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International Trade and Financial Strategy: A Research Review on Business and Financial Planning for Multinational Companies

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ABSTRACT

This study aims to review the economic environment impacting multinational corporations, with a particular focus on international trade between economically strong and weaker nations. International trade plays a crucial role in generating foreign exchange, which in turn benefits national economies. For instance, a resource-rich country, such as one abundant in petroleum, will seek to export its surplus to countries lacking these natural resources. Multinational companies operate within host countries primarily through foreign direct investment (FDI), establishing a significant presence in the global marketplace. Additionally, various regional trade agreements facilitate international commerce, shaping the flow of goods and services across borders. This paper explores the dynamics of these economic interactions and how multinationals navigate the complexities of international trade to enhance their strategic and financial positioning.

Keywords: *FDI, World Trade, Import and Export, Business Strategy, Comparative Advantage*

INTRODUCTION

The paper is designed to review the Economic Environment for Multinational companies. An understanding of the global financial and trade systems is a basic requirement for anyone involved in business activities. Since World War II, governments have sought to facilitate world trade by reducing barriers to trade (tariffs, quotas, etc.). The current international body coordinating this effort is the World Trade Organization. Barriers to trade remain in place for reasons of national preference and economic protectionism. Agriculture in Western countries enjoys considerable protection in the form of government subsidies. The international financial architecture is undergoing significant reforms as a result of the financial crisis of 2008-09. The International Monetary Fund (IMF) was formed to assist governments in overcoming balance of payments deficits. The World Bank focused on financing developing and emerging economies to modernize and achieve growth through infrastructure projects.

There are two basic types of trade between countries; the first in which the receiving country itself cannot produce the goods or provide the services in question, or where they do not have enough, the second, in which they have the capability of producing the goods or supplying the services, but still import them. The rationale for the first kind of trade is very clear. So long as the importing country can afford to buy the products or services, they are able to acquire things that it would otherwise have to do without. The second kind of trade is of greater interest because it accounts for a majority of world trade today, and the rationale is more complex. At first sight, it would seem a waste of resources to import goods from all over the world when a country could perfectly well be self-sufficient.

However, the reasons for importing this category of product generally fall into three classifications:

- The imported goods may be cheaper than those produced domestically.

- A greater variety of goods may be made available through imports.
- The imported goods may offer advantages other than lower prices over domestic production – better quality or design, higher status (e.g., prestige labelling), technical features, etc.

Economic Effects of Multinational Companies

Multinational corporations are companies that have established branches or satellite offices in more than one country. According to the United Nations Conference on Trade and Development, there were 63,000 multinational corporations with over 700,000 branches scattered all over the world. There will be employment opportunities for the host countries when multinational corporations invest in a country. These companies account for the increase in incomes and expenditures in the economy of the host country, thus stimulating growth.

The importation of state-of-the-art machinery and equipment also benefits the workers of the host country because of the technology transfer between the multinational corporation and its subsidiary. According to the World Trade Organization, multinational corporations control 25% of the world's output and provide 86 million jobs around the world.

The countries that host multinational corporations also benefit through tax revenues that they get from the operations of these multinational companies. Multinational corporations also improve the balance of payment of the host country from their operations. Balance of payment refers to an accounting record of a country's exports and imports. The investments made by multinational corporations into the host country promote a direct flow of capital.

Multinational corporations also tend to control the economy of the host country. They have the freedom to change their locations at will, thus giving them the advantage to pressure countries in which they operate when they are put into situations that affect their interests. In developing countries where multinational corporations have become the major employers and wealth creators, they might oppose attempts by the host country to improve worker's salaries, tighten environmental regulations, demand a higher share of the profits through taxation or liberalize the right of workers to organize if those moves are seen as against their interests. If the host country declines to bend to the multinational corporation's wishes, the company may threaten to withdraw or throw its political and economic influence behind political elements in the host country more amenable to the multinational corporation's point of view.

Multinational corporations promote productivity and efficiency in the host country. This happens when they import new technology into the countries they operate in. As a result, this will increase competition as the local firms will also try to imitate their technologies or hire workers initially trained by multinational corporations. Competition between the local firms and the multinational corporations will cause them to improve their products or even adopt new technology.

Comparative Advantage

David Ricardo developed the classical theory of comparative advantage in 1817 to explain why countries engage in international trade even when one country's workers are more efficient at producing every single good than workers in other countries. He demonstrated that if two countries capable of producing two commodities engage in the free market, then each country will increase its overall consumption by exporting the good for which it has a comparative advantage while importing the other good, provided that there exist differences in labor productivity between the two countries.

Illustration:

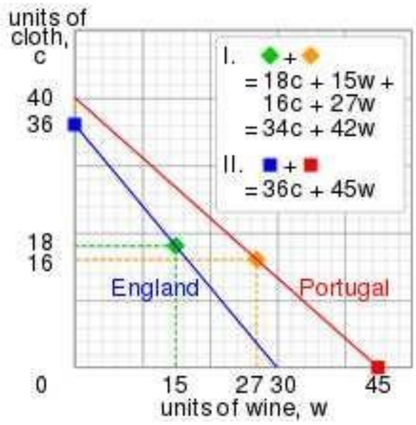

Figure 1. Comparison of Cloth and Wine Products Between England and Portugal

On this illustration, England could commit 100 hours of labor to produce one unit of cloth, or produce 5/6 units of wine. Meanwhile, in comparison, Portugal could commit 90 hours of labor to produce one unit of cloth, or produce 9/8units of wine. So, Portugal possesses an absolute advantage in producing cloth due to fewer labor hours, and England has a comparative advantage due to lower opportunity cost. In the absence of trade, England requires 220 hours of work to both produce and consume one unit each of cloth and wine, while Portugal requires 170 hours of work to produce and consume the same quantities. England is more efficient at producing cloth than wine, and Portugal is more efficient at producing wine than cloth. So, if each country specializes in the good for which it has a comparative advantage, then the global production of both goods increases.

Foreign Direct Investments

Foreign direct investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country. Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets, including establishing ownership or controlling interest in a foreign company. Foreign direct investments are distinguished from portfolio investments in which an investor merely purchases equities of foreign-based companies.

Open economies are the usual beneficiaries of foreign direct investments. These host countries offer a skilled workforce with above-average growth prospects for multinational corporations. FDI does not only involve capital investments but may also include provisions for management or technology as well. The key feature of foreign direct investment is that it establishes either effective control of, or at least substantial influence over, the decision-making of a foreign business.

Foreign direct investments can be made in a variety of ways, including the opening of a subsidiary or associate company in a foreign country, acquiring a controlling interest in an existing foreign company, or by means of a merger or joint venture with a foreign company. The threshold for a foreign direct investment that establishes a controlling interest, per guidelines established by the Organization for Economic Co-operation and Development (OECD), is a minimum 10% ownership stake in a foreign-based company. However, that definition is flexible, as there are instances where effective controlling interest in a firm can be established with less than 10% of the company's voting shares.

Types of Foreign Direct Investment

Foreign direct investments are commonly categorized as being horizontal, vertical, or conglomerate. A horizontal direct investment refers to the investor establishing the same type of business operation in a foreign country as it operates in its home country, for example, a cell phone provider based in the

United States opening up stores in China. A vertical investment is one in which different but related business activities from the investor's main business are established or acquired in a foreign country, such as when a manufacturing company acquires an interest in a foreign company that supplies parts or raw materials required for the manufacturing company to make its products. A conglomerate type of foreign direct investment is one where a company or individual makes a foreign investment in a business that is unrelated to its existing business in its home country. Since this type of investment involves entering an industry the investor has no previous experience in, it often takes the form of a joint venture with a foreign company already operating in the industry.

Methods of Foreign Direct Investment

Foreign direct investments can be established through the opening of a subsidiary or associate company in a foreign country, acquiring a controlling interest in an existing foreign company, or by means of a merger or joint venture with a foreign company. The threshold for a foreign direct investment that establishes a controlling interest, per guidelines established by the Organization for Economic Cooperation and Development (OECD), is a minimum 10% ownership stake in a foreign-based company. However, that definition is flexible, as there are instances where effective controlling interest in a firm can be established with less than 10% of the company's voting shares.

The Evolution of World Trade

The merchandise trade grew by an average of 3.4% per annum from 1870 to 1913 in the period up to World War I. Two World Wars, interspersed by the Depression and a world slump, effectively reduced the annual rate of growth in international trade to less than 1% in the period 1914 to 1950. As the international institutions that were established in the immediate post-1945 period began to introduce some financial stability and impact, world trade there followed a 23-year period of more buoyant growth, averaging 7.9% up to 1973. In the next 25 years to 1998, the average growth rate in merchandise trade fell back to 5.1%. More recently, a less stable period of global economic slowdown saw merchandise exports fall by 4% in 2001, after rising by an exceptional 13% in 2000. Apart from the period between the two World Wars and up to 2001, trade has continuously outstripped growth in the world economy as a whole.

Importance of Finance in International Trade

At the micro level, financial constraints are important in the investment decisions of firms and, since this involves entry-level sunk costs, financial constraints are particularly important for small-scale and young firms deciding to become exporters. Financial constraints are important for the ex- porting behavior of firms, for at least two reasons:

- Recent theoretical models emphasize the role of financial markets in international trade, which can allow for a comparative advantage and create a foreign demand for produced goods.
- Exporting involves sunk costs, so that only those firms with adequate liquidity can afford to cover such costs.

According to the theorem of Modigliani-Miller, internal and external financing are fully substitutes in the presence of complete capital and credit markets, so that the financial structure of firms is independent from investment decisions. On the other hand, the same theorem also assumes that firms' managers have a clear picture of the returns of new investment projects and the value of firms' assets. However, in practice, firms face difficulties when they decide to borrow, in the form of credit or equity. More so, investment decisions are tied to financial factors like access to internal financing, obtaining new credits, issuing equity, or the workings of certain credit markets.

Taking a closer look at financial frictions in international trade, the literature shows that, in the presence of credit constraints, those countries with more developed financial institutions have a comparative advantage over those with fragile financial sectors. Standard theories of international trade predict that a country has a comparative advantage in those goods that are relatively intensive in the factor relatively abundant in that country. However, this view assumes that firms can enter any industry independently of their financial needs. Nevertheless, in the presence of financial frictions, the existence of borrowing constraints across sectors will limit investment opportunities for those firms having worse access to financing.

MATERIALS & METHODS

The paper is a descriptive review of the Economic Environment for Multinationals. It presents the value of international trade and finance as a basis for strategic planning for multinational corporations. It also focuses on the Global Economy as a basis for Foreign Direct Investments in weaker economies like the emerging countries of the world. This paper also presents the management trends and business strategies adopted by multinational corporations in emerging economies.

RESULTS AND DISCUSSION

Formation of Economic Union

Economic union is the establishment of common policies in areas such as taxation and interest rates. A common currency can also be described as an economic union. The original European Economic Community (EEC) in the mid-1950s, comprising six members, was the forerunner of a number of such agreements. Now with 27 member states, the European Union is still the most advanced economic grouping. However, some of the more recent groupings, notably ASEAN and NAFTA, having created regional trading agreements, account for increasingly significant proportions of world trade.

Regional arrangements are an important factor in the organization of world trade. They are beneficial in allowing countries within the arrangement to acquire some goods at lower prices through tariff reductions than they could from the rest of the world. However, they may also cause trade to be 'diverted' away from efficient producers outside the arrangement towards less efficient sources within. A case can be made that the proliferation of self-protecting trade blocks reduces the levels of potential benefits to be gained from world trade.

Effects of Trade on International Growth

According to the World Trade Organization, world trade merchandise trade value grew by 20% in 2011, to $16.7 trillion. This shows that world trade is a big business. Ultra large container ships like the CMA CGM Marco Polo are in such high demand that the drawback of not being able to fit into the Panama Canal is not enough to stop their keels from being laid. The rapid increase in international trade can be attributed to the growth of emerging economies. In the early to mid-2000s, emerging economies experienced GDP growth of up to 6% while advanced economies hovered just under 2%. The IMF has indicated that, since the financial crisis of 2008, growth in emerging markets has slowed while mature markets have remained relatively stable.

Basis for Corporate Decision-Making Policies

Finance theory identifies three types of policies corporate managers must optimize in order to maximize a firm's value: investment, financing, and dividend policies. Investment policy refers to both the amount and type of growth pursued and projects undertaken. Once they determine the amount and type of growth, managers establish a financing policy, or the available financing methods and sources of funds. Finally, dividend policy establishes the allocation of net income between retained earnings and dividends to common equity holders. Theory predicts that corporate managers would consider investment policy the most important policy, because it forms the basis for the firm's business operations and growth.

A survey conducted by Graham and Harvey found that there is an increased use of net present value (NPV) as an investment appraisal technique. More than half of the respondents used the company's cost of capital for appraisal of an international project, even though the risk in a particular project was likely to differ from the firm's overall risk. While Brounen, Jong, and Koedijk have found that large firms use NPV and the capital asset pricing model in assessing the financial feasibility of an investment, small firms continue to rely on the payback criterion.

A group of researchers conducted a survey of major finance issues. They have investigated the three major corporate financial policies: investment policy, financing policy, and dividend policy. Despite the importance of these policies, little is known about how chief financial officers in various countries actually make corporate financial decisions and whether there are inter-country differences. Previous questionnaire-based studies have concentrated mainly on either the American or European market and focused on only certain aspects of corporate financial decisions. Their dataset adds information on

140 CFOs in five countries: the U.S., the U.K., Germany, Canada, and Japan. In accordance with prevailing theory, investment policy is regarded as the most important policy, while dividend policy is the least important. Financing and dividend policies become more important with a company's level of financial leverage. Net present value and internal rate of return are the most frequently used techniques for investment appraisal. The frequency of use of those and other techniques varies significantly across countries. Larger companies more often use established techniques for assessing investments. The most frequently used discount rate is the weighted average cost of capital.

Corporate Disclosures of Multinational Corporations

In 2015, the market value for the world's 100 largest multinational corporations (MNCs) exceeded US$16 trillion (PwC, 2015). This amount exceeds the GDP of many countries. With such increased power and spread for MNCs around the globe, there has been an increased call for enhancing transparency and disclosure for this very important sector in the world economy.

Reporting of information (both financial and non-financial) by multinational corporations has attracted much attention during the last few decades. Businesses report information through annual reports, management forecasts, internet sites, press releases, and other means. Among other media, annual reports are considered the main form of corporate communication, particularly in the case of quoted companies. Firms, including MNCs, may disclose information to comply with different regulations (mandatory) or voluntarily. Regarding mandatory reporting, MNCs in particular face a variety of national accounting and reporting requirements besides those of their respective home countries.

A study revealed that, to a varying extent, cultural values have an effect on the level of disclosure by multinational corporations. The results of the study indicate that there is a significant relationship between national culture and the level of disclosure by MNCs. The cultural dimension of power distance was found to be negatively associated with the level of disclosure by MNCs. However, uncertainty avoidance, expected direction for the relationship, was found to be positively related to the level of disclosure. This, among other reasons, was argued, may be due to the fact that societies that rank high in uncertainty avoidance tend to question unethical standards and violations made by organizations to a greater extent. MNCs might be using disclosures in such societies to discharge accountability. MNCs operating in more feminist societies were found to be more keen to report more information; this is perhaps because feminist societies place a strong importance on social issues, which is part of the disclosures measured by TI (2014). For the newest cultural dimension, indulgence, one would expect more disclosures by MNCs operating in indulgent societies. However, this cultural value does not seem to have an effect on the level of disclosure. The findings of this study are consistent with culture being an important attribute of the transparency of MNCs and add to the prior literature on the role of the firm's information environment. The implications of such findings for MNCs' managers include the recognition that they should not view the need to disclose information through the same cultural lenses and, therefore, more voluntary disclosure shall be provided. A more transparent firm is more appealing and trustworthy.

Goals of Multinational Corporations and Role of a Finance Manager

Multinational corporations are operating and engaged in international business. Finance managers conduct international financial management that covers international investing and financing decisions that are intended to maximize the value of the multinational corporation in the countries where they operate and eventually in the world. A number of goals and objectives are set to be achieved by the management. The commonly accepted objective of multinational corporations is to maximize stockholders' wealth on a global basis, which is reflected in stock prices. Managers of multinational corporations may make decisions that conflict with the firm's goal to maximize shareholders' wealth. This conflict of goals between a firm's managers and shareholders is often referred to as the agency problem. For the firm to achieve its goals, it needs to put in place a mechanism for the control of the agency problem. While the financial manager might be known under a variety of names, budget officer, vice-president for financial affairs, or some other designation, the chief financial officer is one of the most important positions in any firm, company, or corporation. Financial managers have many responsibilities and much may be expected from them. Apart from the traditional role of financial planning and control, forecasting and planning, allocation of funds, and acquisition of funds, the financial manager's role has expanded in recent years. He must now concern himself with issues like corporate strategy, strategic planning, and protection of the firm's assets, among others. The roles of a finance manager are continuously changing with the recent advancements in technology.

Economic Impact of Foreign Direct Investments

Foreign direct investment refers to an investment made by a group of companies or individuals in one country, especially business interest or profit orientation in another country, in the form of establishing business operations in the other country, such as a controlling interest in a foreign company. The studies of Zhang et. al. and Choe in 2003 found that FDI makes an improvement in the process of increasing economic growth deeply, but there are two conditions beyond that, and they are that the country has macroeconomic stability and a trade regime. If those conditions are met, then FDI has a full effect on economic growth. They examined the causality between FDI and economic growth in any trend and found that FDI is caused by economic growth. Foreign direct investment in developing countries has grown significantly over the last decade and has now become over a third of global flows. Many countries with developing economies attracted external investment, including China, India, Brazil, the Republic of Korea, Malaysia, South Africa, Mexico, Hong Kong, and Singapore. All these countries improved their share of foreign direct investment inflow according to other countries, and many countries changed their constitution (law) related to foreign direct investment, because they wanted to attract international companies that want to invest and utilize resources from these countries. To strengthen their macroeconomic stability, taxation reform and liberalization of capital accounts are needed.

Foreign direct investment accounts for the upgrading of technologies of the emerging economies by transferring machinery and equipment with an objective of long-term investments. It also enhances technology support at a higher level and standard of quality. Traders and consumers also benefit from the inflow of FDI in developing countries. A new product range is being developed locally with improved quality and a more competitive price. It also has a great impact on employment generation in the host countries and improves the quality of work life of the people. Despite the many advantages of foreign direct investment in weaker economies, there are also some ignorable disadvantages that can be mentioned. Due to the transfer of knowledge and technology, foreign countries tend to take undue advantage of the technology and knowledge of the host countries. As a result, the trade in upgraded technology and expertise is adversely affected by traders in host countries. Huge capital expenditure is also seen as a disadvantage since a huge commitment of funds is required for investing in a foreign country, and if the requirement of funds increases drastically due to some reasons, then it can increase the cost of investment and may lead to the failure of the project. Political corruption is also seen as another challenge in FDI. Some foreign ventures interested in FDI try to influence political parties in order to achieve their professional objectives, and that too sometimes involves unfair and unethical trade practices. There are as many examples that due to this political corruption, many undeserving foreign ventures captured the projects, and later on, led to enormous gains and unethical exploitation of their investment by exploiting human and capital resources.

Globalization is a process of doing business worldwide, so strategic decisions are made based on the global profitability of the firm rather than just domestic considerations. A global strategy seeks to meet the needs of customers worldwide, with the highest value at the lowest cost. This may mean locating production in countries with the lowest labor costs or abundant natural resources, locating research and complex engineering centers where skilled scientists and engineers can be found, and locating marketing activities close to the markets to be served.

A global strategy includes designing, producing, and marketing products with global needs in mind, instead of considering individual countries alone. A global strategy integrates actions against competitors into a worldwide plan. Today, there are global buyers and sellers, and the instant transmission of money and information across continents.

Few companies can afford to ignore the presence of international competition. Firms that seem insulated and comfortable today may be vulnerable tomorrow; for example, foreign banks do not yet compete or operate in most of the United States, but this too is changing. Thomson Reuters annually compiles a list of the world's most innovative companies, using metrics that include patent activity, R&D investment, success rate, globalization, and influence. For the first time ever, Japan (39%) overtook the United States (36%) in 2014 as having the most innovative companies in the world. Top U.S. firms making the list included Apple, Lockheed Martin, Google, Microsoft, Intel, and IBM, whereas some top Asian companies on the top-100 list included Samsung, Fujitsu, Hitachi, Canon, and for the first time, a Chinese company, Huawei.

Multinational Corporations' Business Strategy

Social business is different from corporate social responsibility (CSR) in that it involves a set of duly organized, planned actions (both internal and external), as well as a definition centered on the company´s mission and core business, all targeting the needs of a certain community. Its performance is measured in terms of its return to stakeholders and society, consumer perceptions, and market expectations. Multinational corporations have important roles in mitigating social and environmental problems. They are no longer expected to perform only corporate social responsibility activities, which may be limited and even ineffective in helping to improve the living standards of marginalized people. Instead, they should offer innovative products and services to meet types of demand that are different from what large corporations traditionally focused on.

Authors like Prahalad and Hart (2002) emphasize the role of Multinational corporations in diminishing world poverty. They also posit that MNCs have the skills, resources, and insights to propose solutions to create access to a better life on a worldwide basis. This proposition includes companies operating at the level of the so-called Base of the Pyramid (BoP), or lower-income populations, and not necessarily in areas such as health, education, or housing. Prahalad and Hart (2002) defend this as an opportunity for big corporations to expand their business and, at the same time, to improve living conditions through products and services that are culturally sensitive, environmentally sustainable, and economically profitable. Authors such as Prahalad and Hart (2002) are among the main proponents of social inclusion through consumption, especially in developing markets.

A study has shown that these multinational corporations are developing social initiatives that are linked to their corporate mission, values, and strategies in order to achieve social transformation intrinsically connected to their core business. In both cases, the business models were developed inside the local subsidiary, according to theory (Hart, 2006). Additionally, there is remarkable knowledge exchange between the companies and the targeted communities.

Marketing Practice of MNCs for Social Business Segmentation, positioning, differentiation, and sales tactics, as well as the marketing mix (price, promotion, place, and product– or the four Ps, as they are usually referred to), have to be designed while keeping the needs of this audience in mind, particularly in terms of reducing costs and generating social impact (Kotler, 2010). The marketing mix is essentially the best way to implement a Social Business program. The challenge is how to design and distribute products for developing markets to optimize economic viability, market penetration, and social benefits. In contrast with developed economies, developing countries lack many of the infrastructural and institutional features needed for markets to operate efficiently (Bocken et al., 2016). It is often difficult to find ways to make products and services available to the target group, which is often hard to trace and located in remote areas. The creation of a smart distribution system often needs new partnerships and a reduction in intermediaries (Spiess-Knafl et al., 2015). Through marketing activities, companies are able to combine lower costs, good quality, sustainability, and profits. Hart (2006) defines four key points to succeed at Bottom of the Pyramid marketing: creating buying power through access to credit and income generation; shaping aspirations through consumer education and sustainable development; improving access via distribution and communication systems; and growing healthy markets through tailored product development and bottom-up innovation. Drawing from the Grameen Group experience, Yunus et al. (2010) posit that switching from a traditional to a social business model involves developing a value proposition that is focused on all targeted stakeholders, not solely on the customer.

The author of this paper agrees with the above premises. As the President of a marketing company, Realvet, Inc., we rely heavily on the marketing activities for the promotion of our imported products. Our suppliers, like Mixscience and others, support these endeavors to be able to penetrate our local market and expose their European companies. In this way, the multinational companies take advantage of the opportunity in doing business with us and at the same time we are also getting the so-called transfer of technology from their experts' advice and high-quality products. The introduction of all-natural and organic feed additive products brought the opportunity for our local livestock industry to use and experience all organic feed additive products for poultry and swine farming and feed milling.

Growth of Multinational Corporations

The two traditional economic explanations for the growth of firms have been economies of scale and economies of scope. Economies of scale arise when a firm lowers its per-unit production costs of a particular product by producing in greater quantity. Division of labor through specialization is one reason per-unit costs decrease as production increases. Adam Smith described how, in the 18th century, a pin factory could increase its output significantly if each worker repeatedly performed a specific task in the production process rather than having each worker independently make complete pins from scratch.

In modern MNCs, economies of scale exist not only because of division of labor but also by combining and often replacing human labor with mechanized production. Investment in large-scale production equipment and the latest technologies is generally very expensive. These may be affordable only to large firms with substantial financial reserves or access to credit. Thus, firms that are already large can gain a further advantage over smaller competitors.

The most notable competitive advantage of MNCs in recent years is likely international mobility – the ability of a firm to transfer resources across national borders. In the decades following World War II, the "internationalization" of corporations, primarily American, took place through the establishment of foreign affiliates intended to serve the markets in which they were located. For example, Ford established Ford of Europe in 1967 to produce vehicles for European consumers.

With falling trade barriers and lower transportation costs, firms increasingly look abroad not only for new markets to sell their products but for low-cost production opportunities. MNCs that take advantage of cheap foreign labor gain an advantage over less mobile firms that remain dependent on higher-cost labor. Low-cost foreign labor is a major factor in the growth of multinationals in sectors such as electronics and apparel.

The economic significance of multinational corporations has been illustrated in several ways. Their economic scale is increasing, particularly when measured according to their ownership of productive assets. While economies of scale and scope have contributed to the growth of Multinational corporations, the dominant characteristic of modern MNCs is their transnational mobility in seeking low-cost production opportunities. Multinational corporations wield significant political power, but precise measurement of this power remains elusive. Corporate power appears particularly evident in the United States, where corporations have lobbied to lower their share of total taxes, receive substantial subsidies, and impose externality costs upon society. The political power of MNCs is also evident in international trade agreements, under which corporations can challenge the regulations of democratic sovereign governments.

CONCLUSION

This study has provided a comprehensive overview of the economic environment that multinational corporations (MNCs) navigate, highlighting the crucial role of international trade and finance in shaping their business strategies. The interaction between strong and weak economies through trade, along with the management of foreign direct investments (FDI), is central to the global positioning of MNCs. These companies leverage regional trade agreements and comparative advantages to optimize their operations and expand across borders.

The economic impact of MNCs is substantial, not only in terms of financial capital but also in the transfer of technology and expertise that fosters growth in host countries. However, this expansion comes with challenges, such as the potential for exploitation of local markets and political influence that may compromise the interests of host nations. As the global economy evolves, the role of MNCs continues to grow, presenting both opportunities and risks.

FDI, in particular, remains a key driver of economic growth for developing nations, fostering infrastructure development and technology upgrades. Yet, the complexities of international finance, political influence, and corporate governance remain challenges that MNCs must navigate carefully. Moving forward, the strategic business and financial planning of MNCs must align with both global competitiveness and local development goals to ensure sustainable growth.

In conclusion, while multinational corporations are critical to the global economic landscape, they must operate with greater transparency and responsibility, especially as they continue to expand into emerging markets. This research underscores the importance of understanding the economic environment and the strategic financial management required to succeed in international trade and investment.

Recommendations

1. **Strengthen Regulatory Frameworks for Multinational Corporations**

   Host countries should enhance their regulatory frameworks to ensure that multinational corporations (MNCs) operate transparently and in line with local economic, environmental, and social standards. This includes enforcing stricter regulations on labor practices, environmental impact, and corporate governance. Countries should also ensure that MNCs contribute fairly to local tax revenues and do not exploit loopholes for profit maximization.

2. **Promote Technology Transfer and Skill Development**

   To maximize the benefits of foreign direct investment (FDI), host countries should focus on fostering technology transfer and skill development within their local workforce. Governments can establish policies that encourage MNCs to share advanced technologies and offer training programs for local employees. This would not only improve productivity but also help in building a more competitive and skilled labor force in emerging economies.

3. **Enhance Regional Trade Agreements and Economic Unions**

   Governments should continue to strengthen regional trade agreements and economic unions, like the European Union (EU) and ASEAN, to promote more inclusive and fair international trade. These agreements should be structured to minimize trade barriers and ensure that countries within these unions can access goods and services at competitive prices while promoting sustainable economic growth.

4. **Foster Local Entrepreneurship and Innovation**

   While MNCs often bring significant capital and technology, host countries must encourage local entrepreneurship and innovation to ensure long-term economic development. Policies should be put in place to support startups and local businesses, enabling them to compete effectively with multinational enterprises. This can be achieved through incentives such as tax breaks, access to financing, and capacity-building programs.

5. **Encourage Ethical Business Practices and Corporate Social Responsibility (CSR)**

   Multinational corporations must be encouraged to adopt more ethical business practices, particularly in emerging markets where governance structures may be weaker. This includes prioritizing corporate social responsibility (CSR) initiatives that focus on improving the welfare of local communities, reducing environmental impacts, and promoting sustainable practices. Furthermore, MNCs should be held accountable for their actions through mandatory CSR reporting and increased transparency in their operations.

6. **Increase Financial Access and Support for SMEs**

   Small and medium-sized enterprises (SMEs) often face difficulties accessing finance to compete with large multinational corporations. Governments and international institutions should develop programs to improve access to capital for SMEs in developing countries. By providing financial support, such as grants or low-interest loans, SMEs can expand their operations and engage more effectively in international trade.

7. **Improve Financial Literacy and Management within MNCs**

Multinational corporations should prioritize financial literacy and management practices within their international teams. This includes ensuring that decision-makers across all subsidiaries are well-versed in global financial systems, trade regulations, and economic forecasting. By enhancing their understanding of the broader economic landscape, MNCs can make more informed and strategic financial decisions that benefit both their operations and the countries they invest in.

8. **Mitigate Political Risk and Foster Stable Investment Environments**

   Multinational corporations should develop strategies to mitigate political risk when entering new markets, particularly in developing countries. Governments can support this by fostering political stability and providing a clear, predictable legal framework for foreign investors. Additionally, MNCs should consider engaging in local partnerships and establishing corporate social responsibility initiatives to strengthen their reputation and integrate more effectively within the host country's social and political fabric.

9. **Promote Sustainable and Inclusive Global Strategies**

   As MNCs expand globally, they should adopt business strategies that prioritize sustainability and inclusivity. This includes promoting eco-friendly production methods, reducing carbon footprints, and ensuring that the benefits of international trade are distributed more equitably. MNCs should also embrace social responsibility by addressing issues such as poverty, inequality, and access to healthcare and education in the regions where they operate.

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