises with offices in two or more countries that are interconnected and operate in accordance with a common strategy.

It was found out that, despite the fact that there is currently no universal definition of TNCs and the existing criteria for classifying companies as transnational corporations are very unclear, some of them are convincing, namely: a multinational corporation should have representative offices in several countries, and its branches and subsidiaries should be linked to each other, but at the same time, maintain a certain degree of independence. One of the key

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<sup>5</sup> Kamalov M. Problems of legal regulation of transnational corporations. Monograph – T.: TSUL, 2018. – P. 28.



features of TNCs is centralized management or control, which can be carried out through several governing bodies, and not just through a single head office.

Referring to the analysis, it can be concluded that a multinational corporation should be perceived as a single structure of interconnected legal entities, their divisions (branches) and subsidiaries, which are established and operate on the basis of the law of several countries, and are characterized by the presence of a central administration that coordinates the activities of all members of the structure by participating in property relations through ownership the predominant share in the authorized capital (relations between parent and subsidiary companies, branches).

International experience demonstrates that the key elements of a successful market economy are financial and industrial groups, holding and trust companies, as well as multinational corporations. They should be created taking into account the priority national economic, scientific, technical and social interests and goals, and provide them with comprehensive support when entering the world market.

T.Vasilevsky and M.Nalevyeva believe that "Global corporations of the late twentieth and early twenty-first centuries have become the locomotives of the innovation and investment process in the global economy"<sup>6</sup>.

It is believed that the concept of "transnational corporation" was introduced by D. Lilienthal in 1960. He understood TNCs as "corporations that have their "home" in one country, but which carry out their operations and live according to the laws of other countries"<sup>7</sup>.

As it is known, the TNC institute has gone through several stages of evolution in its development.

It is generally believed that companies that had the characteristics of multinational corporations appeared a long time ago. For example, the British East India Company can be recognized as the first multinational corporation. It was formed in 1600 by decree of Queen Elizabeth I, who granted the company monopolistic rights to trade in India. The British East India Company received military and government functions and played a crucial role in the colonization of not only India, but also other eastern states. In 1858, the Company's powers were transferred to the British Crown and it was officially liquidated in 1874.

Another event that greatly influenced the development of TNCs was the founding of the Dutch East India Company, which is also considered to be one of the first multinational corporations. Its foundation dates back to 1602 and after its foundation it became the main monopolist in trade relations with China, Japan, Indonesia and Ceylon (present-day Sri Lanka). This corporation has made a significant contribution to history by introducing innovations into the global economy - it was the first joint-stock company to offer its participants shared responsibility and shared profit sharing. In the period up to 1644, dividends were paid in imported goods, and then in kind. The Dutch East India Company ceased to exist in 1798.

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<sup>6</sup> T.L. Vasilevsky, M.A. Nalevyeva. The role of transnational corporations in the global economy // Russian Economic Journal. – 2003. - No. 2 – P. 53

<sup>7</sup> Lilienthal D. The multinational corporation (1960) // Melvin Anshen and G. L. Bash (eds.). Management and Corporations. N. Y., 1985.



However, the rapid development of multinational corporations began at the end of the late 19th century. Many researchers, starting from this date, divide the history of the development of TNCs into five stages (generations).

The first stage dates from the period of the rapid emergence of TNCs at the end of the XIX century and before the outbreak of the First World War. The functioning of first-generation TNCs is expressed in the development and extraction of raw materials in the colonial territories of Asia, Latin America, Africa, and further with the processing of the obtained raw materials in the states-owners of these colonies.

Professor I. Karachev notes that "during this period, TNCs were cartels and syndicates, and in the USA they were mainly trusts. British Petroleum (1909) and US Steel (1904) were colonial commodity TNCs"<sup>8</sup>.

The second stage (1920-1949) of TNC development is associated with two world wars. The activities of second-generation TNCs are associated with the large-scale production of military equipment to meet the needs of the military powers of Europe, America and Japan.

The third stage in the formation of TNCs occurred in the period after the end of World War II and the liquidation of many empires and their colonial territories (1950-1979).

The fourth stage of TNC development occurred in the 1970s and 1980s, during a period when rapid development of scientific and technological progress and economic ties took place all over the world under the influence of increasing competition in the international market. The fourth stage is highlighted by the accelerated process of mergers and acquisitions, which contributed to the concentration of capital and production in TNCs.

The last, fifth stage (1990-present) is defined as the period when TNCs, due to their financial and economic power, became independent entities in the global economy along with national economic systems.

Due to globalization and the creation of a single economic space in different regions of the world, multinational corporations receive wide opportunities for development on all continents. They are establishing deeper and deeper ties in the fields of trade, economics, finance, science and production, which allows us to talk about the global nature of their business. Modern multinational corporations actively use scientific and innovative methods, which makes them leaders in creating new ideas and concepts.

Currently, there are more than 80 thousand multinational corporations and more than 800 thousand of their branches in the world. The parent companies are located mainly in developed countries, and a larger number of branches are located in developing countries. About half of the world's industrial production and over 2/3 of foreign trade are accounted for by multinational corporations.

The development of transnational corporations is a natural process of evolution of the world economy, but the possibility of global monopolization of markets can become a threat, therefore, states adopt a policy of actively countering this phenomenon. However, most concerns about the threats of globalization are exaggerated and contradictory. The main danger is the rash actions of Governments, which can harm both the national economy and the

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<sup>8</sup> Transnational corporations in the modern world economy: educational manual / I. A. Karachev; Yarosl. state University named after P. G. Demidova. - Yaroslavl: YarSU, 2019. - 36 p.



development of the international economy. Multinational corporations play an important role in increasing global productivity and the standard of living of people on the planet.

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