CORPORATE REGIONAL INTEGRATION OF NEW INDEPENDENT STATES

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Abstract

This paper focuses the importance of using the regional integration of transnational corporations for developing competitive economies in Commonwealth of Independent States (CIS).

In traditional research, transnational corporations are treated as an integrated system of interdependence in the space of economic-geographical regions in which there is free movement of capital, labor and goods. Essentially, for regional corporate development is the fact that GDP (gross domestic product) made by transnational corporations cover ¼ of world GDP (Gross domestic product), and the added value created by the corporate giants exceeds the GDP of small countries. In the soviet period the company was considered the main factor in the regional economic development. By the end of the twentieth century the economic crisis in Russia accepted the opportunities of injection of foreign investment in the real sector.

At present the corporate integration becomes essential for enhancing the economic relations in the area of the Commonwealth of Independent States. The corporate structures facilitate achievement of the multiple projects of economic integration in post-soviet space by using the lobbying opportunities. Simultaneously, the transnational corporations are often the initiators of public-private partnership in implementing certain projects. The corporate structures allow mitigation of several major contradictions between members of the community (for example in the sphere of natural gas supplies).

The corporate integration is improving political climate in balancing relations between countries of commonwealth. The interests of the Russian capital have influenced directly by limiting the supply of wine from Moldova and Georgia in 2006 in Russia because it has substantial assets in viticulture and wine industry in these countries. Thus, the transnational corporations directly contribute tothe real growth in the Commonwealth area of Independent States.

Key words: transnational corporations, regions, integration, corporate, development.

JEL Classification: R11

INTRODUCTION

Globalization of the economy is the process of creating a single world market for goods and services, capital, labor, technology and information. This market generates a single global structure - transport and logistics, energy, environmental, financial, investment, communications (Internet), etc. It does not have as a basis the productive forces, but scientific and technological knowledge, willingness and ability to use them to update the production, creation and development of new markets, improvement of human health and the protection of the environment.

I. CORPORATE REGIONAL INTEGRATION OF CIS COUNTRIES

Traditional studies of TNCs suggest that corporate system integration is the relationship arising among states and firms, where the free movement of goods, labor, and capital is possible. Transnational corporations are, thus, trade enabling structures. Due to this, the benefits of intraregional trade enhance, as well as the regional integration. At the gross product produced by TNCs account for about ¼ of world GDP. The added value produced by the largest corporations exceeds the GDP of small countries. Total sales, carried out in 2004, foreign affiliates of TNCs are estimated to almost 19 trillion dollars, exports - 3.7 trillion and the number of employed workers - nearly 57 million people. Even by conservative estimates, TNCs account for nearly half of global R & D expenditure and at least 2 / 3 of business expenditure on research and development (estimated at - $ 450 billion).

The modern world is characterized by a complex of interrelated processes of formation of regional economic groupings. However, they appear not only and not as a result of a formal integration groupings. No less important is the process of corporate regional economic integration.

It has long been observed that the economic activities of corporate structures tend to be regional in nature, concentrating in a small group of states. According to the study Rugman A., about 72% of the turnover of the world's 500 largest corporations is due to the markets of their region [1].

Even greater regional concentration are characterized by corporate assets, for example, by our calculations, in 2004 the share of regional (European) turnover of 30 companies belonging to the leading stock index in Germany DAH, was 65% and the share of assets - 75%. Similar results are shown and the macro study: "functional regions, clusters of countries, trade within which much more intense than inter-regional [2].

In various regions of the world corporate model of integration has reached different results, and is characterized by two features of interaction with the formal integration processes. In general there are three models of interaction, which in the real economy interact among themselves. The formation of a functional region can be a driving force for the establishment of formal integration association (fig.1).

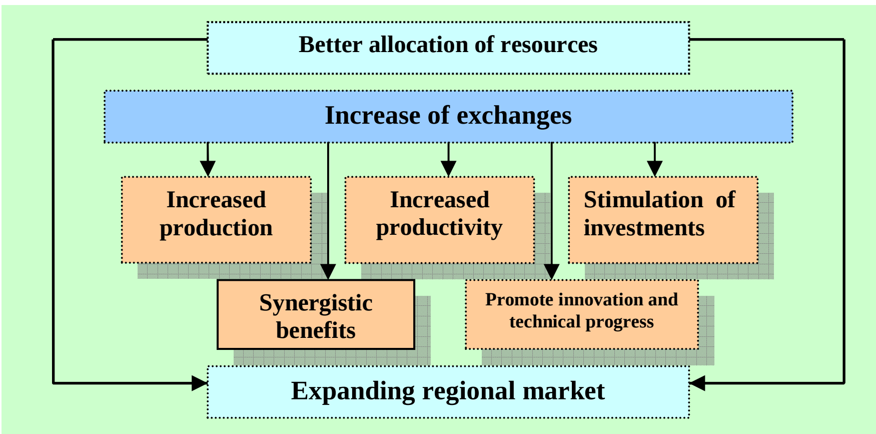

Fig 1. The Impact of Capital Transfer in Regional Integration

Source: Prepared by the authors

Corporations can speak more for the liberalization of foreign economic policy than the formal integration that can be seen by them as a factor in the strengthening of state control. Intensification of corporate integration may be the result of formal regional economic integration.

Classic examples of an integrated corporation are huge aircraft-building corporation holdings, which join building offices, instrument-making, assembly, sales and other enterprises. At the same time, under the term "integrated corporation" are understood not only organizations with more or less clear structure in terms of formal control, but a group of enterprises that are managed through informal connections. Typical examples of such structures are strategic alliances (associations of enterprises with non-property relations and not having a single management structure). In fact, strategic alliances have all the characteristics of integrated corporations.

Thus, the global market operates a new type of economic actors. Integrated corporations control the global supply chains in different domains, as well as almost all stages of development and the use of the product - from the strategic marketing, research, development to production and subsequent the use of final products, including the providing of consumer engineering, consulting, financial and other services. The service sector changes from an isolated industry into integrative part of industrial corporations, from which they derive a significant share of their profits.

The development of integrated corporations in the post-Soviet area objectively requires strengthening of the regulatory role of the integration institutions. Integration institutes contribute first to the formation a common institution of the interaction of economic agents of regional associations and become common agents to the peoples of member countries, as well as international and global norms and values in economic practice. Institutions create the conditions for successful promotion of national producers on the world market; implement various forms of defending of their interests; provide "enhanced support of effective national systems of unique or reproduction of material resources, human capital, culture-values" [3].

Thus, the effectiveness of the integration process of TNC activities in the post-Soviet area depends on the balance of many factors, trends and assumptions, often characterized by the opposite direction.

Controversial (and in many respects intermediate) result to the current date, the configuration of factors and assumptions is the creation of a number of inter-state associations of post-Soviet states. This is the Commonwealth of Independent States (CIS), the Union State of Belarus and Russia, GUAM, Common Economic Space (CES), the Central Asian Cooperation (OCAC) and the Eurasian Economic Community (EurAsEC).

The emergence of these associations, on the one hand, is a testimony to the post-Soviet states to integrate with each other, and, consequently, the dominance of integration processes on the anti-integration and disintegration ones.

On the other hand, the analysis of the activity of these associations for compliance with the classic essence of the concept of economic integration has shown that most of the associations so far have been at the lowest level of integration.

At this level the states that are involved in a merger integration, and are aware of the dependence of one partner from the other, using this dependence to gain unilateral advantages; formally they take into account the partner's interests, and sometimes obviously ignored them; are reluctant to such a use of partners to integrate; are able to overcome such resistance by force actions. The nature of cooperation in such associations is extremely unstable, with the observed prevalence of separate agreements on cooperation on certain issues.

Difficulties encountered in implementing the integration ambitions of the former Soviet Union, force to seek new ways to enhance interaction between different groups of countries. One of these ways is prompted by life itself. The fact that the deepening of relations between economic actors in the post-Soviet area in many respects far outruns the development of formal integration, which is officially proclaimed at the state level (EEA, EEC).

The interaction of business structures is playing an increasingly important role in integrating the former Soviet Union. Russia's Corporation has been actively expanding their presence in the Commonwealth’s countries, largely overcoming the deficits of formal integration in the CIS. Most of its projects (self Commonwealth, EEC or EEA) were unable to overcome even the stage of limited free trade zone [4]. At the same time, the corporate model so far can not be a factor supporting the establishment of formal integration structures: still the business has treated them fairly indifferent largely due to their low efficiency. Therefore, in the CIS, to a greater extent than in any other region, it could be that the corporate model of integration substitutes the formal integration project, and even to some extent is offset by the lack of interactions at the states level.

It should be emphasized that the corporate integration significantly accelerates the development of processes of economic convergence of the involved states. Through its lobbying capabilities, corporate structure, accelerate the implementation of several major integration projects in the FSU area. This is particularly important in terms of keeping authoritarianism and in making crucial economic decisions in the CIS countries and the increasing public protection in regard to commodity and other strategic sectors of the economy.

Russia's companies have won the strongest position in several countries of the CIS. By some estimates, at the end of 2005 Russia's business controlled not less than 76% of mobile market of post-Soviet area. Over the past 10 years in the mobile communications CIS, Russian investors invested nearly 165 billion dollars. It is increasing the presence of Russia's major banks and companies in the financial sector, trade, light and food industries, and construction and building materials.

Russia's main investors are large companies - Gazprom (Ukraine, Moldova, Armenia, Belarus, Georgia, Azerbaijan), RAO UES of Russia "(Kazakhstan, Georgia, Armenia, Tajikistan), RusAl (Ukraine, Armenia, Tajikistan), LUKoil (Kazakhstan, Ukraine, Azerbaijan, Georgia, Moldova, Kyrgyzstan), "Tatneft" (Ukraine), "TNK-BP (Ukraine, Belarus, Kazakhstan)," SUAL-Holding "(Ukraine)," Industrial Investors "(Georgia), "Uralkali" (Belarus)," VimpelCom "(Ukraine, Kazakhstan) , MTS (Ukraine, Uzbekistan, Kyrgyzstan), "Alfa-Telecom (Ukraine, Uzbekistan, Kyrgyzstan) and others. They are both, public and private business structures.

Ukrainian investors make significant investments in the pulp-paper industry in Russia, ferrous metallurgy, machine building and metal processing. Group "Energo" controls "Kostromovskaya" and "Zarechnoye, Russian mines and controls Ivanovskoe coal deposits.

Belarus expresses its readiness to carry out joint processing of forest resources in Russia, as well as to help Karelia to develop the peat industry, transferring their development in this area. Belarusian company "Yukola" by buying licenses conducts oil production in the Saratov Region.

Investments between the CIS countries outside Russia, though not acquired such a large scale, have become significant in recent years. Here the main place is occupied by Kazakh companies. It is expected to increase the investments in oil transportation and oil refineries in Ukraine. In addition, Kazakhstan plays a key role in investing in Kyrgyzstan, especially in the financial and banking sector.

Cash transfers that accompany labor migration, become one of the most important financial flows to the former Soviet Union and the main lever of economic growth in member countries.

Corporate integration helps to improve the political landscape, which is incompatible with the logic of confrontation in intergovernmental relations. It requires a balanced policy in relations with CIS countries, taking into account the interests of the corporate sector. Restricting the supply of wine from Moldova and Georgia in 2006 directly affected the interests and Russia's capital, which has substantial assets in the wine industry in these countries.

CONCLUSIONS

Further development of corporate integration of the former Soviet Union in the medium and long term may be various. The basis of this variety are the possibilities of determining the choice of "route" of its occurrence in the system of modern world economy, geopolitical and geo-economic vector of development, as well as the complex direct measures used in the implementation of interstate cooperation. The corporate model of integration has good prospects, and in some cases is an effective lever for deepening the integration of regional cooperation in the CIS.

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