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## CONCENTRATION AND TRANS-NATIONALIZATION OF INDUSTRIAL PRODUCTION

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**Abstract:** *Modern processes of the development of industry in the world proceed in the conditions of a very fast concentration and centralization of capital, unhindered flow of goods and services, capital, people, knowledge, idea, information and technology. The development interests of the most developed countries and the largest world (multinational companies) are at the base of these processes. The trans-nationalization of production represents a new way and new conditions of the business of economic subjects that are conditioned, in the first place, by a new character of international economic relations forming, today, in the world. In essence, the trans-nationalization of production supposes the internationalization of production and development of international integration, underlined by industrial cooperation.*

**Keywords:** *concentration, centralization of capital, multinational companies, trans-nationalization of production, internationalization, international integration.*

### Introduction

1. Contemporary processes of the industry development in the world proceed in the conditions of the integration of global production with the globalization of the world market. In this matter, the processes of globalization in economy, in general, are generated, above all, by the globalization of industrial production.<sup>1</sup>

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<sup>1</sup> OECD as an organization of 24 most developed countries of the world defines globalization as "a cross-border activity of a firm bound for investments, production,

The globalization ended the process of finalization of the products in a country. The products are completed in the parts of a firm that are situated in many countries of the world, meaning that there is no clear national distinction of the product. This process is a combination of economic, technological, sociocultural and political forces.

Globalization is often used to refer to economic globalization, that is, integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology.

This is a strong and unstoppable process, initiated by the most powerful countries of the world with the basic aim of keeping and enhancing their previously acquired positions.

2. The process of globalization is characterized by fast concentration and centralization of capital, unhindered flow of goods and services, capital, people, knowledge, idea, information and technology. However, at the base of all these processes are the development interests of the most developed countries and leading world companies.

One of the main characteristics of globalization is the increasing concentration and monopolization of economic resources and power of multinational companies.

These processes, are marked, in contemporary economic literature, as trans-nationalization, in which several multinational companies get a great share in the managing of world resources, production and market.

## 1. Concentration in Industry

1. **Concentration of capital** supposes the grouping of capital and production in one place and within an enterprise, while **centralization of capital** represents the merging of capital in the sense of ownership i.e. grouping of ownership rights in the hands of a few capital owners, as a result of mutual competition.

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trade and development, i.e. opening of new markets, expansion of technical and organizational advantages and costs and risk reduction". (Globalization of industry, overview and sector reports, OECD, 1996.).

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In the contemporary economic literature, this notion comprises the **measure of the degree of competition**, the measure of monopolistic power in a concrete market.

The greater the number of enterprises in an industrial semi-group, group, branch, sector or industry as a whole, the higher the degree of concentration.<sup>2</sup>

A high degree of concentration in the market is a potential source of monopolistic power, meaning that concentration is, really, the measure of the intensity of competition in a certain market.

The following factors have the greatest influence on the process of concentration and its intensive development in developed countries: contemporary scientific and technical progress and the need for greater capital investment in research and development activities, structure change in economy, phenomenon and development of new products and new industrial branches, heavy competition in domestic and world market, enhancement of economic function of the state and development of military-industrial complex.

2. Thanks to the following factors, concentration and centralization of production have acquired different and more complex forms:

- a) horizontal concentration was developed first, through enlargement of enterprises which produce raw material and similar finished products within the same industrial branch. This has to do with reproduction connection in the same production. This form of concentration had been dominant in the US before the First World War and between two wars in Europe.

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<sup>2</sup> The concentration ratio varies in a number of ways, including over time at different rates, and even in opposite directions in different industries and countries; it evolves in response to European and global market and specific industrial factors. To explain concentration, we turn now to these factors. We deal here with two EU-specific explanatory variables:

- (1) The change in the dimension of the integrated area,
- (2) The change in the intensity of integration in this area.

A number of other factors also influence concentration ratios. There are broad, global developments such as the changes in enabling technologies that have facilitated internationalization of production, international division of labour and regional concentrations of rising and declining industries.

- b) The integration of two or more enterprises, in which the successive phases of modification are performed, into a new enterprise which represents the technological unity of related operations and work processes, gives vertical concentration.

Vertically integrated enterprises, as a rule, increase market share and economic power which is controlled through anti-monopolistic legislation. This kind of concentration was dominant in the US between two wars and in Europe in the first half of the 20<sup>th</sup> century.

- c) The most known form of corporation enlargement, which is realized through connection of multiple production (by joining small enterprises with different production programs, technological characteristics and strategies of managing and development) is called diversified (conglomerate) concentration.

Large conglomerates go beyond the boundaries of national economies, mainly of the developed countries, extend over a great number of different branches with diversified selection of products thus dividing the risk of conjuncted fluctuation into a number of products. Through many changes of production programs enable branch capital movement (though it stays located in the same firm) and breakthrough into technologically new perspective branches.

Conglomerate form of concentration in Europe became the dominant one in the second half of the 20th century while in the US became dominant after the Second World War.

3. The largest degree of concentration and centralization of capital under modern conditions realize transnational companies in industrially developed countries.

## **2. Trans-nationalization of Production in Industry**

1. Trans-nationalization of production represents a new way and new conditions of business activity of economic subjects, conditioned, in the first place, by a new character of international economic relations that are forming, today, in the world.

Essentially, trans-nationalization of production supposes internationalization of products and development of international integration at the base of which lies industrial cooperation. At that, one should have in

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mind that phrase “trans-nationalization of production” is used in a wider sense of the meaning of the terms cooperation and integration.

The subjects of international business mentioned here have different names: trans-national cooperation, multinational company, trans-national company etc.<sup>3</sup>

2. Multinational corporation (MNC) or transnational corporation (TNC) is a corporation or enterprise that manages production or delivers services in more than one country.

The first modern multinational corporation is generally thought to be the Dutch East India Company, established in 1602. Very large multinationals have budgets that exceed some national GDPs. Multinational corporations can have a powerful influence in local economies as well as the world economy and play an important role in international relations and globalization.

In a highly competitive world, companies seek to reduce their costs as much as possible. The prospect of a foreign company setting up in a country where labour is cheap is attractive both for the company and a host country's government.

Many multinational corporations are large in relation to the national income of the countries in which they are located. This means that it is not as easy for the host governments to enforce national laws on multinational corporations.

Generally speaking, governments want investment from these multinational corporations because they generate jobs and incomes. Other benefits include training of local workers in new and potentially transferable skills. Technology transfer is also an incentive. The local community would benefit since land would develop, eg. New roads.

- Horizontally integrated multinational corporations manage production establishments located in different countries to produce the same or similar products. (example: McDonald's)
- Vertically integrated multinational corporations manage production establishment in certain country/countries to produce products that serve as input to its production establishments in other country/countries. (example: Adidas or Nike, Inc.)

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<sup>3</sup> It is not rare that the same authors use different names or chose one, with or without explaining social and economic essence of that notion.

- Diversified multinational corporations manage production establishments located in different countries that are neither horizontally nor vertically nor straight, nor non-straight integrated. (example: Best Western or Hilton Hotels)

Others argue that a key feature of the multinational is the inclusion of back office functions in each of the countries in which they operate. The globally integrated enterprise, which some see as the next development in the evolution of the multinational, does away with this requirement.

Large multinational corporations can have a powerful influence in international relations, given their large economic influence in politicians' representative districts, as well as their extensive financial resources available for public relations and political lobbying.

3. Transnationalism is a social movement grown out of the heightened interconnectivity between people all around the world and the loosening of boundaries between countries.

The term was coined in the early 20th century by writer Randolph Bourne to describe a new way of thinking about relationships between cultures.

Transnationalism as an economic process involves the global reorganization of the production process, in which various stages of the production of any product can occur in various countries, typically with the aim of minimizing costs. Economic transnationalism, commonly known as globalization was spurred in the latter half of the 20th century by the development of the internet and wireless communication, as well as the reduction in global transportation costs caused by containerization. Multinational corporations could be seen as a form of transnationalism, in that multinational corporations seek to minimize costs, and hence maximize profits, by organizing their operations in the most efficient means possible irrespective of political boundaries.

Proponents of transnationalism seek to facilitate the flow of people, ideas, and goods between regions. They believe that it has increasing relevance with the rapid growth of globalization. They contend that it does not make sense to link specific nation-state boundaries with for instance migratory workforces, globalized corporations, global money flow, global information flow, and global scientific cooperation.

Transnationalism designates a recent shift in migration patterns. Migration used to be a rather directed movement with a point of departure and a point of arrival. It is nowadays increasingly turning into an ongoing

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movement between two or more social spaces. Facilitated by increased global transportation and telecommunication technologies, more and more migrants have developed strong transnational ties to more than one home country, blurring the congruence of social space and geographic space.

4. The first wave of integration processes began in the first half of the 19<sup>th</sup> century, second wave began in the 20s, third wave in the 60s and fourth in the 80s and 90s of the 20 century.

Activity of transnational corporations in the starting phase of the internationalization of capital, reduced to two following sectors: extractive industry, infrastructure.

In fact, transnational corporations of the first generation have mainly been centered around the exploitation of natural resources (copper, lead, zinc, oil) in colonies.<sup>4</sup>

The second generation of transnational corporations was organizationally formed in a form of trusts<sup>5</sup> and focused on the area of processing industry and connection with state and military-industrial complex.

The third generation of these corporations creates and uses broadly the results of modern techno- technological progress and contributes to their spreading on other countries that make the peripheral zone of the world economy. Their organizational form was mainly that of a concern<sup>6</sup> and conglomerate

The fourth generation of transnational corporations developed at the beginning of the 80s of the 20<sup>th</sup> century. It is characterized by the domination of few global transnational corporations, the coordination of a great number of foreign branches (through new information technology) and a great political and economic influence on home countries in which transnational corporations work through their branches.

5. After the Second World War, the industry became the most attracting for direct investment of transnational corporations. The most important investors in industry sector, at that time, were the following

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<sup>4</sup> Uneven arrangement of raw material makes transnational corporations from countries that are poor in raw material try to be dominant in that area.

<sup>5</sup> Trusts represent higher form of monopolistic joining that is formed by joining more enterprises into one, where individual enterprises lose their independence and their owners become the shareholders of a trust.

<sup>6</sup> Concern represents the most developed form of monopole-industrial complex that realizes integral control over huge mass of capital.

countries: the US, Great Britain, Japan, Canada and Germany. About 47% of investment is directed towards industry, 28% towards extractive activity (oil, mining), and the rest towards service sector. American transnational corporations directed direct investments mainly towards Western Europe, avoiding customs and non-customs obstacles and, at the same time, exploiting their technological and organization advantages in creating competitive position in that area.

Since the mid 70s of the 20<sup>th</sup> century the direct investments of West European transnational corporations in American economic field had begun. At that time the arrival of Japanese corporations in American and European economic field and industrial sector of high technological level.

6. Transnational corporations dominate, today, the world goods, service and capital market. They reflect the concentration and centralization of capital, that strives to realize the maximum of profit.

From one perspective, transnational corporations represent the transmission of development and from the other, they are the transmission of exploitation in the world. They own modern technology, knowledge and capital that are easily movable between different countries.

Business philosophy of transnational corporations says that the world is an integral market and act accordingly. These corporations find places where they can produce cheaply and sell where there is demand. Investment of transnational corporations is performed in different ways, mainly through direct investments but also by founding economic institutions and their owning and managing. Investments don't often move freely but only within a corporation.

The transnationalization of production is, today, dominant in the car and airplane industry. It is expected that, in the future, a greater number of branches will be encompassed by this international organization form that will include more and more countries.

7. In economic literature, effects of transnational production are valued differently. The controversy manifests itself in relation to its advantage.

The different evaluations of the effects of the trans-nationalization of production, that display a reserve towards this form of production organization, are related to a possibility of keeping the design of complex and final product parts by developed countries and giving up, undeveloped countries, the production and raw material processing as well as production



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of final products and simple parts for final products that belong to the so-called "dirty technology".

- a. Some authors assert that transnationalization of production represents a new form of neocolonialism that increases economic and political dependence of undeveloped countries on the developed.
- b. For developed countries, economic advantages of the transnationalization of production are numerous, because in that way they (1) reduce the transport costs (2) become free of the branches that are embraced by techno-technological progress and those that engage low qualified work force, (3) use natural resources and cheap work force from undeveloped countries, (4) avoid the pollution of the environment.
- c. Positive sides of the trans-nationalization of production for undeveloped countries are reflected in (1) increase of employment and production and (2) growth of the life standard of population.

The representatives of trans-nationalization point out that the post-industrial society will see the coming of more complex forms of international production cooperation, that will be useful for all their participants. This kind of society should have completely changed attitude towards riches and material assets in relation to consumer society, where material assets, as a form of social prestige, should be replaced by knowledge.

### **Conclusion**

Contemporary processes of industry development in the world proceed in the conditions of the integration of global production with globalization of the world market. In this matter, the processes of globalization in economy, in general, are generated, above all, by the globalization of industrial production

Transnational corporations dominate, today, the world goods, service and capital market. They reflect the concentration and centralization of capital, that strives to realize the maximum of profit. These processes, are marked, in contemporary economic literature, as trans-nationalization, in which several multinational companies get a great share in the managing of world resources, production and market.

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## KONCENTRACIJA I TRANSNACIONALIZACIJA INDUSTRIJSKE PROIZVODNJE

**Rezime:** Savremeni procesi razvoja industrije u svetu odvijaju se u uslovima veoma brze koncentracije i centralizacije kapitala, nesmetanog kretanja robe i usluga, kapitala, ljudi, znanja, ideja, informacija i tehnologije. U osnovi svih ovih procesa se nalaze razvojni interesi najrazvijenijih zemalja i najvećih svetskih (multinacionalnih) kompanija. Transnacionalizacija proizvodnje predstavlja nov način i nove uslove poslovanja privrednih subjekata uslovljene, u prvom redu, novim karakterom međunarodnih ekonomskih odnosa koji se formiraju danas u svetu. U suštini, transnacionalizacija proizvodnje podrazumeva internacionalizaciju proizvodnje i razvoj međunarodne integracije, u čijoj osnovi leži industrijska kooperacija.

**Ključne reči:** koncentracija, centralizacija kapitala, multinacionalne kompanije, transnacionalizacija proizvodnje, internacionalizacija, međunarodna integracija.