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Procedia Economics and Finance 6 (2013) 319 – 327

Procedia
Economics and Finance

www.elsevier.com/locate/procedia

International Economic Conference of Sibiu 2013 Post Crisis Economy: Challenges and Opportunities, IECS 2013

Coordinates and Dynamics of the Relationships between Multinational Enterprises and Economic Development – A Theoretical Approach

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Abstract

The paper aims to configure, based on the historical analyses of the theories regarding multinational enterprises and economic development (which, most of them, are unilateral, unidimensional and focused on just one theoretical background) a conceptual framework – subsumed to the idea of a matrix with variable architecture that integrates existing models – able to allow and favour the exhaustive and dynamic analysis of the relationships between multinational enterprises and economic development within the current and future spatial and temporal context – characterized by (enormous) complexity, turbulence and volatility.

Keywords: multinational enterprises (MNEs); economic development; theories of development; foreign direct investments (FDI).

1. Introduction

The analysis of the relationships between multinational enterprises (MNEs) and economic development was one of the last half of century's constant topics on the agenda of researchers (in Economics, International Economics, International Business, International Strategy). But their levels of approach, depth and relevance in terms of results were very different: (a). some of the studies exclusively treated the path and dynamics of these relationships regarding the MNEs of the Triad – so they resulted into theories and models of development for the developed

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doi:10.1016/S2212-5671(13)00146-9

countries (emphasizing in the same time their contribution to the global economic development), with mostly post-factum and unilateral character (Axinn and Matthyssens, 2002; Rugman and Verbeke, 2004; Asmussen, 2009); (b). another were preocupied with the impacts and interdependencies between MNEs from developed countries and the development of the developing countries (Ahiakpor, 1990; Rodríguez-Clare, 1996; Rugman, 2010); (c). there were also studies and researches trying to exclusively capture the relationships between MNEs and economic development in the case of the developing countries and transition economies (Cuervo-Cazurra and Genc, 2008; Kiggundu and Ji, 2008; Gammeltoft, Pradhan and Goldstein, 2010).

2. James Ahiakpor's approach (1990): "Multinationals and Economic Development. An integration of competing theories"

Ahiakpor's approach (1990) in order to identify the specific contributions of the MNEs to economic development (specific contributions being used here in order to differentiate the exclusive contributions of MNEs to the process of economic growth and development from all the other kind of contribution that any other domestic firm may have on these processes) ended with the following conclusions (Ahiakpor, 1990):

- In specific and pure numeric terms, the interrelations between MNEs and economic development can be measured, firstly, in terms of the degree of contribution that MNEs (through their productive activities) bring to the economic growth of a given country. But this is a schematic and simplistic approach because it limits the economic development to economic growth. Even so, there is a possibility to refine or nuance the impact: MNEs extend the production into a country based on their operational efficiency; therefore, size can also be an indicator of the technical, managerial or marketing related efficiency and a significant determinant of the impact that MNEs have on development.
- Another indicator of the relative contribution of MNEs to the economic growth is total profits – because profits reflect the economic efficiency of firms (able to satisfy market preferences and to reward the factors) and also they are indicators of the potential for expansion through the transition from internal development (exclusively based on their own capitals) to external development (thanks to the ability to attract capitals).
- The attitude toward economic socks or the elasticities of substitution represent another indicator of the relative contribution of MNEs to economic growth and development: a delayed response to the changes taking place regarding economic conditions (and related to the interest rate, land or equipment rental costs, labor costs) may lead the firm to average operational costs higher than if it has timely adjusted the inputs. This inertia may also indicate a limited ability of MNE to extend its production in response to lower input costs, having as result a lower contribution to economic growth and development, as a result of its inhibitions to intensively use factors with lower relative costs.
- Finally, the relative contribution of MNEs to economic development can be observed through the quality of goods and services they offer, comparative to those of products and services supplied by domestic firms. This criterion is based on the acceptance of the quality of life as dimension of economic development; but quality has to be judged according to the preferences of the consumers, as indicator of their state of well, and not according to other (imposed) standards, in order to be a real indicator.

Ahiakpor (1990) recognizes that his approach is different from the previous ones (traditional, as he called them), that emphasized on the contribution of MNEs to the capital stock, the technological progress, the access to external markets, the rising of state revenues through taxes – aspects that are essential for the developing countries in their early stages of development, but that are losing of their relative importance when talking about economic progress and development.

3. Dunning and Lundan's approach (2008): "Multinational Enterprises and the Global Economy"

If we take into consideration the comprehensive definition of (economic) development, it must be emphasized that the above mentioned conclusions are rather poor when trying to estimate and evaluate all the impact factors of MNEs on development, as well as the complexity of the interrelations between the two dimensions (MNEs and