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Transnational Corporations and the Strategies of Profitability by Administrative Ordering

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THESIS PROJECT

Master Thesis Proposal

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Proposed Topic:

Transnational Corporations and the Strategies of Profitability by Administrative Ordering

Topic Characteristics:

Transnational companies (hereinafter TNC) are companies and corporations operating in different countries under various legal systems, but consolidating their financial and economic achievements under one chosen national jurisdiction. Performing business activities in different countries requires high competency in administrative, financial, legal, tax and other core processes in TNC. Profitability and efficiency are the questions, which need to be discussed and solved on centralized and decentralized level in TNC.

In my thesis I plan to discover the problem of TNC administrative ordering, tax performance from the point of financial efficiency, administrative burdens and taxation. The research will be focused on the background development of TNC and its internal organizational structure. The research will involve analysis of TNC, strategies and goals aiming to lower tax burdens, to avoid overregulation and to focus on the most efficient administrative ordering. The objective of the thesis is to conduct research and analyze, what are the main administrative burdens in TNC, describe and analyze the main profitability and efficiency strategies in TNC and test them in terms of their advantages or disadvantages.

Hypotheses:
1] While profitability and efficiency in ordinary national companies can be achieved according to the basic financial and business performance rules, the same question in TNC must be solved in more complex way involving analysis of legal, administrative, financial and other process peculiarities in every country, where TNC operates.
2] Optimization processes in TNC companies start even before TNC establishment, as the core problem is the decision-making about head office localization and tax policy.

Methodology:
The thesis research starts with the theoretical background concerning TNC performance and their impact on World's economy and the economies of particular countries. Then the research moves forward with description and analysis of TNC organizational structure, legal and administrative ordering of TNC, decision-making avoiding overregulation.
One of the main problems while reaching sufficient profitability and efficiency in TNC is its tax policy including the problem of location of head office. In this term the test analysis will be conducted and approved by several practical examples – case studies of TNC and their choice of head office location. The case studies constitute secondary research as itstudiesarticles and practicalexamplesof TNC administrativeordering in Europeancountries, the USA and othereconomies.

Outline:

1. Introduction
2. **Theoretical background and the review of world literature**

2.1 TNC corporations within globalization in the World

2.1.1 Definition and features of transnational corporations
2.1.2 Structure and types of TNCs
2.1.3 Reasons for emergence of TNCs
2.1.4 Role of TNCs in the process of globalization

2.2 TNC and their impact on national economies

2.2.1 Geographical aspects of transnational corporations' activities
2.2.2 Advantages and disadvantages of transnational corporations'
2.2.3 Potential trends in transnational corporations' further development on the global scale

3. Administrative ordering in TNC

3.1 Legal and administrative aspects of establishing and performing activities of a TNC company
3.2 Strategies, goals aiming to avoid overregulation in TNC companies
3.3 Tax optimization in TNC companies

4. Profitability and efficiency strategies in TNC – case studies

4.1 Defining requirements and finding solutions

5. Conclusion
6. References / Bibliograph

Introduction

1 Theoretical background and the review of world literature

1.1 TNC corporations within globalization in the World

1.1.1 Definition and features of transnational corporations

Globalization is largely regarded to be the key trend in today's international relations in all fields. The phenomenon of global unification of the political, economic and social spheres is the dominant paradigm of global society's development, as international relations become more and more interconnected, and even slight changes in their conditions in a single state cannot leave unaffected other states integrated in the worldwide system (Ervin, J., & Smith, Z.A. (2008). Globalization: A Reference Handbook, pp. 20-21). In such conditions, the role of companies functioning beyond the borders of a single state becomes extremely important, as their actions involve many actors from different countries, thus forming complex sets of international relations. For the purpose of analyzing directly the role of such international corporations, it is first of all necessary to clearly identify their definition and features.

A transnational corporation is generally regarded in the scientific literature as an economic entity carrying out international business activities and having subsidiaries in two or more foreign countries (Jakobeit, L. (2011). Transnational Corporations as Political Actors, pp. 7-8). At the same time, some researchers tend to differentiate transnational corporations and multinational corporations, stating that MNCs identify themselves with one country of residence, while TNCs run their decision-making process from the point of view of global presence (Ietto-Gillies, G. (2012). Transnational Corporations and International Production: Concepts, Theories and Effects, pp. 11-13). Thus, in contrast to MNCs, TNCs operate their activities from several centers at once.

So, the following main features of transnational corporations can be pointed out: first, they carry out their activities on the international level, and have subsidiaries at least in two countries; second, they sale their goods or service in at least two foreign states; third, TNCs have a multinational management structure (De Jonge, A. (2011). Transnational Corporations and International Law: Accountability in the Global Business Environment, pp. 22-23).

Proceeding from the definition and features of TNCs, the theoretical analysis of their activities should also cover the countries directly involved in a TNC's actions. Among such countries, the country of residence, and recipient countries can obviously be marked out. The country of residence is considered to be the states where the respective TNC has its headquarters, i.e. where it is legally incorporated. For instance, the country of residence for Mercedes is Germany, for Ford – the US, for Nestlé – Switzerland, and so on. At the same time, recipient countries are those territories where the TNC establishes its subsidiaries or branches through foreign direct investment (Jensen, N.M. (2008). Nation-States and the Multinational Corporation: A Political Economy of Foreign Direct Investment, p. 38).

In the course of their activities, TNCs proceed from several key principles that shape the strategies of their actions. Such principles are inherent of any TNC, as the ultimate goal of each corporation is to maximize its profits through efficient activities on international markets. First of all, TNCs effect foreign direct investment for the purpose of creating production capacities abroad. Thus, transnational corporations invest in establishing production facilities in other countries, which are aimed to become profit-generating in the subsequent periods. Second, TNCs involve different forms of international division of labor (based on items, constituent parts, or technologies). Such a wide combination of labor division options allows placing different stages of the production process in different countries (Cohen, S.D. (2007). Multinational Corporations and Foreign Direct Investment: Avoiding Simplicity, Embracing Complexity, pp. 64-66). Development and transfer of advanced technologies are carried out within a closed corporate structure. Thanks to this, the effect of research and development expenses is maximized. Internal corporate trade between different branches of a TNC is carried out using transfer prices. Transfer prices are established by the TNC at a level substantially higher or lower than the market prices, which allows significantly improving taxation. Finally, a key principle of TNCs' activities is their global approach to management. A transnational corporation aims to improve its activities in general, without focusing on separate aspects. This principle assumes funding of individual departments in order to ensure higher profits in the long-term perspective (Tolentino, P.E. (2013). Multinational Corporations: Emergence and Evolution, pp. 107-109).

As TNCs function on the international market, they need to endure competition with strong rivals. For this purpose, it is not enough to maintain certain production indicators, or even introduce new business methods or advanced technologies. To survive, TNCs always have to seek expanding their global presence, covering new states, involving people from new countries as their clients, penetrating new markets, and so on. In order to expand their activities, TNCs not only create new subsidiaries or branches, but also purchase already established companies, or unite together in order to reach a higher share on the market. Such processes are widely known in the scientific literature and economic practice as mergers and acquisitions (Körner, J. (2011). International Trade - Multinational Corporations and Technology Transfer, pp. 6-7).

Having analyzed the definition and principles of transnational corporations' activities, in the next section of my thesis, I would like to consider the structure and types of TNCs.

1.1.2 Structure and types of TNCs

As transnational corporations are complex economic entities functioning on the international level, their structure is also quite complex and variegated. Analyzing it is important in the context of theoretical understanding of the methods, goals and ways of TNCs' activities.

The macrostructure of a transnational corporation predefines the nature of relations between its structural elements. Generally, TNCs are holdings carrying out their activities in different industries. In such holdings, the mother company as a rule forms the center of the TNC, its core. It effects centralized planning, management, administration and supervision of the TNC's branches' and subsidiaries' activities. Based on large-scale specialization and cooperation, the mother company implements the technical and economic policy shaping the vectors of its subsidiaries' actions on the international market (Dörrenbächer, C., &Geppert, M. (2011). Politics and Power in the Multinational Corporation: The Role of Institutions, Interests and Identities, pp. 81-83).

Recently, significant changes have been pointed out in the structure of transnational corporations. They are to a large extent due to the so-called complex strategy implemented by TNCs. In general, TNCs' strategy is based on maximizing the results of the entire holding, instead of seeking optimization perspectives for its different units. The complex strategy assumes decentralization in the mother company's functions in the entire holding, and delegation of larger powers to regional subsidiaries. Such a policy has become possible due to the active development of new information technologies, computerization, and the ever-growing use of the Internet and online communication means. Thanks to it, TNCs have become able to more efficiently control the economic and financial activities of all their branches and subsidiaries (Clarke, I.M. (2013). The Spatial Organisation of Multinational Corporations (RLE International Business), pp. 145-147).

Complex integration within TNCs also requires a comprehensive and complex regional structure. In the scientific literature, regional management systems within transnational corporations are generally divided into three main types: main regional administrations, regional production administrations, and functional regional administrations. Main regional administrations bear responsibility for efficient implementation of all directions of the corporation's activities in a particular geographical region. They have all the required powers of coordination and control over all branches and subsidiaries of the TNC in such particular region. Regional production administrations are responsible for coordinating the enterprises' activities across the production chain, ensuring efficient activities of such entities, uninterrupted functioning of the corporation's entire technological chain. Functional regional administration ensure the corporation's specific types of activities, such as sales, supplies, after-sales service, research and development, and so on (Davis, P. (2012). Corporations, Global Governance, and Post-conflict Reconstruction, pp. 91-94).

As for the regional units of transnational corporations, according to the methodology proposed by UNCTAD experts, they are divided into three types: subsidiaries, associated companies, and branches. A subsidiary is an economic entity in a foreign country, in which the mother company controls over 50% of shares, and is therefore able to fully control administrative, management, and supervision bodies. An associated company is an economic entity in a recipient country in which the mother company holds 10 to 50% of shares. A branch is a non-joint-stock company fully or partially controlled by the mother company, which can be acting under the form of a permanent representative office, joint non-stock enterprise formed with third parties, or land parcels or real estate in a recipient country owned by the mother company (Federhen, D., Behrens, M.-O., & Springer, M. (2004). Working Capital Management for multinational corporations, pp. 77-82).

Types of TNCs are classified based on the TNCs' strategies and principles of functioning, level of division of labor, and methods of technological data exchange. Most researchers argue that transnational corporations should be divided into horizontally integrated, vertically integrated, and diversified TNCs. Horizontally integrated transnational corporations unite companies located in different geographical regions around the globe and producing analogous or similar goods or services. An example of a horizontally integrated transnational corporation can be PricewaterhouseCoopers, one of the world's major audit companies, which provides audit services worldwide. Vertically integrated companies include different entities around the globe which ensure implementation of different production stages in order to ultimately obtain a finished product. Illustrative examples of such TNCs can be oil-producing companies, for instance Royal Dutch Shell, or automotive industry leaders such as Ford. Those companies' activities cover the entire production chain (extraction of oil, its processing and sales, or production of separate details with their subsequent assembly into a car for sales, respectively). Diversified TNCs have signs of both horizontally and vertically integrated corporations. A bright example of diversified TNCs is Swiss giant Nestlé. The corporation functions in the fields of food production, restaurant business and cosmetics, and implements activities across the entire production chain (Heinecke, P. (2011). Success Factors of Regional Strategies for Multinational Corporations: Appropriate Degrees of Management Autonomy and Product Adaptation, pp. 205-219).

Having understood the principles of division of TNC into types, and their structure, in the next section, I would like to analyze the reasons for emergence of transnational corporations.

1.1.3 Reasons for emergence of TNCs

Reasons for emergence of transnational corporations are quite variegated in their nature, but still, they are somehow linked with market imperfections, restrictions on the way of international trade, strong monopoly of manufacturers, foreign exchange control, transport costs, differences in taxation legislation, etc. (Kondratyev, N. (2011). Transnational Corporations in a Globalized Economy: Development of TNC's in a Globalized Economy, p. 29).

Transnational corporations emerge under the influence of a number of factors, which I would like to analyze more in detail.

First of all, it is internationalization of production and capital based on development of productive forces. Due to the rapid development of production forces under the impact of internationalization, regionalization and globalization processes, companies acting within a single country, even being engaged in foreign activities, can maximize their profits only to a certain extent. For the purpose of maximizing their earnings and expanding their influence in the world, such companies also move their production centers to recipient countries, create wide networks in order to be widely represented around the globe (Tully, S. (2007). Corporations and International Lawmaking, p. 70).

The second key factor derives from the first one. It is expansion of capital abroad, and creation of companies' own units in foreign countries. Developed corporations within a particular state have wide resources, which at a certain time become no longer efficient to invest within the borders of such a country, as the margin of profits significantly lowers. Therefore, companies seek investing monetary funds abroad, for instance, if they see bright prospects for their development in other countries, consider them as sources of additional income, new customer bases, new suppliers, and so on. By creating own branches or subsidiaries, a corporation internationalizes is activities, and increases its global presence, with the ultimate goal of generating higher profits (Haley, U.C.V. (2001). MultinationalCorporationsinPoliticalEnvironments: Ethics, ValuesandStrategies, pp. 65-67).

Next, an essential factor in emergence of TNCs is deep competition leading to production and capital concentration on the international scale. Competition is in general a driving factor for development of the global economy. Large corporations competing on the domestic market of a particular country at a certain time occupy their niches, and involve the maximum number of customers. Further expansion of the customer base in this particular state becomes either impossible or very slow, thus, again, the profit margin becomes so low, that additional efforts needed to be undertaken become economically unjustified. Therefore, corporations tend to enter the international market, in order to seek new customers or partners on the international scale, where the margin of profit is quite higher, and competition can in most cases be efficiently endured, in the event of an efficient business model (Cohen, S.D. (2007). Multinational Corporations and Foreign Direct Investment: Avoiding Simplicity, Embracing Complexity, pp. 111-112).

With globalization, the importance of individual states' geo-economic borders significantly lowers. This is another major factor influencing emergence of transnational corporations. States no longer act purely independently in their foreign politics and economic actions. Even though preserving political sovereignty, they are so much interconnected with other states in all respects, that all their actions imply significant consequences, and therefore are to the largest extent dependent on other states' will. Moreover, creation of regional formations such as the EU, MERCOSUR, and so on, makes states within them develop coordinated policies and follow them. As a result, states become more open to each other in all terms, and their markets converge. From this perspective, the geo-economic borders of states become erased, and corporations have wide opportunities to go far beyond the borders of a single state, as they obtain free or, at least, eased access to foreign markets, where they can seek presence for the purpose of maximizing their profits and expanding geographical presence (Jensen, N.M. (2008). Nation-States and the Multinational Corporation: A Political Economy of Foreign Direct Investment, pp. 51-54).

Finally, it is the motive of gaining overprofits that drives corporations to go international. It is quite obvious that the international market grants wider opportunities for expanding activities, which is a prerequisite for gaining higher profits. However, the most important here is the fact that, on the international scale, corporations become able to spare substantial funds and resources through economies of scale. Thus, through significantly reducing costs, companies become able to gain overprofits, which are absolutely impossible within a closed market (24. Ervin, J., & Smith, Z.A. (2008). Globalization: A Reference Handbook, pp. 34-35).

Overall, the essential reasons for emergence of transnational corporations are as follows: possibilities to increase efficiency and competitiveness, imperfection of the market mechanism in terms of implementation of the technology ownership system, additional possibilities to increase competitiveness through gaining access to resources of foreign states, opportunity to get information on market perspectives, and the competitive potential of recipient countries' entities, possibility to use specific features of different states' economic and taxation policies, opportunity to increase the lifecycle of products through spreading them to other markets, and focusing the mother company's efforts on development new technologies, possibility to overcome export barriers for market penetration through foreign direct investment (Bonanno, A., & Constance, D.H. (2010). Stories of Globalization: Transnational Corporations, Resistance, and the State, pp. 90-93).

Having investigated the main reasons for emergence of transnational corporations, in the next section, I would like to take a closer look at the role of TNCs in the process of globalization.

1.1.4 Role of TNCs in the process of globalization

The process of globalization is generally regarded in the scientific literature as international, worldwide integration of countries leading to unification of their economic, political and social spheres (Baylis, J., Smith, S., & Owens, P. (2013). The Globalization of World Politics: An Introduction to International Relations, p. 6). Globalization is definitely the main trend in development of international relations, and it is absolutely inevitable for any individual state.

The processes of internationalization and regionalization have allowed quite much increasing the volumes of international economic relations and geopolitical integration. The process of regionalization assumes formation of regional free trade areas, customs unions, and finally political union within a certain geographical region of the world, based on its countries' similar features, historical paradigms of development, policies and mutual goals. Those processes still exist and are important today, and they have given birth to the new vector of international relations – globalization (Westra, R. (2009). Political Economy and Globalization, p. 27).

As countries seek deeper integration with each other for the purpose of overcoming external threats or reaching common goals, they tend to become more open to each other. In terms of their economies, this means that countries open their markets to each other in order to facilitate movement of goods, capital and workforce. Economic and customs barriers between countries are being erased, and domestic companies obtain wider opportunities to freely enter foreign markets, just as customers from a particular state get a possibility to profit from a wider choice of products, and so on. In terms of politics, globalization assumes ever-growing interdependence of states. When forming their unions, states become forced to delegate a certain amount of their inherent powers to a single center coordinated all the respective members' actions. At the same time, such centers elaborate a common framework for activities of all the member states, and therefore the latter become more tightly integrated. Globalization also covers cultural aspects, which means that people around the globe are offered pretty much the same range of products, and their particular habits and traditions tend to converge in the course of such a process (Hoós, J. (2009). Globalization, multinational corporation, and economics, pp. 88-96).

The role of transnational corporations in the processes of globalization can't be underestimated. On the one hand, TNCs are established due to the spreading of globalization phenomena, however, on the other hand, TNCs themselves strongly promote further development of such processes.

Transnational corporations carry out their production and sales activities around the globe. Thus, their geographical presence isn't anyhow limited to the borders of a single state. Acting in different countries, TNCs are forced to seek developing a comprehensive and full-fledged global strategy of activities, which would allow achieving high profit indicators not only for individual units of the mother company, but for the entire corporation. Through effecting such activities, transnational corporations actively promote globalization. This can be explained by several reasons, First of all, TNCs created branches and subsidiaries in a large number of foreign states. Such subsidiaries work following the same goals of the mother company located in another country, even though they involve personnel from different states. Next, products offered on the international market are produced under the same brand of the corporation, and therefore, through implementing marketing policies, TNCs form loyal customer bases, regardless of their nationality or place of living. For instance, people around the globe often visit fast food restaurants such as McDonald's or KFC. People from different states love those brands, and their attitude toward them is formed under the same factors. Here, economic globalization converges with cultural globalization (Pizzuti, F.R., &Franzini, M. (2001). Globalization, Institutions and Social Cohesion, pp. 45-47).

However, transnational corporations also promote political globalization, and play quite an important role as international geopolitical actors. Large TNCs have great resources, and the amounts of their profits often exceed the ones of most nation-states. In such conditions, transnational corporations have considerable levers of tension, and become able to use them for the purpose of impacting governments' decisions in different states. This is especially true of corporations that work with some strategic resources. For instance, large oil-and-gas TNCs work with energy resources, which are considered to be strategic assets of any country for the purpose of granting its long-term economic stability, and thus political sovereignty. Through their actions, TNCs make states interact with them and between each other, in order not to lag behind in the course of international competition. Thus, political globalization is also affected (Kondratyev, N. (2011). Transnational Corporations in a Globalized Economy: Development of TNC's in a Globalized Economy, pp. 165-168).

Finally, transnational corporations also largely promote cultural globalization. As TNCs function around the globe, without restricting their activities to a single state, they promote their own values in all the recipient countries. Thus, people living in different states buy products of such corporations, become loyal to their brands, work for them as personnel, etc. In the case of quite large TNCs, their policies also affect cultural values on the global scale, and people from seemingly historically different cultures start sharing common views, opinions and beliefs (Dunning, J.H., &Lundan, S.M. (2008). Multinational Enterprises and the Global Economy, p. 55).

Thus, the role of transnational corporations in the process of globalization is crucial, as in fact they are one of its main driving factors. However, the role of transnational corporations for individual national economies is not so clear, and I would like to investigate it more in detail in the next section of my thesis.

1.2 TNC and their impact on national economies

1.2.1 Geographical aspects of transnational corporations’ activities

Analyzing geographical aspects of transnational corporations’ activities is crucial for understanding the dominating trend in international economic relations. This is especially important taking into account the amount of TNCs’ influence on the global economy. The latter ensure approximately 50% of the overall global production, and cover over 70% of global trade, while 40% of such trade is carried out at transfer prices within the international corporations themselves – between their units. The share of global research and development funding belonging to TNCs is 80%, and 80% of world’s patents are also registered by transnational corporations. Moreover, most of the Top-100 world’s economies are transnational corporations, which means that TNC’s are not less powerful than most states, and are key actors in the international arena (Dörrenbächer, C., &Geppert, M. (2011). Politics and Power in the Multinational Corporation: The Role of Institutions, Interests and Identities, pp. 59-62).

As developed countries have wider markets, resources, and are the main sources of new technologies and development, it is quite obvious that most transnational corporations have developed states as their countries of residence, while their activities are carried out around the globe, in all states, in order to cover the widest audience possible. An interesting aspect that should be noted is that transnational companies incorporated in large developed states such as the US have a lesser degree of transnationalization, as their domestic market is vast enough, while, for instance, markets of European countries are narrower, and TNCs incorporated in them are forced to seek expanding activities on the international level (Brooks, S.G. (2011). Producing Security: Multinational Corporations, Globalization, and the Changing Calculus of Conflict, pp. 102-104).

Table 1. Biggest transnational companies by foreign assets, as of 2011, billion US dollars (Biggest transnational corporations 2012. The Economist [online])

As we can see from Table 1 above, the world's largest transnational corporation in terms of foreign assets is General Electric, incorporated in the United States. As of 2011, the company's foreign assets exceeded 52 billion dollars. In the top list, the company was followed by three major representatives of the oil production sector, namely Royal Dutch Shell, British Petroleum and Exxon Mobil. It is worth noting that all the Top-20 transnational corporations are incorporated in developed states: either in the US, Western European countries, or in Japan.

The geographical structure of an individual transnational corporation's presence on foreign markets is predefined by its own particular features, brand development strategy, nature of goods produced, level of vertical integration, ties with suppliers, loyalty of the customer base, potential for the subsequent expansion, ties with governmental bodies, expertise in particular activities, level of competition in the industry, and so on (Hoós, J. (2009). Globalization, multinational corporation, and economics, p. 33).

Thus, it is worth noting that each individual transnational corporation chooses which countries it would like to cover in the course of its activities proceeding from its own views. In such decisions, TNCs should evaluate the resources available, and potential benefits to be drawn from activities in a particular country. If the level of expected profits is lower than the investment required, obviously the TNC will never choose this particular economy, and therefore will not include it in its geographical presence (Bonanno, A., & Constance, D.H. (2010). Stories of Globalization: Transnational Corporations, Resistance, and the State, pp. 80-81).

In the next section of my thesis, I will analyze the main advantages and disadvantages of transnational corporations activities' in the global economy.

1.2.2 Advantages and disadvantages of transnational corporations' activities

The impact of transnational corporations in the international arena should be analyzed from the perspective of their activities' positive and negative effects on host and recipient countries.

For host countries, the impact of TNCs is generally positive. First of all, transnational corporations pay substantial amounts of taxes to their national budgets. Second, major research and development activities run by transnational companies allow the host countries maintaining their positions as technological leaders around the globe. Moreover, through TNCs, they gain larger geopolitical influence in the world. Disadvantages of TNCs for host countries can include significant amounts of capital exports, involvement of foreign management personnel, instead of using national workforce, export and disclosure of technologies to other states. Another important particularity is that the negative image of a particular transnational corporation is often extrapolated to its host country, and becomes associated with it (Sawalha, N.N. (2008). The Role of the Multinational Corporations in Economic Development for Countries with Limited Resources, pp. 23-24).

Everything is more complex in the case with recipient countries. Here, TNCs both give significant advantages and provoke major drawbacks.

The main positive effects on recipient countries created by transnational corporations' presence are as follows. First, TNCs bring additional revenues to the national budgets through taxation in recipient countries. Second, transnational companies are large entities involving a considerable number of staff. Most often, in recipient countries, the local workforce is used, with an exception being represented by managers, which are often expatriates from the host country. Thus, TNCs create jobs in recipient countries, which is especially crucial for developing economies with a high level of unemployment. Next, TNCs saturate the markets of such recipient countries with a wide range of quality goods, thus satisfying local customers' needs. Finally, TNCs are the most innovation-driven companies, and they bring new technologies to recipient states. This is especially important in the today's post-industrial world, where new technologies have become the core competitive advantage of any state (Cragg, W. (2005). EthicsCodes, Corporations, andtheChallengeofGlobalization, pp. 71-77).

However, there are also many negative consequences of transnational corporations' activities in recipient countries. First of all, transnational companies invade the most developed and prospective segments of industrial production and research and development structures of recipient countries. Having considerable resources, TNCs tend to use the unfavorable market conjuncture for acquiring firms in recipient countries. This brings adverse effects to their national business, and often poses under threat even the economic stability or geopolitical sovereignty of such countries, if strategic companies or resources are involved (Dixon, C.J., Drakakis-Smith, D., & Watts, H.D. (2013). Multinational corporations and the Third World, pp. 30-33).

Next, transnational corporations' focus on acquisition implies increased instability of the investment process. Large investment projects assume long-term and stable financial investment, while the strategy of acquisition emphasizes quite different principles, where investment is made rather irregularly and depending on the market conjuncture. Moreover, there is a risk of mass capital outflow from the recipient country. For instance, in the event of crises, the stable position of transnational corporations allows them undertaking serious measures: closing enterprises, reducing production, and so on. This leads to unemployment, loss of production links, etc., which affects much the recipient country's national economy

(Rugraff, E., & Hansen, M.W. (2011). Multinational Corporations and Local Firms in Emerging Economies, pp. 101-102).

Another important drawback for recipient countries is that transnational corporations react on any changes in their national economy's conjuncture. For instance, if there are any stresses affecting the overall conjuncture and reducing the population's purchasing power, transnational corporations can be likely to withdraw their assets from such countries, in order not to lose profits. Again, unemployment, and other negative effects follow (Fobete, D.N. (2013). MultinationalCorporationandThirdWorldDevelopment, pp. 44-46).

There is a threat that the recipient country would become a place of discharge of obsolete and environmentally dangerous technologies. Finally, TNCs can force inefficient labor division systems to their recipient countries (Oshionebo, E. (2009). Regulating Transnational Corporations in Domestic and International Regimes: An African Case Study, pp. 82-83).

Based on these findings, in the next section of my thesis, I would like to analyze possible future trends of translational corporations' activities in the world.

1.2.3 Potential trends in transnational corporations' further development on the global scale

As it has already been stated earlier, the impact of transnational corporations on the global economy can't be underestimated. Their activities cover the full spectrum of international relations, and TNCs are one of the most prominent actors in the international arena, ensuring the largest trade volumes, research and development activities, and so on. Both host and recipient, developed and developing countries are much dependent on TNCs, and therefore, it is important to analyze possible future developments in their impact on international relations, in order to forecast the overall vectors of development of the global economy.

As globalization rapidly increases its pace, it is absolutely obvious that transnational corporations will only continue increasing the volumes of their activities in the future both in absolute and relative terms. This is especially true speaking of those economic sectors which can generate overprofits, namely the oil-and-gas industry, food production, and highly technological production. Further oligopolization of those sectors on the international scale can also be expected, as the most powerful corporations will continue forcing out their weaker competitors (Clarke, I.M. (2013). The Spatial Organisation of Multinational Corporations, pp. 306-308).

Capital flows are likely to be directed in larger amounts to developing countries, especially if speaking of transnational corporations producing traditional goods or services. This can be explained by the fact that domestic markets of traditional goods in developed countries are often oversaturated, and the profit margin they can bring constantly becomes lower and lower. Therefore, transfer of activities to less developed countries, where demand for traditional products is much higher and shows a great potential for further growth, can be seen by corporations as a way to raise their profit margin (Heinecke, P. (2011). Success Factors of Regional Strategies for Multinational Corporations: Appropriate Degrees of Management Autonomy and Product Adaptation, pp. 114-116).

Transnational corporations' expenditures on research and development are also likely to continue growing, as new technologies are a key factor determining a corporation's ability to withstand competition on the global market, in conditions of turbulence and lack of perfect information. Higher investment in new researches, on the one hand, assumes additional expenses, however, on the other hand, in the long run, such investment is aimed at maximizing the effect of economies on scale. Such economies allow transnational corporations lowering their production costs thanks to the volume of production on the international scale. Therefore, higher R&D costs would also allow raising the profit margin (Kondratyev, N. (2011). Transnational Corporations in a Globalized Economy: Development of TNC's in a Globalized Economy, p. 89).

Based on the findings of my theoretical analysis, in the next chapter of the thesis, I would like to proceed directly to its practical part.

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Declaration:

1. I declare that this MT is free from any sort of plagiarism.
2. I declare that this MT draft contains 179882 characters (including spaces).
3. I assess that my own ideas contribute by approximately 70 % to the presented text

Samir Taghiyev, July 29, 2014

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Contens

Introduction 2

1 Theoretical background and the review of world literature 6

1.1 TNC corporations within globalization in the World 6

1.1.1 Definition and features of transnational corporations 6

1.1.2 Structure and types of TNCs 8

1.1.3 Reasons for emergence of TNCs 11

1.1.4 Role of TNCs in the process of globalization 13

1.2 TNC and their impact on national economies 17

1.2.1 Geographical aspects of transnational corporations' activities 17

1.2.2 Advantages and disadvantages of transnational corporations' activities 20

1.2.3 Potential trends in transnational corporations' further development on the global scale 22

2 Administrative ordering in TNC 25

2.1 Legal and administrative aspects of establishing and performing activities of a TNC company 25

2.2 Strategies, goals aiming to avoid overregulation in TNC companies 32

2.3 Tax optimization in TNC companies 36

3 Profitability and efficiency strategies in TNC – case studies 42

3.1 Defining requirements and finding solutions 49

4 Summary 52

Conclusion 54

Bibliography 58

Abstract

The thesis describes the problem of TNC administrative ordering, tax performance from the point of financial efficiency, administrative burdens and taxation. The research will be focused on the background development of TNC and its internal organizational structure. The research will involve analysis of TNC, strategies and goals aiming to lower tax burdens, to avoid overregulation and to focus on the most efficient administrative ordering. Several case studies of major world's transnational corporations will be considered in order to analyze the practical aspects of TNCs' activities related to tax optimization methods. The practical analysis will be based on the theoretical findings drawn from bibliographic sources available in public access.

Abstrakt

Diplomová práce řeší problém organizace administrativy v nadnárodních společnostech, daňovou optimalizaci z hlediska finančních příležitostí, administrativních zátěží. Analýza je zaměřena na vývoj nadnárodních společností a jejich organizační strukturu. Diplomová práce zahrnuje analýze nadnárodních společností, strategie a cíle vedoucí ke snížení daňového břemena, zamezení přebytečné administrativy a zefektivnění administrativního uspořádání. Diplomová práce zahrnuje případová studia hlavních světových nadnárodních společností s cílem provést analýze praktických aspektů podnikání nadnárodních společností ve vztahu k metodám daňové optimalizaci. Praktická část práce vychází z teoretických předpokladů.

Klíčová slova

Administrativní uspořádání

Daňová optimalizace

Globalizace

Finanční efektivita

Nadnárodní společnost

Organizační struktura

Keywords

Administrative ordering

Financial efficiency

Globalization

Organizational structure

Tax optimization

Transnational Corporation

Introduction

Transnational companies (hereinafter TNC) are companies and corporations operating in different countries under various legal systems, but consolidating their financial and economic achievements under one chosen national jurisdiction. Performing business activities in different countries requires high competency in administrative, financial, legal, tax and other core processes in TNC. Profitability and efficiency are the questions, which need to be discussed and solved on centralized and decentralized level in TNC.

TNCs play an increasingly high role in the global economy, as they ensure the greatest share of production and trade on the international scale. Transnational corporations cumulate the greatest amounts of resources, and therefore they are the key innovators in the world, sending significant funds on research and development activities. Finally, TNCs play an important geopolitical role, as they can often impose their conditions even to entire countries, with the latter's economies being dependent on their activities.

As transnational companies act in a highly competitive environment on the international scale, they always seek to maximize profits through both expanding the customer base and reducing the level of their tax burden. For this purpose, transnational corporations seek to apply effective and legally available tax optimization mechanisms aimed at reducing the amount of the final taxable income, and the administrative obstacles imposed by local governments.

In my thesis, I plan to discover the problem of TNC administrative ordering, tax performance from the point of financial efficiency, administrative burdens and taxation. The research will be focused on the background development of TNC and its internal organizational structure. The research will involve analysis of TNC, strategies and goals aiming to lower tax burdens, to avoid overregulation and to focus on the most efficient administrative ordering. Several case studies of major world's transnational corporations will be considered in order to analyze the practical aspects of TNCs' activities related to tax optimization methods. The practical analysis will be based on the theoretical findings drawn from bibliographic sources available in public access.

The objective of the thesis is to conduct research and analyze, what are the main administrative burdens in TNC, describe and analyze the main profitability and efficiency strategies in TNC and test them in terms of their advantages or disadvantages.

The main aim of the research is to analyze the theoretical aspects related to transnational corporations, and run a practical analysis for the purpose of understanding the main aspects of TNCs' activities on the global scale in the current conditions.

The main research questions to be answered are whether transnational corporations play a key role in the processes of globalization, what factors drive their activities, and how they apply particular economic and political mechanisms in order to maximize profitability of their operational activities.

2 Theoretical background and the review of world literature

2.1 TNC corporations within globalization in the World

2.1.1 Definition and features of transnational corporations

Globalization is largely regarded to be the key trend in today's international relations in all fields. The phenomenon of global unification of the political, economic and social spheres is the dominant paradigm of global society's development, as international relations become more and more interconnected, and even slight changes in their conditions in a single state cannot leave unaffected other states integrated in the worldwide system (Ervin, J., & Smith, Z.A. (2008). Globalization: A Reference Handbook, pp. 20-21). In such conditions, the role of companies functioning beyond the borders of a single state becomes extremely important, as their actions involve many actors from different countries, thus forming complex sets of international relations. For the purpose of analyzing directly the role of such international corporations, it is first of all necessary to clearly identify their definition and features.

A transnational corporation is generally regarded in the scientific literature as an economic entity carrying out international business activities and having subsidiaries in two or more foreign countries (Jakobeit, L. (2011). Transnational Corporations as Political Actors, pp. 7-8). At the same time, some researchers tend to differentiate transnational corporations and multinational corporations, stating that MNCs identify themselves with one country of residence, while TNCs run their decision-making process from the point of view of global presence (Ietto-Gillies, G. (2012). Transnational Corporations and International Production: Concepts, Theories and Effects, pp. 11-13). Thus, in contrast to MNCs, TNCs operate their activities from several centers at once.

So, the following main features of transnational corporations can be pointed out: first, they carry out their activities on the international level, and have subsidiaries at least in two countries; second, they sale their goods or service in at least two foreign states; third, TNCs have a multinational management structure (De Jonge, A. (2011). Transnational

Corporations and International Law: Accountability in the Global Business Environment, pp. 22-23).

Proceeding from the definition and features of TNCs, the theoretical analysis of their activities should also cover the countries directly involved in a TNC's actions. Among such countries, the country of residence, and recipient countries can obviously be marked out. The country of residence is considered to be the states where the respective TNC has its headquarters, i.e. where it is legally incorporated. For instance, the country of residence for Mercedes is Germany, for Ford – the US, for Nestlé – Switzerland, and so on. At the same time, recipient countries are those territories where the TNC establishes its subsidiaries or branches through foreign direct investment (Jensen, N.M. (2008). Nation-States and the Multinational Corporation: A Political Economy of Foreign Direct Investment, p. 38).

In the course of their activities, TNCs proceed from several key principles that shape the strategies of their actions. Such principles are inherent of any TNC, as the ultimate goal of each corporation is to maximize its profits through efficient activities on international markets. First of all, TNCs effect foreign direct investment for the purpose of creating production capacities abroad. Thus, transnational corporations invest in establishing production facilities in other countries, which are aimed to become profit-generating in the subsequent periods. Second, TNCs involve different forms of international division of labor (based on items, constituent parts, or technologies). Such a wide combination of labor division options allows placing different stages of the production process in different countries (Cohen, S.D. (2007). Multinational Corporations and Foreign Direct Investment: Avoiding Simplicity, Embracing Complexity, pp. 64-66). Development and transfer of advanced technologies are carried out within a closed corporate structure. Thanks to this, the effect of research and development expenses is maximized. Internal corporate trade between different branches of a TNC is carried out using transfer prices. Transfer prices are established by the TNC at a level substantially higher or lower than the market prices, which allows significantly improving taxation. Finally, a key principle of TNCs' activities is their global approach to management. A transnational corporation aims to improve its activities in general, without focusing on separate aspects. This principle assumes funding of individual departments in order to ensure higher profits in the long-term perspective (Tolentino, P.E. (2013). Multinational Corporations: Emergence and Evolution, pp. 107-109).

As TNCs function on the international market, they need to endure competition with strong rivals. For this purpose, it is not enough to maintain certain production indicators, or even introduce new business methods or advanced technologies. To survive, TNCs always have to seek expanding their global presence, covering new states, involving people from new countries as their clients, penetrating new markets, and so on. In order to expand their activities, TNCs not only create new subsidiaries or branches, but also purchase already established companies, or unite together in order to reach a higher share on the market. Such processes are widely known in the scientific literature and economic practice as mergers and acquisitions (Körner, J. (2011). International Trade - Multinational Corporations and Technology Transfer, pp. 6-7).

Having analyzed the definition and principles of transnational corporations' activities, in the next section of my thesis, I would like to consider the structure and types of TNCs.

2.1.2 Structure and types of TNCs

As transnational corporations are complex economic entities functioning on the international level, their structure is also quite complex and variegated. Analyzing it is important in the context of theoretical understanding of the methods, goals and ways of TNCs' activities.

The macrostructure of a transnational corporation predefines the nature of relations between its structural elements. Generally, TNCs are holdings carrying out their activities in different industries. In such holdings, the parent company as a rule forms the center of the TNC, its core. It effects centralized planning, management, administration and supervision of the TNC's branches' and subsidiaries' activities. Based on large-scale specialization and cooperation, the parent company implements the technical and economic policy shaping the vectors of its subsidiaries' actions on the international market (Dörrenbächer, C., & Geppert, M. (2011). Politics and Power in the Multinational Corporation: The Role of Institutions, Interests and Identities, pp. 81-83).

Recently, significant changes have been pointed out in the structure of transnational corporations. They are to a large extent due to the so-called complex strategy implemented by TNCs. In general, TNCs' strategy is based on maximizing the results of the entire holding, instead of seeking optimization perspectives for its different units. The complex strategy assumes decentralization in the parent company's functions in the entire holding, and delegation of larger powers to regional subsidiaries. Such a policy has become possible due to the active development of new information technologies, computerization, and the ever-growing use of the Internet and online communication means. Thanks to it, TNCs have become able to more efficiently control the economic and financial activities of all their branches and subsidiaries (Clarke, I.M. (2013). The Spatial Organisation of Multinational Corporations (RLE International Business), pp. 145-147).

Complex integration within TNCs also requires a comprehensive and complex regional structure. In the scientific literature, regional management systems within transnational corporations are generally divided into three main types: main regional administrations, regional production administrations, and functional regional administrations. Main regional administrations bear responsibility for efficient implementation of all directions of the corporation's activities in a particular geographical region. They have all the required powers of coordination and control over all branches and subsidiaries of the TNC in such particular region. Regional production administrations are responsible for coordinating the enterprises' activities across the production chain, ensuring efficient activities of such entities, uninterrupted functioning of the corporation's entire technological chain. Functional regional administration ensure the corporation's specific types of activities, such as sales, supplies, after-sales service, research and development, and so on (Davis, P. (2012). Corporations, Global Governance, and Post-conflict Reconstruction, pp. 91-94).

As for the regional units of transnational corporations, according to the methodology proposed by UNCTAD experts, they are divided into three types: subsidiaries, associated companies, and branches. A subsidiary is an economic entity in a foreign country, in which the parent company controls over 50% of shares, and is therefore able to fully control administrative, management, and supervision bodies. An associated company is an economic entity in a recipient country in which the parent company holds 10 to 50% of shares. A branch is a non-joint-stock company fully or partially controlled by the parent company, which can be acting under the form of a permanent representative office, joint non-stock enterprise formed with third parties, or land parcels or real estate in a recipient country owned by the parent company (Federhen, D., Behrens, M.-O., & Springer, M. (2004). Working Capital Management for multinational corporations, pp. 77-82).

Types of TNCs are classified based on the TNCs’ strategies and principles of functioning, level of division of labor, and methods of technological data exchange. Most researchers argue that transnational corporations should be divided into horizontally integrated, vertically integrated, and diversified TNCs. Horizontally integrated transnational corporations unite companies located in different geographical regions around the globe and producing analogous or similar goods or services. An example of a horizontally integrated transnational corporation can be PricewaterhouseCoopers, one of the world’s major audit companies, which provides audit services worldwide. Vertically integrated companies include different entities around the globe which ensure implementation of different production stages in order to ultimately obtain a finished product. Illustrative examples of such TNCs can be oil-producing companies, for instance Royal Dutch Shell, or automotive industry leaders such as Ford. Those companies’ activities cover the entire production chain (extraction of oil, its processing and sales, or production of separate details with their subsequent assembly into a car for sales, respectively). Diversified TNCs have signs of both horizontally and vertically integrated corporations. A bright example of diversified TNCs is Swiss giant Nestlé. The corporation functions in the fields of food production, restaurant business and cosmetics, and implements activities across the entire production chain (Heinecke, P. (2011). Success Factors of Regional Strategies for Multinational Corporations: Appropriate Degrees of Management Autonomy and Product Adaptation, pp. 205-219).

Having understood the principles of division of TNC into types, and their structure, in the next section, I would like to analyze the reasons for emergence of transnational corporations.

2.1.3 Reasons for emergence of TNCs

Reasons for emergence of transnational corporations are quite variegated in their nature, but still, they are somehow linked with market imperfections, restrictions on the way of international trade, strong monopoly of manufacturers, foreign exchange control, transport costs, differences in taxation legislation, etc. (Kondratyev, N. (2011). Transnational Corporations in a Globalized Economy: Development of TNC's in a Globalized Economy, p. 29).

Transnational corporations emerge under the influence of a number of factors, which I would like to analyze more in detail.

First of all, it is internationalization of production and capital based on development of productive forces. Due to the rapid development of production forces under the impact of internationalization, regionalization and globalization processes, companies acting within a single country, even being engaged in foreign activities, can maximize their profits only to a certain extent. For the purpose of maximizing their earnings and expanding their influence in the world, such companies also move their production centers to recipient countries, create wide networks in order to be widely represented around the globe (Tully, S. (2007). Corporations and International Lawmaking, p. 70).

The second key factor derives from the first one. It is expansion of capital abroad, and creation of companies' own units in foreign countries. Developed corporations within a particular state have wide resources, which at a certain time become no longer efficient to invest within the borders of such a country, as the margin of profits significantly lowers. Therefore, companies seek investing monetary funds abroad, for instance, if they see bright prospects for their development in other countries, consider them as sources of additional income, new customer bases, new suppliers, and so on. By creating own branches or subsidiaries, a corporation internationalizes is activities, and increases its global presence, with the ultimate goal of generating higher profits (Haley, U.C.V. (2001). Multinational Corporations in Political Environments: Ethics, Values and Strategies, pp. 65-67).

Next, an essential factor in emergence of TNCs is deep competition leading to production and capital concentration on the international scale. Competition is in general a driving factor for development of the global economy. Large corporations competing on the domestic market of a particular country at a certain time occupy their niches, and involve the maximum number of customers. Further expansion of the customer base in this particular state becomes either impossible or very slow, thus, again, the profit margin becomes so low, that additional efforts needed to be undertaken become economically unjustified. Therefore, corporations tend to enter the international market, in order to seek new customers or partners on the international scale, where the margin of profit is quite higher, and competition can in most cases be efficiently endured, in the event of an efficient business model (Cohen, S.D. (2007). Multinational Corporations and Foreign Direct Investment: Avoiding Simplicity, Embracing Complexity, pp. 111-112).

With globalization, the importance of individual states' geo-economic borders significantly lowers. This is another major factor influencing emergence of transnational corporations. States no longer act purely independently in their foreign politics and economic actions. Even though preserving political sovereignty, they are so much interconnected with other states in all respects, that all their actions imply significant consequences, and therefore are to the largest extent dependent on other states' will. Moreover, creation of regional formations such as the EU, MERCOSUR, and so on, makes states within them develop coordinated policies and follow them. As a result, states become more open to each other in all terms, and their markets converge. From this perspective, the geo-economic borders of states become erased, and corporations have wide opportunities to go far beyond the borders of a single state, as they obtain free or, at least, eased access to foreign markets, where they can seek presence for the purpose of maximizing their profits and expanding geographical presence (Jensen, N.M. (2008). Nation-States and the Multinational Corporation: A Political Economy of Foreign Direct Investment, pp. 51-54).

Finally, it is the motive of gaining overprofits that drives corporations to go international. It is quite obvious that the international market grants wider opportunities for expanding activities, which is a prerequisite for gaining higher profits. However, the most important here is the fact that, on the international scale, corporations become able to spare substantial funds and resources through economies of scale. Thus, through significantly reducing costs, companies become able to gain overprofits, which are absolutely impossible within a closed market (24. Ervin, J., & Smith, Z.A. (2008). Globalization: A Reference Handbook, pp. 34-35).

Overall, the essential reasons for emergence of transnational corporations are as follows: possibilities to increase efficiency and competitiveness, imperfection of the market mechanism in terms of implementation of the technology ownership system, additional possibilities to increase competitiveness through gaining access to resources of foreign states, opportunity to get information on market perspectives, and the competitive potential of recipient countries' entities, possibility to use specific features of different states' economic and taxation policies, opportunity to increase the lifecycle of products through spreading them to other markets, and focusing the parent company's efforts on development new technologies, possibility to overcome export barriers for market penetration through foreign direct investment (Bonanno, A., & Constance, D.H. (2010). Stories of Globalization: Transnational Corporations, Resistance, and the State, pp. 90-93).

Having investigated the main reasons for emergence of transnational corporations, in the next section, I would like to take a closer look at the role of TNCs in the process of globalization.

2.1.4 Role of TNCs in the process of globalization

The process of globalization is generally regarded in the scientific literature as international, worldwide integration of countries leading to unification of their economic, political and social spheres (Baylis, J., Smith, S., & Owens, P. (2013). The Globalization of World Politics: An Introduction to International Relations, p. 6). Globalization is definitely the main trend in development of international relations, and it is absolutely inevitable for any individual state.

The processes of internationalization and regionalization have allowed quite much increasing the volumes of international economic relations and geopolitical integration. The process of regionalization assumes formation of regional free trade areas, customs unions, and finally political union within a certain geographical region of the world, based on its countries' similar features, historical paradigms of development, policies and mutual goals. Those processes still exist and are important today, and they have given birth to the new vector of international relations – globalization (Westra, R. (2009). Political Economy and Globalization, p. 27).

Globalization is the process of the word's integration into a single whole through deep international cooperation between states and corporations being residents of different states. The phenomenon of globalization extends its impact to all continents and countries around the globe, as it is an objective tendency, which can't be avoided by any subject participating in international economic, political and cultural exchange, international geopolitical processes (Brooks, S.G. (2011). Producing Security: Multinational Corporations, Globalization, and the Changing Calculus of Conflict, pp. 20-21).

As countries seek deeper integration with each other for the purpose of overcoming external threats or reaching common goals, they tend to become more open to each other. In terms of their economies, this means that countries open their markets to each other in order to facilitate movement of goods, capital and workforce. Economic and customs barriers between countries are being erased, and domestic companies obtain wider opportunities to freely enter foreign markets, just as customers from a particular state get a possibility to profit from a wider choice of products, and so on. Due to the larger openness of transnational boundaries for all kinds of economic activities, globalization gets another impetus for its further development, and so the circle in never-ending, with the two forces boosting each other. Economic cooperation on the international level becomes much facilitated, and countries tend to seek deeper economic ties with their partners in order to provide their population or industries with the raw materials or products lacking on their market due to the natural conditions or technological incapacity of domestic producers. Thus, globalization not only allows deepening international cooperation, but also raises competition between economic subjects from different countries (Grazia, I.-G. (2012). Transnational Corporations and International Production: Concepts, Theories and Effects, pp. 62-63).

In terms of politics, globalization assumes ever-growing interdependence of states. When forming their unions, states become forced to delegate a certain amount of their inherent powers to a single center coordinating all the respective members' actions. At the same time, such centers elaborate a common framework for activities of all the member states, and therefore the latter become more tightly integrated. They are also forced to seek compromises for the purpose of adopting mutual decisions on the international level, developing international conventions to regulate the field of international relations, define the vectors of the global economy's further development, and so on. Therefore, the processes of globalization promote purely political cooperation between states, which in its turn contributes to cooperation in all other spheres. Globalization also covers cultural aspects, which means that people around the globe are offered pretty much the same range of products, and their particular habits and traditions tend to converge in the course of such a process (Hoós, J. (2009). Globalization, multinational corporation, and economics, pp. 88-96).

The role of transnational corporations in the processes of globalization can't be underestimated. On the one hand, TNCs are established due to the spreading of globalization phenomena, however, on the other hand, TNCs themselves strongly promote further development of such processes.

Transnational corporations carry out their production and sales activities around the globe. Thus, their geographical presence isn't anyhow limited to the borders of a single state. Acting in different countries, TNCs are forced to seek developing a comprehensive and full-fledged global strategy of activities, which would allow achieving high profit indicators not only for individual units of the parent company, but for the entire corporation. Through effecting such activities, transnational corporations actively promote globalization. This can be explained by several reasons, First of all, TNCs created branches and subsidiaries in a large number of foreign states. Such subsidiaries work following the same goals of the parent company located in another country, even though they involve personnel from different states. Next, products offered on the international market are produced under the same brand of the corporation, and therefore, through implementing marketing policies, TNCs form loyal customer bases, regardless of their nationality or place of living. For instance, people around the globe often visit fast food restaurants such as McDonald's or KFC. People from different states love those brands, and their attitude toward them is formed under the same factors. Here, economic globalization converges with cultural globalization (Pizzuti, F.R., & Franzini, M. (2001). Globalization, Institutions and Social Cohesion, pp. 45-47).

Contribution of transnational corporations to globalization is predefined by obvious driving factors. Thus, it is clear that, thanks to their vast resources cumulated, TNCs are able to benefit from the economies of scale. Thanks to this, their profit margin is considerably higher than the one of smaller companies, and therefore the amounts of resources which can be invested in further activities are significantly higher. Due to this, transnational corporation strive to cover the largest number of markets abroad. Their funds allow running such activities, and the new markets covered give an opportunity to expand the customer base, and generate higher revenues, thus only enlarging the profit margin achievable (Jenkins, R. (2013). Transnational Corporations and Uneven Development (RLE International Business): The Internationalization of Capital and the Third World, pp. 45-46).

However, transnational corporations also promote political globalization, and play quite an important role as international geopolitical actors. Large TNCs have great resources, and the amounts of their profits often exceed the ones of most nation-states. In such conditions, transnational corporations have considerable levers of tension, and become able to use them for the purpose of impacting governments' decisions in different states. This is especially true of corporations that work with some strategic resources. For instance, large oil-and-gas TNCs work with energy resources, which are considered to be strategic assets of any country for the purpose of granting its long-term economic stability, and thus political sovereignty. Through their actions, TNCs make states interact with them and between each other, in order not to lag behind in the course of international competition. Thus, political globalization is also affected (Kondratyev, N. (2011). Transnational Corporations in a Globalized Economy: Development of TNC's in a Globalized Economy, pp. 165-168). Moreover, transnational corporations pursue their goals in different countries around the globe, and often interact with state authorities on their own, without third parties. This testifies the great importance of TNCs for the processes of international cooperation. They provide people in different countries with a large number of jobs, create production facilities, import new technologies, pay taxes to state budgets, thus not only generating high profits for themselves, but also providing hosting states with significant benefits. Due to this, the authorities of such states are forced to take the will of international corporations into consideration when making any important decisions with regard to their international policies. They also have great opportunities to build up close ties with foreign partners thanks to the activities of TNCs on their territories

(Hansen, M.W., & Schaumburg-Müller, H. (2006). Transnational Corporations and Local Firms in Developing Countries: Linkages and Upgrading, pp. 73-74).

Finally, transnational corporations also largely promote cultural globalization. As TNCs function around the globe, without restricting their activities to a single state, they promote their own values in all the recipient countries. Thus, people living in different states buy products of such corporations, become loyal to their brands, work for them as personnel, etc. In the case of quite large TNCs, their policies also affect cultural values on the global scale, and people from seemingly historically different cultures start sharing common views, opinions and beliefs (Dunning, J.H., & Lundan, S.M. (2008). Multinational Enterprises and the Global Economy, p. 55).

Thus, the role of transnational corporations in the process of globalization is crucial, as in fact they are one of its main driving factors. However, the role of transnational corporations for individual national economies is not so clear, and I would like to investigate it more in detail in the next section of my thesis.

Transnational corporations are entities which perform their operational activities in multiple foreign countries, with headquarters located in a single jurisdiction. As of today, TNCs play an essential role for the global economy, as they promote globalization processes, ensure activation of foreign trade, provide a great number of jobs, stand for the greatest shares of global production and exports.

2.2 TNC and their impact on national economies

2.2.1 Geographical aspects of transnational corporations' activities

Analyzing geographical aspects of transnational corporations' activities is crucial for understanding the dominating trend in international economic relations. This is especially important taking into account the amount of TNCs' influence on the global economy. The latter ensure approximately 50% of the overall global production, and cover over 70% of global trade, while 40% of such trade is carried out at transfer prices within the international corporations themselves – between their units. The share of global research and development funding belonging to TNCs is 80%, and 80% of world's patents are also registered by transnational corporations. Moreover, most of the Top-100 world's economies are transnational corporations, which means that TNC's are not less powerful than most states, and are key actors in the international arena (Dörrenbächer, C., & Geppert, M. (2011). Politics and Power in the Multinational Corporation: The Role of Institutions, Interests and Identities, pp. 59-62).

As developed countries have wider markets, resources, and are the main sources of new technologies and development, it is quite obvious that most transnational corporations have developed states as their countries of residence, while their activities are carried out around the globe, in all states, in order to cover the widest audience possible. An interesting aspect that should be noted is that transnational companies incorporated in large developed states such as the US have a lesser degree of transnationalization, as their domestic market is vast enough, while, for instance, markets of European countries are narrower, and TNCs incorporated in them are forced to seek expanding activities on the international level (Brooks, S.G. (2011). Producing Security: Multinational Corporations, Globalization, and the Changing Calculus of Conflict, pp. 102-104).

Figure 1. Biggest transnational companies by foreign assets, as of 2011, billion US dollars (Biggest transnational corporations 2012. The Economist [online])

As we can see from Figure 1 above, the world's largest transnational corporation in terms of foreign assets is General Electric, incorporated in the United States. As of 2011, the company's foreign assets exceeded 52 billion dollars. In the top list, the company was followed by three major representatives of the oil production sector, namely Royal Dutch Shell, British Petroleum and Exxon Mobil. It is worth noting that all the Top-20 transnational corporations are incorporated in developed states: either in the US, Western European countries, or in Japan.

The geographical structure of an individual transnational corporation's presence on foreign markets is predefined by its own particular features, brand development strategy, nature of goods produced, level of vertical integration, ties with suppliers, loyalty of the customer base, potential for the subsequent expansion, ties with governmental bodies, expertise in particular activities, level of competition in the industry, and so on (Hoós, J. (2009). Globalization, multinational corporation, and economics, p. 33).

Thus, it is worth noting that each individual transnational corporation chooses which countries it would like to cover in the course of its activities proceeding from its own views. In such decisions, TNCs should evaluate the resources available, and potential benefits to be drawn from activities in a particular country. If the level of expected profits is lower than the investment required, obviously the TNC will never choose this particular economy, and therefore will not include it in its geographical presence (Bonanno, A., & Constance, D.H. (2010). Stories of Globalization: Transnational Corporations, Resistance, and the State, pp. 80-81).

In the next section of my thesis, I will analyze the main advantages and disadvantages of transnational corporations activities' in the global economy.

2.2.2 Advantages and disadvantages of transnational corporations' activities

The impact of transnational corporations in the international arena should be analyzed from the perspective of their activities' positive and negative effects on host and recipient countries.

For host countries, the impact of TNCs is generally positive. First of all, transnational corporations pay substantial amounts of taxes to their national budgets. Second, major research and development activities run by transnational companies allow the host countries maintaining their positions as technological leaders around the globe. Moreover, through TNCs, they gain larger geopolitical influence in the world. Disadvantages of TNCs for host countries can include significant amounts of capital exports, involvement of foreign management personnel, instead of using national workforce, export and disclosure of technologies to other states. Another important particularity is that the negative image of a particular transnational corporation is often extrapolated to its host country, and becomes associated with it (Sawalha, N.N. (2008). The Role of the Multinational Corporations in Economic Development for Countries with Limited Resources, pp. 23-24).

Everything is more complex in the case with recipient countries. Here, TNCs both give significant advantages and provoke major drawbacks.

The main positive effects on recipient countries created by transnational corporations' presence are as follows. First, TNCs bring additional revenues to the national budgets through taxation in recipient countries. Second, transnational companies are large entities involving a considerable number of staff. Most often, in recipient countries, the local workforce is used, with an exception being represented by managers, which are often expatriates from the host country. Thus, TNCs create jobs in recipient countries, which is especially crucial for developing economies with a high level of unemployment. Next, TNCs saturate the markets of such recipient countries with a wide range of quality goods, thus satisfying local customers' needs. Finally, TNCs are the most innovation-driven companies, and they bring new technologies to recipient states. This is especially important in the today's post-industrial world, where new technologies have become the core competitive advantage of any state (Cragg, W. (2005). Ethics Codes, Corporations, and the Challenge of Globalization, pp. 71-77).

However, there are also many negative consequences of transnational corporations' activities in recipient countries. First of all, transnational companies invade the most developed and prospective segments of industrial production and research and development structures of recipient countries. Having considerable resources, TNCs tend to use the unfavorable market conjuncture for acquiring firms in recipient countries. This brings adverse effects to their national business, and often poses under threat even the economic stability or geopolitical sovereignty of such countries, if strategic companies or resources are involved (Dixon, C.J., Drakakis-Smith, D., & Watts, H.D. (2013). Multinational corporations and the Third World, pp. 30-33).

Next, transnational corporations' focus on acquisition implies increased instability of the investment process. Large investment projects assume long-term and stable financial investment, while the strategy of acquisition emphasizes quite different principles, where investment is made rather irregularly and depending on the market conjuncture. Moreover, there is a risk of mass capital outflow from the recipient country. For instance, in the event of crises, the stable position of transnational corporations allows them undertaking serious measures: closing enterprises, reducing production, and so on. This leads to unemployment, loss of production links, etc., which affects much the recipient country's national economy (Rugraff, E., & Hansen, M.W. (2011). Multinational Corporations and Local Firms in Emerging Economies, pp. 101-102).

Another important drawback for recipient countries is that transnational corporations react on any changes in their national economy's conjuncture. For instance, if there are any stresses affecting the overall conjuncture and reducing the population's purchasing power, transnational corporations can be likely to withdraw their assets from such countries, in order not to lose profits. Again, unemployment, and other negative effects follow (Fobete, D.N. (2013). Multinational Corporation and Third World Development, pp. 44-46).

There is a threat that the recipient country would become a place of discharge of obsolete and environmentally dangerous technologies. Finally, TNCs can force inefficient labor division systems to their recipient countries (Oshionebo, E. (2009). Regulating Transnational Corporations in Domestic and International Regimes: An African Case Study, pp. 82-83).

Based on these findings, in the next section of my thesis, I would like to analyze possible future trends of translational corporations' activities in the world.

2.2.3 Potential trends in transnational corporations' further development on the global scale

As it has already been stated earlier, the impact of transnational corporations on the global economy can't be underestimated. Their activities cover the full spectrum of international relations, and TNCs are one of the most prominent actors in the international arena, ensuring the largest trade volumes, research and development activities, and so on. Both host and recipient, developed and developing countries are much dependent on TNCs, and therefore, it is important to analyze possible future developments in their impact on international relations, in order to forecast the overall vectors of development of the global economy.

As globalization rapidly increases its pace, it is absolutely obvious that transnational corporations will only continue increasing the volumes of their activities in the future both in absolute and relative terms. This is especially true speaking of those economic sectors, which can generate overprofits, namely the oil-and-gas industry, food production, and highly technological production. Further oligopolization of those sectors on the international scale can also be expected, as the most powerful corporations will continue forcing out their weaker competitors (Clarke, I.M. (2013). The Spatial Organisation of Multinational Corporations, pp. 306-308).

Capital flows are likely to be directed in larger amounts to developing countries, especially if speaking of transnational corporations producing traditional goods or services. This can be explained by the fact that domestic markets of traditional goods in developed countries are often oversaturated, and the profit margin they can bring constantly becomes lower and lower. Therefore, transfer of activities to less developed countries, where demand for traditional products is much higher and shows a great potential for further growth, can be seen by corporations as a way to raise their profit margin (Heinecke, P. (2011). Success Factors of Regional Strategies for Multinational Corporations: Appropriate Degrees of Management Autonomy and Product Adaptation, pp. 114-116).

Transnational corporations' expenditures on research and development are also likely to continue growing, as new technologies are a key factor determining a corporation's ability to withstand competition on the global market, in conditions of turbulence and lack of perfect information. Higher investment in new researches, on the one hand, assumes additional expenses, however, on the other hand, in the long run, such investment is aimed at maximizing the effect of economies on scale. Such economies allow transnational corporations lowering their production costs thanks to the volume of production on the international scale. Therefore, higher R&D costs would also allow raising the profit margin (Kondratyev, N. (2011). Transnational Corporations in a Globalized Economy: Development of TNC's in a Globalized Economy, p. 89).

Thanks to cumulating large economic resources, TNCs are able to effectively invest funds around the globe, earning on the economies of scale. Such companies also play a key role in technological and scientific progress. However, in addition to the positive aspects above, TNCs also represent major threats, especially for smaller host countries. For instance, transnational corporations tend to monopolize their markets, gain control over prices, use political and economic tension on competitors and governments, pollute the environment, etc.

Based on the findings of my theoretical analysis, in the next chapter of the thesis, I would like to proceed directly to its practical part.

3 Administrative ordering in TNC

3.1 Legal and administrative aspects of establishing and performing activities of a TNC company

As transnational corporations act beyond the limits of a single state, and in fact spread their activities worldwide, the issue of regulation of their activities becomes especially important. Legislation of a single state can only govern particular activities of transnational corporations in such country as a recipient country or state of residence, but the generally adopted principles of TNCs' activities need to be agreed upon within the framework of international conventions and agreements. Thus, legal and administrative aspects of transnational corporations' market activities are predefined by international agreements reached by different states involved in transborder cooperation.

In order to understand how the activities of transnational corporations are governed by international regulations, it is first of all necessary to understand how the concept of TNC is defined in the international law.

The terminology used by the United Nations Organization first involved the term "multinational corporation", which was construed as an enterprise owning or controlling production or facilities outside the country of its residence. Later, the term "transnational corporation" was introduced in order to emphasize the transnational activities of the respective corporation, and in order to distinguish it from multinational corporations controlled by companies from several countries. Later, this distinction was rejected, and the UN defined a transnational corporation as an "economic entity operating in more than one country or a cluster of economic entities operating in two or more countries – whatever their legal form, whether in their home country or country of activity, and whether taken individually or collectively" in its 2003 Draft Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises (Mujih, E. (2012). Regulating Multinationals in Developing Countries: A Conceptual and Legal Framework for Corporate Social Responsibility, pp. 127-129).

The terminology proposed by the Organization for Economic Cooperation and Development, to the contrary, tends to use the concept "multinational corporation" or "multinational enterprise". The OECD Guidelines for Multinational Enterprises give the following definition to multinational companies: "These enterprises operate in all sectors of the economy. They usually comprise companies or other entities established in more than one country and so linked that they may co-ordinate their operations in various ways. While one or more of these entities may be able to exercise a significant influence over the activities of others, their degree of autonomy within the enterprise may vary widely from one multinational enterprise to another. Ownership may be private, state or mixed." (Bonanno, A., & Constance, D.H. (2010). Stories of Globalization: Transnational Corporations, Resistance, and the State, pp 65-66).

So, as we can see, there is no quite clear distinction between the concepts of "transnational corporation" and "multinational enterprise" used by the UN and OECD. The abovementioned definitions are rather comparable, and describe almost the same phenomena under different names. Further distinction can be found in the scientific literature, although there is no single opinion here with regard to construction of both concepts. Most researchers explain that multinational corporations (MNCs) differ from transnational corporations (TNCs) due to the fact that the former unite companies established and incorporated in different countries around the globe, while the latter are formed based on a single geographical center, and run their activities around the globe from such single center (Amao, O. (2011). Corporate Social Responsibility, Human Rights and the Law: Multinational Corporations in Developing Countries, pp. 78-80).

Transnational corporations run their business activities on the international arena as private subjects, and therefore they are regulated by international private law, and not international public law, which extends its activities to interaction between governments of different states or their public bodies entering into relations for reaching certain mutual goals, fulfilling mutual policies on the international level, and so on (Oshionebo, E. (2009). Regulating Transnational Corporations in Domestic and International Regimes: An African Case Study, p. 223).

The necessity to develop a single international regulatory framework for all transnational corporations was first recognized in the 1970's. During this period, international organizations such as the International Labour Organisation (ILO), the United Nations Commission on Transnational Corporations (UNCTC), and the Organization for Economic Co-operation and Development (OECD) made attempts to develop codes of conduct to be followed by all multinational enterprises running their activities around the globe. This was necessary due to the ever-large presence of transnational companies on foreign markets, and their constantly growing economic might. Many developing countries started fearing the deteriorating impact of TNCs on their economies, while developed states were seeking to gain maximum advantages from the activities of transnational corporations, which were residents of such powerful countries. However, no compromise could be found on the international level, and the draft projects presented by the abovementioned organizations for regulating TNCs' activities were not adopted by TNCs themselves, and therefore all the attempts to create a single regulatory framework in this field on the international level ultimately failed (Duruigbo, E.A. (2003). Multinational Corporations and International Law: Accountability and Compliance Issues in the Petroleum Industry, pp. 301-305).

In the 1980's, the discussion related to the codes of conduct for transnational corporation rather remained in the field of business ethics, and was mostly promoted in the United States. At the same time, the draft codes of the ILO (the Tripartite Declaration of Principles concerning Multinational Enterprises) and the OECD (the Guidelines for Multinational Enterprises) which had been developed in the 1970's rather didn't play any important practical role. Also, in the 1980's, the United Nation's draft code on regulation of transnational corporations' activities was developed. However, due to disagreements between developed and developing member states of the UN, the draft project was later completely abolished in 1992 (Garsten, C. (2008). Organizing Transnational Accountability, p. 89).

In the 1990's, more international organizations, and even non-governmental organizations started being involved in the code-making process. Moreover, international organizations saw that their further interaction on the global market would only become more intense, just as cooperation with public bodies of sovereign states. Therefore, they felt a sharp need to have certain clearly defined and set rules to be followed by all key market players. American and Japanese transnational corporations were pioneers in development of codes of corporate conduct and business ethics for multinational enterprises. Those codes first actively emerged in the industry of textile, but later gained rapid spread over all other major industries (Clarke, I.M. (2013). The Spatial Organisation of Multinational Corporations (RLE International Business), pp. 264-266).

More recent attempts to develop comprehensive codes of business practices for transnational corporations include the respective code prepared by the UN Sub-Commission on the Prevention of Discrimination and Protection of Minorities, and the internal regulations of the World Bank dealing with the issues of transnational corporations' negative impact on recipient countries' economic activities and social development (Sornarajah, M. (2010). The International Law on Foreign Investment, p. 93).

A major problem of all such codes of conduct is that they do not impose any strict obligations on transnational corporations. I.e. those are only guidelines to be followed in order to ensure fair market competition, and favorable conditions not only for multinational enterprises, but also for recipient countries which are quite vulnerable to their impact. However, very often, transnational companies rather seek gaining larger profits, and tend to violate the rules of conduct codes, which are not mandatory to comply with.

In addition to the abovementioned codes of conduct developed and adopted by international organizations and individual transnational corporations, there have also been quite comprehensive attempts to develop full-fledged legislation governing TNCs' activities on the regional level. Thus, one of the most well-thought and comprehensive approaches is used by the member states of the Andean Pact. In 1991, those countries adopted a single Uniform Code on Andean Multinational Enterprises, which regulated the activities of TNCs on the territory of the respective countries, clearly defined the concepts of MNCs and TNCs, stipulated the conditions for foundation and incorporation of TNCs, the general directions of legislative initiatives in this field, cooperation between countries for avoidance of double taxation, and so on (Mujih, E. (2012). Regulating Multinationals in Developing Countries: A Conceptual and Legal Framework for Corporate Social Responsibility, pp. 111-114).

A similar attempt was made in the CIS countries in the late 1990's. Thus, in 1998, the ex-Soviet countries making part of the CIS community, adopted the Convention on Transnational Corporations, which established the general rules and guidelines for TNCs' activities on the territories of the signatories. For instance, in addition to the general definition of the concept, and some other general aspects, the Convention on Transnational Corporations stipulated that, in order to create a new TNC on the territory of the CIS countries, an intergovernmental agreement needed to be concluded, and the transnational corporation had to be registered as such with the bodies of the CIS. This step was mainly dictated by the rapid liberalization of markets on the territory of the CIS countries, and larger involvement of foreign investment raised for boosting national economies of those states. Being much vulnerable to the external environment after the collapse of the Soviet Union, they wished to protect their economic independence from potential aggressive actions of powerful Western corporations (Kondratyev, N. (2011). Transnational Corporations in a Globalized Economy: Development of TNC's in a Globalized Economy, pp. 127-132).

The EU also undertakes measures to increase regulation of TNCs' activities on the global scale. However, those measures are mostly limited to some restrictive or punitive steps against corporations violating or breaching certain standards or codes of conducts, regulations valid in the European Union, and so on. At the same time, in the practice of the United States' legal system, court precedents are actively used for the purpose of eliminating any fraudulent activities on the part of powerful transnational corporations incorporated both in the US and abroad (Garsten, C. (2008). Organizing Transnational Accountability, p. 204).

Also, there are currently two major world organizations responsible for development and implementation of guidelines for transnational corporations' activities. Those are the United Nations Centre on Transnational Corporations (UNCTC), and the United Nations Commission on Transnational Corporations. Both institutions function under the auspices of the United Nations Conference on Trade and Development (UNCTAD). UNCTC is generally responsible for research in the field of TNCs' activities, monitoring of the current trends of the market, aggregation of data, publication of reports, and preparation of recommendations for the UN Commission on TNCs based on the analytical findings achieved. The Commission is responsible for development and implementation of recommendations for transnational corporations for the purpose of complying with the world's best business practices and fair competition standards (Garsten, C. (2008). Organizing Transnational Accountability, pp. 135-136).

Another particular field of transnational corporations' activities deeply regulated by international law is their impact on the environment. TNCs are mostly large industrial enterprises having multiple factories and plants around the globe, which are the main driving factors of pollution and contamination. Major attempts in the field of environment protection were undertaken by the global community in the late 1990's. In 1999, two major international acts were adopted, which still remain the most prominent regulations governing the field of TNCs' activities in the context of environment pollution. The Montreal Protocol deals with the issue of ozone layer destruction, and imposes restrictions on TNCs in terms of the allowable concentration of different emissions produced by their facilities. The Kyoto Protocol deals with a wider range of issues related to environment pollution, and introduces paid quotations for emissions, which can be traded on the open market (Oshionebo, E. (2009). Regulating Transnational Corporations in Domestic and International Regimes: An African Case Study, pp. 262-264).

The sphere of human rights protection also deserves particular attention in the light of the ever-growing geographical coverage of transnational corporations' activities. As of today, the main international acts governing activities of TNCs in that respect are the 1970 Sullivan Principles, the 1976 OECD Guidelines for Multinational Enterprises, the 1977 International Labor Organization Tripartite Declaration of Principles Concerning MNEs, and more recent initiatives such as the 2000 Global Compact, the 2003 UN Norms on the Responsibilities for Transnational Corporations and Other Business Enterprises with Regard to Human Rights, and so on. The main focus here is made on prevention of abuse of human rights, and protection of local societies in developing countries against the detrimental effects brought by transnational companies (Duruigbo, E.A. (2003). Multinational Corporations and International Law: Accountability and Compliance Issues in the Petroleum Industry, pp. 207-208).

Administrative aspects of transnational corporations' activities represent another key issue of theoretical and practical research on the topic of TNCs' activities regulation. Here, the main attention is paid to the form of legal organization of transnational corporations' activities in recipient countries. Parent corporations mainly come from developed states, and tend to actively expand their activities by covering geographical territories of developing countries. The latter rather perceive TNCs as a potential threat to their domestic manufacturers, and therefore impose some harsh restrictions on TNCs' activities. Due to this, the management of transnational companies is forced to seek the best ways to organize their business abroad.

As of today, the following four key forms of legal organization of transnational corporations in recipient countries can be pointed out: branches, subsidiaries, associated companies, and joint enterprises (D'Aspremont, J. (2011). Participants in the International Legal System: Multiple Perspectives on Non-State Actors in International Law, p. 79).

A branch is a type of company partially or completely owned by the parent corporation. It doesn't have the status of a legal entity. Branches do not run any activities on their own, and are completely dependent on the parent corporation. They are most often used as representative offices or joint companies with third parties. A subsidiary is a legal entity in which the parent corporation holds a majority of shares, has the right to appoint its directors, and overall controls its activities, policies, strategic directions of development, and so on. An associated company is a legal entity where the parent corporation holds 10 to 50% of shares, and despite not having the full control over its decision, still plays an important role in definition of its vectors pursued, aims on the market, and methods of activities. Finally, joint enterprises are formed with foreign entities, most often with some local companies, on the conditions of distribution of powers and authorities with a certain ratio. Those enterprises can be very effective, as they can help take into account the interests of the recipient country, thus favoring development of the parent corporation's activities (Bonanno, A., & Constance, D.H. (2010). Stories of Globalization: Transnational Corporations, Resistance, and the State, pp. 360-363).

Another important aspect of legal and administrative regulation of transnational corporations' activities is regulation of the merger and acquisition processes. Transnational companies very actively expand their customer base and geographical coverage. For this purpose, they tend to purchase other smaller or large companies, or to form alliances with other multinational enterprises. This allows increasing the market share, and reaching some particular goals in the short-, mid-, or long-term perspective. However, such forms of legal organization are often subject to stricter control of public bodies in recipient countries, as they represent a major threat to domestic production (Sherman, A.J. (2010). Mergers and Acquisitions from A to Z, pp. 33-34).

So, overall, it can be stated that transnational corporations' activities have many potential advantages and disadvantages for the economies of recipient countries, due to which comprehensive regulation on the international level is required. As of today, there are many regulatory acts aimed at governing the activities of TNCs on the global market, but they are mostly recommendatory, and not mandatory, due to which many TNCs tend not to comply with such rules.

This tendency is predefined by the objective conditions existing on the global market. Developed countries are interested in eliminating any barriers to their transnational companies' activities in order to raise their geopolitical influence. Due to this, there is another trend on the global market, according to which developed countries promote measures aimed at decreasing overregulation of transnational corporations' activities. I would like to consider this issue more in detail in the next section of my thesis.

Thus, the legal framework for governing TNCs' activities has been developed since the 1970's, but as of today, there are no effective and uniform regulatory mechanisms applied to transnational companies around the globe. Due to this, individual countries tend to individually develop approaches to supervision and regulation of TNCs' activities.

3.2 Strategies, goals aiming to avoid overregulation in TNC companies

As of today, much attention is paid to regulation of transnational corporations' activities. Although, as it has already been proven earlier in this thesis, all international regulations in this field are mainly limited to advisory standards which do not impose any mandatory conditions or liabilities on TNCs, new initiatives are constantly developed within international organizations, which are aimed at increasing the level of regulation of TNCs' activities in recipient countries. The main purpose of such initiatives is to limit the negative impact brought by transnational corporations to the national economies of recipient states. Obviously, the main proponents of such initiatives and projects are developing countries, which are afraid of being swallowed by more powerful states' corporations. Their markets are much weaker, and free access of international corporations, despite its many advantages, brings significant threats to domestic producers, and the national economy as such, as it is likely to reduce competition on the market, and lead to monopoly of large foreign corporations (Peters, A., Handschin, L. (2012). Conflict of Interest in Global, Public and Corporate Governance, pp. 12-14). In response to those initiatives, developed countries tend to propose their own legislative standards, which would allow, to the contrary, deregulating the activities of TNCs. This is important for developed states, as TNCs are their major taxpayers, and carriers of their geopolitical influence. Therefore, their development allows such countries holding stable positions on the international arena.

One of the key directions in the global trend for deregulation of transnational corporations' activities is avoidance of double taxation. Double taxation can be generally defined as levying of taxes by two or more jurisdictions on the same income, assets or transactions. Thus, for instance, if a corporation runs its activities in a foreign country, gaining a certain amount of revenues, and such amount is subsequently taxed in the respective foreign country and the enterprise's country of residence, that is double taxation (Barenfeld, J. (2005). Taxation of Cross-border Partnerships: Double Tax Relief in Hybrid and Reverse Hybrid Situations, p. 22).

Obviously, double taxation brings losses to companies which are subject to it, as they have to pay twice the amount of taxes, which reduces not only the amount of their profits, but also the amounts of funds to be invested in further expansion, research and development activities, implementation of innovations, creation of new job vacancies, and so on. Therefore, many countries wishing to provide their corporations with greater opportunities for expanding their customer base, and increasing their market share, seek to enter into double taxation avoidance agreements (commonly referred to as DTAAs) with other jurisdictions. By concluding such agreements, which are mostly bilateral, their parties give their consent to avoidance of double taxation, and therefore activities of the respective companies are taxed only in the country where their business is run (Holmes, K. (2007). International Tax Policy and Double Tax Treaties: An Introduction to Principles and Application, pp. 140-142).

Conclusion of double taxation avoidance agreements is beneficial for both parties involved. Thus, despite the fact that the country of residence of a particular corporation loses the amount of profits which could be paid to its budget, it gains quite higher benefits instead. First of all, the respective corporation gets a perfect opportunity to invest additional funds in its activities, thus creating new jobs, generating higher profits, and paying higher contributions to such country's budget, developing new innovative technologies, and so on. Moreover, such corporation's country of residence thus builds closer partnership ties with the respective recipient country, and raises its impact on the latter. This is achieved through presence of its corporation on the recipient country's domestic market. International corporations cumulate large funds, and often provide top-quality products, which are irreplaceable for some domestic markets. Furthermore, cooperation between the two countries can be subsequently enlarged thanks to granting even higher openness to both subjects' domestic markets (Ault, H.J., & Arnold, B.J. (2010). Comparative Income Taxation: A Structural Analysis, pp. 126-127). At the same time, by reducing the tax burden for international corporations, recipient countries do not lose any budget proceeds from their activities, but instead get larger opportunities for new technologies and innovations to be imported from more developed and technologically advanced states. Obviously, there is a threat of loss of the domestic market's power due to the presence of large TNCs, but those negative effects can be eliminated through other mechanisms, while avoidance of double taxation as such is largely positive for recipient states (Harris, P., & Oliver, D. (2010). International Commercial Tax, p. 188).

Double taxation avoidance agreements are mostly concluded in a bilateral way, with discussion of all possible issues in the course of negotiations between both respective countries' representatives. They are mostly concluded between states not being offshore jurisdictions, i.e. those countries which already provide tax relief for corporations running their business on their territories. DTAAs are very effective tools actively applied by many countries seeking either to attract additional foreign investment (for instance, Cyprus had over 40 DTAAs concluded as of 2011, while the same figure for India made up over 90 DTAAs) or to help their large corporations promote their activities abroad (a bright example here can be China) (Rasmussen, M. (2011). International Double Taxation, pp. 193-196).

In addition to DTAAs, there are some other major tools actively used on the international level for the purpose of deregulating TNCs' activities. For instance, there is a currently a tendency toward an increased number of concluded foreign direct investment agreements, both in bilateral and multilateral formats. Agreements of such type assume simplification of administrative procedures for imports of capital to their signatories' territories, and reduction of the tax burden for investors. As transnational corporations are the largest investment donors in the world, such agreements are first of all beneficial for them, as they allow more freely running business activities abroad, at the same generating larger profits thanks to the decrease in the tax burden (Sun, W., Stewart J., & Pollard, D. (2011). Corporate Governance and the Global Financial Crisis: International Perspectives).

Many countries wishing to create opportunities for transnational corporations to carry out their business activities on their territories create the so-called special economic zones (SEZ). Such zones are geographical territories which may be exempted in part or in full from any state taxes, quotas, labor regulations, bans on foreign direct investment, or other restrictive measures imposed by the government of the respective country on the rest of its territory. Thus, special economic zones are aimed at raising larger amounts of funds from foreign investors for the purpose of boosting regional economy, importing new technologies, creating jobs for the local population, and becoming deeper integrated into the global economy. For instance, India has several hundreds special economic zones on its territory, while China has bilateral agreements for creation of Chinese special economic zones with a number of African countries such as Nigeria, Egypt, etc. (Peters, A., Handschin, L. (2012). Conflict of Interest in Global, Public and Corporate Governance, pp. 189-192). In addition, some countries may provide other benefits to transnational corporations, without creating any special economic zones. For instance, in Russia, foreign corporations acting on the territory of the country are equated to the domestic economic subjects. Therefore, all the same taxation and administrative rules are applied to them, which provide equal opportunities for expansion on the Russian market with the local corporations (Sun, W., Stewart J., & Pollard, D. (2011). Corporate Governance and the Global Financial Crisis: International Perspectives, pp. 210-211).

Thus, in addition to the trend for development of a uniform international legal base governing activities of transnational corporations in recipient countries, there is also a tendency toward deregulation of their business. This tendency mainly assumes reduction of the tax burden, and elimination of administrative obstacles through bilateral and multilateral agreements, for the purpose of ensuring greater effectiveness of TNCs' operational activities.

Thus, due to the fact that the tax burden borne by TNCs becomes high, they seek to reduce it. Also, countries interested in promotion of such TNCs seek to ease this burden as well, namely through creating special economic zones, entering into double taxation avoidance agreements, etc.

However, despite those measures allowing to spare considerable funds, transnational corporations still prefer to seek other opportunities to decrease their tax burden, and gain higher profits. This is made through the process of tax optimization, which will be analyzed in the next section of my thesis.

3.3 Tax optimization in TNC companies

Taxes and levies are imposed on transnational corporations' profits, assets and transactions, and therefore reduce the level of benefits obtained by such companies from their operational activities. At a certain point, such tax burden makes the activities of transnational corporations ineffective, and therefore they start seeking to reduce it for the purpose of continuing their business in particular jurisdictions. This process is generally called tax optimization (Abele, E, Meyer, T., Näher, U., Strube, G., & Sykes, R. (2008). Global Production: A Handbook for Strategy and Implementation, p. 57).

In the business practice of transnational corporations, there are several main methods of tax optimization applied, and I would like to consider them more in detail below.

- Avoiding being a resident of jurisdictions with a high tax burden. If a transnational company is regarded to be a resident of a particular country for taxation purposes, it shall be subject to tax liability in the respective country. So, it will be liable to pay taxes from its incomes in the rest of the world. Thus, it is obvious that, being a resident of a high-tax jurisdiction, such corporation will have to pay higher taxes than in a low-tax jurisdiction.

TNCs can reduce high taxes by avoiding being a resident of a high-tax jurisdiction. This can be done in different ways due to differences in construction of the "resident" concept in different countries' legislation. For instance, in some countries a legal resident is a company registered with the state authorities, regardless of its equity structure, while in some other states, residence of a legal entity is defined based on the owners of the stock right. In general, for optimizing taxation in this respect, TNCs should avoid being incorporated or registered in countries imposing a high tax burden (Pachamanova, D., & Fabozzi, F.J. (2010). Simulation and Optimization in Finance, pp. 424-428).

- Selecting favorable foreign operations. Here, each transnational corporation needs to determine the form of its investment in starting a business in a foreign jurisdiction. In fact, all kinds of foreign operations can be divided into two groups. Within the first group, a TNC may create a permanent establishment in a foreign country, which is called a branch. From the taxation perspective, a branch has several key advantages. First, complicate registration procedures are not required, just as there is no need to pay the capital register tax or the stamp tax in the respective foreign jurisdiction. Second, the parent corporation and its branch form a single legal entity. Thus, as the branch already pays interests and franchise fees to its parent company, it is not required to pay provision for income tax to the host country. Next, as the branch doesn't act as an independent legal entity, it can easily escape from the supervision in the host country, since there are no requirements to disclosure of its financial statements. Also, according to the generally adopted principles of taxation in the world, branches established in foreign countries can set off their losses against the parent corporation's profits in the world. Thanks to this, the parent corporation's tax burden in its residential country can be significantly reduced. Finally, branches allow avoiding double taxation (Prosser, K.J., & Murray, R. (2012). Tax Avoidance, pp. 170-171). The second form of foreign investment is formation of a child company. Such form of companies also has its advantages in terms of taxation for the parent corporation. Namely, it is a legal resident, which can take advantage of all tax preferences stipulated in international conventions and agreements entered into by the host country. Next, if the parent corporation's country of residence applies tax exemption, the issue of double taxation can be avoided quite effectively. Finally, child companies can appreciate tax deferrals (McGee, R.W. (2011). The Ethics of Tax Evasion: Perspectives in Theory and Practice, p. 244).

- Applying transfer pricing. The mechanism of transfer pricing assumes transfer of profits from high-tax jurisdictions to low-tax jurisdictions through transactions within a single corporation. The main methods of its application are as follows:

(a) adjustment of child companies' product costs by transactions;

(b) adjustment of child companies' product costs by parts and materials;

(c) adjustment of profits by trading fixed assets;

(d) adjustment of profits by supplying technologies, management or advertising services, etc.;

(e) adjustment of profits by transferring virtual assets (for instance, under the form of franchise fees);

(f) adjustment of profits by renting;

(g) adjustment of profits by lending;

(h) adjustment of profits by applying management fees;

(i) adjustment of profits by cash flows (for instance, by producing bad debts on purpose, or by changing the actual expenses).

All the abovementioned methods are ultimately aimed at reducing the amount of taxable income, for the purpose of optimizing taxation to which the respective corporation is subject (Gravelle, J.G. (2011). Tax Havens: International Tax Avoidance and Evasion, pp. 79-81).

- Taking advantage of international tax agreements. Here, transnational corporations can benefit from bilateral conventions aimed at avoiding double taxation. Residents of the signatories can benefit from reduction in the tax burden directly. However, residents of countries which do not participate in such agreements can also profit from their benefits, if they are involved in transactions as authorized parties or agents of the respective countries' residents (Brown, K.B. (2011). A Comparative Look at Regulation of Corporate Tax Avoidance, pp. 125-126).

- Actualizing tax avoidance by tax deferral. Tax deferral assumes that a country collects taxes and levies following the principle of cash payment when its residential corporation gets profits from its child companies functioning abroad. Thus, the parent corporation can pay taxes to the country of its residence only after all dividends are received from its child corporations. Thanks to this, the parent corporation can delay repatriation of profits, namely by transferring such profits to its subsidiaries registered in tax havens, or by any other means available (Pickhardt, M., & Prinz, A. (2012). Tax Evasion and the Shadow Economy, pp. 80-82).

- Reversing tax avoidance. Using this method of tax optimization, a transnational corporation can choose to run its activities in a high-tax jurisdiction, in order to gain some interests. This process is called reverse tax avoidance. Within this process, the parent corporation can predict negative development in a low-tax jurisdiction, and therefore would prefer moving its activities to a high-income country, where it could potentially gain higher benefits, even despite the high level of the tax burden (McGee, R.W. (2011). The Ethics of Tax Evasion: Perspectives in Theory and Practice, p. 66).

- Actualizing tax avoidance by international tax shelters. This tax optimization method is probably the most effective and popular, as of today. It assumes establishment of a trade company, stock controlling company, or trust company in a tax shelter for the purpose of transferring the respective parent corporation's income to such company, which ultimately gives an opportunity to take advantage of tax burden reduction or tax exemption (Abele, E, Meyer, T., Näher, U., Strube, G., & Sykes, R. (2008). Global Production: A Handbook for Strategy and Implementation, p. 303).

A tax shelter is a method of tax burden reduction through transfer of funds to a country, region or jurisdiction where taxes are levied at substantially lowered rates, or where no taxes are levied at all. Such territories are called tax havens. Transnational corporations can avoid excessive taxation by either forming their child companies in tax havens, or by moving their business directly to such jurisdictions. Tax havens can be conditionally divided into several types: primary tax havens (jurisdiction where financial capital winds up) such as Bermuda or Cayman Islands, semi-tax havens (jurisdictions manufacturing goods primarily destined to be sold abroad, with incentives implemented for the purpose of increasing job growth, free trade zones created, and so on) such as Ireland, and conduit tax havens (jurisdictions in which income from sales abroad is collected and subsequently distributed; semi-tax havens are compensated for their actual product costs, while the remaining profits are transferred to the primary tax haven) such as Luxembourg (Prosser, K.J., & Murray, R. (2012). Tax Avoidance, pp. 171-176).

	Corporate income tax rates, %			
Country	2011	2012	2013	2014
Bermuda	0	0	0	0
Cayman Islands	0	0	0	0
Ireland	12.5	12.5	12.5	12.5
Luxembourg	28.8	28.8	29.22	29.22
Germany	29.37	29.48	29.55	29.58
France	33.33	33.33	33.33	33.33
United Kingdom	26	24	23	23

Table 1. Comparison of corporate income tax rates in different tax havens and major EU member states, in dynamics for 2011-2014 (Corporate Tax Rates Table. KPMG [online]. 2014. Available from: http://www.kpmg.com/global/en/services/tax/tax-tools-and-resources/pages/corporate-tax-rates-table.aspx)

Table 1 above shows how the rates of the corporate income tax differ in different kinds of tax havens and major EU countries. As we can see, primary tax havens do not impose any taxes on corporate income. The rate of this tax in Ireland, a semi-tax haven, is considerably smaller than in other states, except for primary tax havens. At the same time, corporate taxes imposed in the European Union are substantially higher, and therefore it becomes obvious why moving activities in part or in full to tax havens is advantageous for transnational corporations: this is a very effective method to reduce the aggregate tax burden, and thus maximize the level of net profits generated.

Thus, different methods of tax optimization can be used by transnational corporations for the purpose of reducing their tax burden. All such methods can be potentially effective depending on each particular situation, and transnational corporations should make a decision with regard to the most effective tax optimization method to be used taking into consideration the internal and external conditions currently existing and likely to emerge in the future. Also, using their experience and expertise, major companies can effectively combine several methods of tax optimization at once, which would only give them additional synergic effect, thus allowing to reach even higher profitability.

Thus, TNCs use tax optimization for reducing their aggregate tax burden. Tax optimization means a set of activities aimed at reducing the total tax burden using legal means, namely by seeking loopholes in national or international legislation.

In the next chapter of my thesis, I would like to consider more in detail several bright examples of transnational corporations effectively using tax optimization methods for reducing their tax burden and avoiding administrative obstacles to their activities.

4 Profitability and efficiency strategies in TNC – case studies

Tax optimization makes an important part of any transnational corporation's activities, as it gives an opportunity to significantly reduce the overall tax burden applied to a particular TNC, thus providing it with greater opportunities for expanding its customer base and geographical coverage, developing production, creating innovative technologies, performing greater volumes of research and development activities, and so on. Efficiency of such tax optimization activities depends on a number of factors, among which managerial expertise plays a crucial role. For the purpose of better understanding how different major transnational corporations optimize their tax burden, I would like to consider several examples of effective tax optimization activities on the global level, namely the ones of Apple, Starbucks, and Microsoft.

Apple is a globally renowned producer of computers, tablets, iPhones, iPads, and other hi-tech communication devices. The company holds the leading position on its market, and is forced to seek tax optimization opportunities in order not to allow any decrease in profitability of its activities. Thus, in May 2013, the media discovered that the company had long been using a method of tax optimization called Double Irish and Dutch Sandwich.

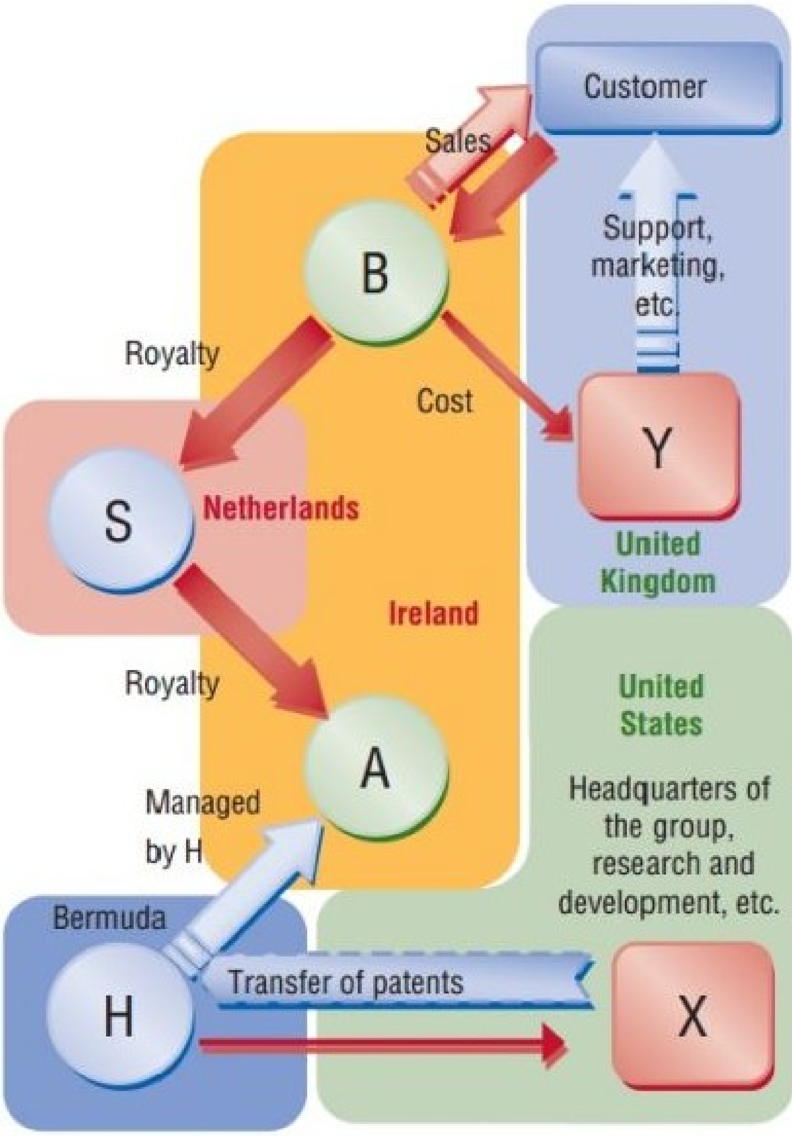

Figure 2. Double Irish and Dutch Sandwich tax optimization scheme (Hennigan, M. IMF explains “Double Irish Dutch Sandwich” tax avoidance. Finfacts.ie. [online]. 2013 [cit. 2013-10-11]. Available from: http://www.finfacts.ie/irishfinancenews/article_1026675.shtml)

Figure 2 above demonstrates the general Double Irish and Dutch Sandwich scheme used for tax optimization. This scheme (as applied directly to the case of Apple, Inc.) assumes establishment of two Irish companies, one of which is registered in an offshore zone, and the second one – in Ireland. The first (offshore) company gets the parent corporation's intellectual property rights, and transfers them to the second company. The entity registered in Ireland collects revenues from intellectual property worldwide, and transfers them to the parent corporation. So, instead of the 35% corporate tax imposed in the United States, the parent corporation is liable to pay only the 12.5% corporate tax levied in Ireland. In the case of Apple, this scheme is even more profitable, as the corporation's offshore unit is exempted from Irish taxes based on the concept of residency. The Dutch Sandwich scheme applied together with the Double Irish one assumes establishment of another company in the Netherlands, in addition to the abovementioned two in Ireland. This company sublicenses the intellectual property rights from the first (offshore) company, and then the second (Irish) company sublicenses them from the offshore entity. Almost all revenues are transferred through the Dutch company as royalty fees. Thanks to this, significant reduction in the overall tax burden is achieved (Wilhelm, A. The Endangered Double Irish Could Make Apple, Google, Twitter and others Pay Way More Taxes. Techcrunch.com. [online]. 2013 [cit. 2013-10-28]. Available from: http://techcrunch.com/2013/10/28/the-double-irish-could-be-endangered-preventing-companies-like-google-and-twitter-from-shedding-tax-liabilities/).

The Double Irish and Dutch Sandwich tax optimization scheme had been known long before Apple started using it, but society wasn't aware of this method applied by Apple up until the previous year. This raised quite negative sentiments in American society, even despite the fact that Apple didn't violate any laws. The company's legal advisors just found loopholes in the legislation of the United States, and used it for the benefit of the corporation. Thus, it turned out that, for the period from 2010 to 2013, Apple paid only 2% on 74 billion US dollars of its profits, while, under the American legislation, it was liable to pay 35%. In aggregate, based on the estimates provided by the US Senate, Apple paid at least 44 billion dollars of taxes less than it should have paid under the American laws (Farivar, C. Silicon Valley Fights to Keep its Dutch Sandwich and Double Irish Loopholes. Arstechnica.com. [online]. 2014 [cit. 2014-01-20]. Available from: http://arstechnica.com/business/2014/01/silicon-valley-attempts-to-slow-new-global-tax-avoidance-reform-proposals/).

Starbucks is another major company larger implementing the tactics of tax optimization in its operational activities. Starbucks is a legal entity incorporated in the

United Kingdom, and running its activities around the globe in the field of fast food services. It is the second global fast food chain in terms of its turnover after the famous American chain McDonald's. Market capitalization of Starbucks makes up 24.8 billion pounds, or nearly 40 billion US dollars. However, for the last fourteen years, the corporation has paid only 8.6 million pounds US dollars of taxes, while its main global competitors pay multimillion accounts each year (Starbucks's tax troubles are a sign of things to come for multinationals. The Economist [online]. 2012 [cit. 2012-12-15]. Available from http://www.economist.com/news/business/21568432-starbuckss-tax-troubles-are-sign-things-come-multinationals-wake-up-and-smell). Such unbelievably great results in tax burden reduction are obviously achieved thanks to the tax optimization activities performed by the company's management.

Under the legislation of the United Kingdom, companies operating in this jurisdiction, must lodge accounts at the corporate register, Companies House, in order to provide transparent data on their financial results. In 2007, the UK unit of Starbucks showed annual loss. This was the tenth consecutive financial year when the entity reported losses. However, the same year, the corporation's Chief Operating Officer Martin Coles declared that the UK unit of Starbucks enjoyed an operating profit margin of nearly 15 percent, i.e. the overall profits amounted to nearly 50 million pounds. In 2008, the corporation again reported a loss of 26 million pounds in the UK. Despite this fact, its top managers were again delighted with the results shown. In 2009, the corporation's financial statements reported a record loss of 52 million pounds, while its CFO declared the UK unit to be profitable in its activities. The situation repeated in 2010 and 2011, when losses of 34 and 33 million pounds were reported, respectively (Serle, J. Special Report: Starbucks: Another Company Avoiding UK Tax on a Huge Scale. Thebureauinvestigates.com. [online]. 2012 [cit. 2012-10-17]. Available from: https://www.thebureauinvestigates.com/2012/10/17/starbucks-yet-another-global-company-accused-of-massive-uk-tax-avoidance/). So, how do those figures not correspond to the actual market results reached by Starbucks?

The parent corporation of Starbucks makes its UK unit and other overseas operations pay a royalty fee at a rate of 6% for using its intellectual property, namely its brand name and business processes. Such internal payments allow reducing taxable income in the UK. Starbucks' European units pay their fees to Starbucks Coffee EMEA BV, a company incorporated in Amsterdam, the Netherlands. The tax authority of the United Kingdom, Her Majesty's Revenue & Customs, allows corporations to deduct all fees related to intellectual property from their taxable income, if such expenses were made on the arm's length basis. This means that the respective companies need to prove they had agreed upon the respective terms. For instance, Starbucks can prove such transactions by showing that a license for which a royalty fee is paid is a key source of its subsidiary's profitability. Another important mechanism used by Starbucks for tax optimization purposes is the tax pricing applied on the stage of purchases of raw materials. The corporation purchases coffee beans for its UK unit through Starbucks Coffee Trading Co., a company incorporated in Lausanne, Switzerland. Prior to reaching the UK unit, those beans are roasted at a facility belonging to another legal entity incorporated in Amsterdam, the Netherlands. Goods passing between all those companies are sold at transfer prices, which allows decreasing the level of taxable income declared by the UK unit by showing additional expenses for such beans and their roasting made by the UK unit within the corporation. Furthermore, according to the Swiss and Dutch laws, part of the corporation's profits from its UK sales must be allocated to its respective Dutch unit involved in the roasting process, and the Swiss trading unit. In contrast to the UK unit, the Dutch company reports only very moderate profits, while 84% of its revenues are spent for resources such as electricity, gas, and so on. Larger profits are reported by the Swiss unit. Corporate profit tax rates are 24%, 25% and 5% in the UK, the Netherlands, and Switzerland, respectively. Therefore, through applying transfer pricing, Starbucks shows the largest profits in the jurisdiction where the tax burden level is the smallest, while in other jurisdictions, it reports either absolutely small profits or losses. Thanks to this, the company pays much less than it would have to, if it didn't apply the tax optimization mechanisms described above (Bergin, T. Special Report: How Starbucks avoids UK Taxes. Reuters. [online]. 2012 [cit. 2012-10-15]. Available from: http://uk.reuters.com/article/2012/10/15/us-britain-starbucks-tax-idUSBRE89E0EX20121015).

Microsoft, a global brand involved in the field of IT and software production, is another major corporation using a great number of tax optimization schemes for the purpose of reducing its tax burden. Thus, for example, in 2012 Microsoft's UK paid no corporate tax at all on 1.7 billion dollars of revenues received from its online sales. This was achieved thanks to a legal loophole in the British legislation used by the transnational corporation. Thus, a customer in the UK pays a certain amount of money for purchasing a software product sold by Microsoft's UK unit online. Then, that amount is paid for certain services to Microsoft's company incorporated in Luxembourg under the transfer pricing procedure. On the next step, transfer royalties are paid to another legal entity owned by Microsoft, which is registered in Ireland. Finally, on the last stage, dividends can be directed to Microsoft's corporation registered in Bermuda, where no corporate profit tax is applied. Thus the corporation's UK unit avoids paying corporate tax in the United Kingdom (Webb, S. Microsoft avoids paying £159MILLION in corporation tax EVERY YEAR using Luxembourg tax loophole. Dailymail. [online]. 2012 [cit. 2012-12-09]. Available from http://www.dailymail.co.uk/news/article-2245412/Microsoft-avoids-paying-159MILLION-corporation-tax-EVERY-YEAR-using-Luxembourg-tax-loophole.html).

Microsoft uses tax optimization schemes through transfer pricing in many of its units incorporated in different countries around the globe. For instance, Microsoft has its subsidiary Microsoft Operations Puerto Rico (MOPR) incorporated in Puerto Rico, which pays for the right to sell Microsoft software products on the territory of North America and Latin America. MOPR produces digital and physical copies of such products, and sells them through regional distributors to customers in the Americas, namely in the United States. MOPR is owned by MACS Holdings, a legal entity incorporated in Bermuda, which is in its turn owned by Round Island One, a subsidiary incorporated in Bermuda and running all its activities in Ireland, which is fully controlled by Microsoft's parent corporation. When an American citizen purchases a copy at a Microsoft store in Manhattan, he gets it after the product passes through the long chain of Microsoft's companies described above. The reason for which the product isn't supplied to the customer directly from Microsoft's corporation in Manhattan is that 47% of profits from such sale go to Puerto Rico, with no US federal taxes levied. In Puerto Rico, those profits are taxed at a rate of 1.02%, which is substantially lower than the 35% rate applied in the United States. In the period from 2008 to 2011, Microsoft was saving 4 million US dollars per day by completing its domestic operations through Puerto Rico (Worstall, T. The Non-Existent

Irish Tax Loophole Being Used By Microsoft, Google, Linked In, Twitter, Apple, Uncle Tom Cobbleigh And All. Forbes. [online]. 2013 [cit. 2013-10-28]. Available from http://www.forbes.com/sites/timworstall/2013/10/28/the-non-existent-irish-tax-loophole-being-used-by-microsoft-google-linked-in-twitter-apple-uncle-tom-cobbleigh-and-all/).

In Ireland, Microsoft has a child entity called Microsoft Ireland Research (MIR) buying into research and development cost sharing agreements, receiving the right to sell Microsoft software products across Europe, Africa, and the Middle East in reward. However, MIR doesn't create or sell any products to any customers: it licenses the intellectual property rights to Microsoft Ireland Operations Limited (MIOL). MIR and MIOL are completely controlled by Round Island One incorporated in Bermuda. The effective corporate income tax rates applied in Ireland to MIR and MIOL amount to 7.3% and 7.2%, respectively. Thus, in 2011, MIR paid corporate tax on its reported profits of 4.3 billion US dollars, while MIOL paid corporate tax on its profits which made up 2.2 billion US dollars. Microsoft didn't pay the 35% US corporate tax on any amounts gained by its Irish subsidiaries. At the same time, no US tax was paid on license payments from MIOL to MIR, which amounted to 9 billion US dollars (Hickey, W. IT'S NOT JUST APPLE: The Ultra-Complicated Tax Measures That Microsoft Uses To Avoid $2.4 Billion In U.S. Taxes. Business Insider. [online]. 2013 [cit. 2013-05-21]. Available from http://www.businessinsider.com/apple-microsoft-avoids-taxes-loopholes-irs-2013-1).

So, as we can see, the three companies analyzed tend to apply quite different approaches to their tax optimization policies. A common point which can be tracked in the activities run by Apple, Starbucks and Microsoft is that all the three companies doesn't violate any laws, but rather finds the loopholes available in the legislation of different countries for the purpose of reducing the overall tax burden imposed on them. The three companies' tax optimization methods ultimately prove themselves to be effective, as the corporations are able to spare enormous amounts of funds without pursuing any unlawful practices.

A particularly important method used by the three companies considered is active usage of their foreign subsidiaries. In the next section of my thesis, I would like to consider the factors and criteria using which transnational corporations choose foreign jurisdictions for their branches and child companies.

4.1 Defining requirements and finding solutions

As it has already been stated earlier in this thesis, transnational corporations run their activities in a great number of foreign jurisdictions, due to which a wide range of different regulations, laws and procedures are applied to them in such different countries. However, this not only brings additional difficulties, but also gives a perfect opportunity to optimize such companies' activities by reducing the level of tax burden, and the number and scope of administrative obstacles directed against them. Thus, transnational corporations can establish their branches or child companies running different production and sales activities. Such entities can operate different premises and facilities such as plants or factories. So, in establishing a business abroad, a TNC needs to make its best choice of the foreign jurisdiction. Here, there are several key factors and criteria which drive transnational corporations' choice.

As transnational corporations seek economic effectiveness in their activities, first of all, they are interested in expanding their market share and customer base on the international scale. Therefore, they tend to create new subsidiaries in countries where they are not represented at all, or where they are insufficiently represented, and where additional units need to be established. In making this decision, TNCs' management performs a thorough evaluation of the results the company may potentially achieve thanks to such investment, and whether such results are higher than the expenses required (Körner, J. (2011). International Trade - Multinational Corporations and Technology Transfer, p. 9).

Next, transnational corporations have to consider the ease of doing business in a particular country. This means that they need to assess the complexity of administrative procedures to be fulfilled for the purpose of starting business in the respective jurisdiction. Such administrative procedures can include the time required for being incorporated, permits and licenses to be received for that purpose, and so on. As international companies act on a highly competitive market, time is one of the essential resources for them, and therefore they tend to choose the fastest way to register their subsidiaries, and launch them into operation (Hansen, M.W., & Schaumburg-Müller, H. (2006). Transnational Corporations and Local Firms in Developing Countries: Linkages and Upgrading, pp. 82-83).

Also, as TNCs seek reducing their tax burden through tax optimization, a key point of interest for them is the level of taxes levied in a particular jurisdiction. Transnational companies often have a large number of subsidiaries in different countries acting within a single chain, just for the purpose of reducing the taxable income amount through a number of internal transfer pricing deals. For this purpose, several child companies can be incorporated in the so-called tax havens. For instance, the final company in this chain, which receives the final amounts of dividends, is most often registered in countries such as Bermuda or Cayman Islands, where no corporate tax is levied at all. Thus, transnational corporations seek to legally avoid paying great amounts of taxes in their country of residence. Within this context, TNCs also tend to seek those countries where special economic zones granting tax relief are created (Davis, P. (2012). Corporations, Global Governance, and Post-conflict Reconstruction, pp. 65-66).

Transnational corporations also most often have their own plants or factories, i.e. those production facilities which are heavy polluters of the environment. Therefore, they tend to seek countries where requirements to environment protection are lower, when they need to establish not a sales unit, but rather an industrial child company. Due to this, production of most transnational corporations is often moved to Asian countries such as China, Malaysia, etc. Here, another reason can also be clearly seen. TNCs seek those foreign states, where there is a sufficient volume of low-paid workforce able to run industrial operations. So, such production facilities are transferred to the abovementioned states not only for the purpose of avoiding harsh environment protection requirements, but also for sparing substantial funds on salaries for the workforce involved in the production process (Tolentino, P.E. (2013). Multinational Corporations: Emergence and Evolution, pp. 270-272).

Finally, if the production processes of a particular transnational corporation require highly technological equipment to be operated by well qualified and experienced personnel, subsidiaries can also be created in developed states, where sufficiently skilled workforce is available. Alternatively, they can be established in less developed countries, if the respective TNC evaluates the costs for personnel training and technology export to be lower than the expenses for qualified workers' salaries in developed states (Cohen, S.D.

(2007). Multinational Corporations and Foreign Direct Investment: Avoiding Simplicity, Embracing Complexity, pp. 91-93).

Thus, there is a great number of driving factors for transnational corporations to choose a foreign jurisdiction for establishing their branch or child company. Each TNC makes an appropriate decision in this respect based on its own needs and understanding of the current situation, and its possible future development, taking into account the combined effects of all such factors.

The findings of my analysis show that Apple is actively using the scheme of tax optimization called Double Irish and Dutch Sandwich, which is implemented through establishment of two companies in Ireland and one in the Netherlands. Subsequently, through a set of licensing and sublicensing activities, transfer of intellectual property rights, etc. Apple is able to reach significant tax burden reduction. Starbucks active uses several tax optimization strategies: first, the company uses transfer pricing, second, its foreign units pay royalty fees to the parent company in the UK, which reduces its taxable burden, third, operations with intellectual property rights are run through the company's subsidiary in the Netherlands, where such operations are exempted from taxes. Microsoft uses complex schemes through implementation of operations through different companies incorporated in the US, Luxembourg, Ireland and Bermuda. Overall, it can be stated, that, despite the different methods used, all the three companies analyzed quite effectively apply tax optimization.

5 Summary

Transnational corporations are entities which perform their operational activities in multiple foreign countries, with headquarters located in a single jurisdiction. As of today, TNCs play an essential role for the global economy, as they promote globalization processes, ensure activation of foreign trade, provide a great number of jobs, stand for the greatest shares of global production and exports. Thanks to cumulating large economic resources, TNCs are able to effectively invest funds around the globe, earning on the economies of scale. Such companies also play a key role in technological and scientific progress. However, in addition to the positive aspects above, TNCs also represent major threats, especially for smaller host countries. For instance, transnational corporations tend to monopolize their markets, gain control over prices, use political and economic tension on competitors and governments, pollute the environment, etc.

Legal framework for governing TNCs' activities has been developed since the 1970's, but as of today, there are no effective and uniform regulatory mechanisms applied to transnational companies around the globe. Due to this, individual countries tend to individually develop approaches to supervision and regulation of TNCs' activities. Due to this, the tax burden borne by TNCs becomes high, and they seek to reduce it. Also, countries interested in promotion of such TNCs seek to ease this burden as well, namely through creating special economic zones, entering into double taxation avoidance agreements, etc. TNCs use tax optimization for reducing their aggregate tax burden. Tax optimization means a set of activities aimed at reducing the total tax burden using legal means, namely by seeking loopholes in national or international legislation. In this thesis, I have investigated the cases Apple, Starbucks, and Microsoft as transnational companies effectively using tax optimization.

The findings of my analysis show that Apple is actively using the scheme of tax optimization called Double Irish and Dutch Sandwich, which is implemented through establishment of two companies in Ireland and one in the Netherlands. Subsequently, through a set of licensing and sublicensing activities, transfer of intellectual property rights, etc. Apple is able to reach significant tax burden reduction. Starbucks active uses several tax optimization strategies: first, the company uses transfer pricing, second, its foreign units pay royalty fees to the parent company in the UK, which reduces its taxable burden, third, operations with intellectual property rights are run through the company's subsidiary in the Netherlands, where such operations are exempted from taxes. Microsoft uses complex schemes through implementation of operations through different companies incorporated in the US, Luxembourg, Ireland and Bermuda. Overall, it can be stated, that, despite the different methods used, all the three companies analyzed quite effectively apply tax optimization.

Conclusion

Transnational corporations are companies running their business activities in more than one foreign country. A TNC is thus incorporated in a single jurisdiction, but implements its production and trade activities abroad, through a chain of branches and child companies. Branches are completely or partially owned by the parent corporation, and do not constitute legal entities, in contrast to child companies. The latter can be divided into subsidiaries and associated companies, depending on the equity share held by the parent corporation. Also, TNCs often use joint companies with their foreign partners for running activities abroad.

Thanks to the large geographical coverage and customer base around the globe, transnational corporations are able to accumulate substantial financial resources. Market capitalization of some TNCs is even higher than the GDP indicators of many small countries. Thanks to this, they heavily invest in their market expansion, development of new technologies, creation of innovations, and so on. Thus, transnational companies play a crucial role for the global economy. However, thanks to their deep integration into the global processes, they are also important political players, which to a large extent predefine the vectors of international relations followed in the world.

As of today, TNCs ensure the greatest share of worldwide production and exports. This is achieved thanks to the large geographical coverage of TNCs' activities and the resources they are able to accumulate and thereafter invest in their operational activities. Through redistributing resources all over the globe, transnational corporations are able to intensify business activities in different geographical regions, and promote international trade between states.

The phenomenon of transnational corporations is closely interconnected with internationalization and globalization. With the active development of international political and economic relations, companies from individual states started expanding their activities to other countries in order to use their resources available with the highest efficiency possible. Such expansion to new foreign markets in its turn promoted development of those markets, growth of distant customers' needs, favored development of production in different countries, and so on. Following a chain reaction, corporations started even more actively exploring new markets seeking to reach higher synergic effect of trade and production activities. As the volume of operations performed by such transnational corporations started actively growing, they gradually strengthened their market positions, and obtained great market shares on different segments. In the long run, the power of TNCs became so great, that today, they actively affect the status and prospects of foreign relations in all aspects, and they to a large extent promote globalization, which means for them creation of a single globally converged market uniting a great customer and supplier base, and, most importantly, space for the subsequent growth.

TNCs bring both advantages and disadvantages to the economies of countries receiving their investment. On the one hand, they create new jobs, saturate markets with different products, bring new technologies, etc., however, on the other hand, they are also likely to strangle competition, and pull domestic producers out of their markets for the purpose of achieving monopoly. Nevertheless, by running their activities, TNCs largely contribute to development of globalization processes, as they lead to deeper integration of different countries' cooperation on the international scale.

Transnational corporations play a very important role for the countries of their residence, as they pay considerable amounts of tax contributions to the state budget, provided the population with a great number of jobs, saturate the domestic market, actively invest in development of new technologies, research and engineering activities, and so on. Also, transnational corporations are an important tool in political relations with foreign countries, as, in many cases, TNCs form the backbone of entire national markets, especially when speaking of smaller countries, and their withdrawal or any negative changes can mean significant adverse consequences for such host countries or their population. Also, transnational corporations play a very positive role for development of financial markets, as their securities are traded on the world's greatest stock exchanges, and thus activities of financial markets become much intensified thanks to such TNCs' involvement. For host countries, TNCs provide considerable advantages as well. For instance, they create a great number of vacancies for the local population, transfer technologies, contribute to local budgets through series of taxes, ensure personnel migration, saturate host countries' domestic market, and so on. By running their activities in host countries, transnational corporations also promote competition on those states' markets through offering new and highly competitive products, or alternative goods which local customers may opt to choose.

However, despite the obvious advantages, TNCs also bring significant threats to the economies of host countries. First of all, it should be understood that transnational companies always seek better market position and greater market shares, i.e. they aim at ensuring monopolization of the market, for which purpose such corporations often form sporadic unions between them in order to suppress market competition. By achieving market monopolization or oligopolization, TNCs can freely control the level of current prices, and change them without any obstacles. Due to such actions, the range of goods offered can be reduced as well, and, when a corporation withdraws from a host country's market, its population may become deprived of certain goods. Finally, host countries are vulnerable to transnational corporations' impact, and may fall into significant economic and political dependence. More powerful states can often use their TNCs as a lever of tension. Finally, transnational corporations most often deal with large volumes of industrial production, which is connected with environmental pollution. Thanks to their resources, TNCs can often avoid environmental regulations and effectively function by breaching them, which brings significant harm to nature and people.

As TNCs are essential global market players, countries and international organizations seek to legally define their status, for which purpose many international agreements, conventions and codes have been adopted. However, such documents are mostly recommendatory, and do not impose strict limitations on TNCs. On the other hand, developed countries also seek to facilitate transnational corporations' access to international markets, thus attempting to decrease overregulation of TNCs' activities through international mechanisms.

As transnational corporations are always dealing with the need to ensure further market expansion, they seek to reduce the tax burden, and the level of administrative obstacles raised against them. To do this, TNCs use different tax optimization approaches and methods. Such methods significantly vary across different transnational companies due to their resources available, level of expertise, specificities of particular host countries' tax legislation, and the aims they wish to reach on particular markets. It should be noted that tax optimization doesn't mean breach of any tax or other laws, and is simply connected with detection of gaps in domestic or international legislation and their effective use for the purpose of reducing the actual tax burden.

In this thesis, I have shown how major TNCs such as Apple, Starbucks, and Microsoft successfully optimize taxation, without violating any laws. Those companies find loopholes in the legislation of different countries, and subsequently use them for reducing their taxable income through mechanisms of transfer pricing, registration of subsidiaries in tax havens, and so on. Often, the schemes used by transnational corporations for tax optimization purposes include complex multi-step processes across different countries, with registration of associated entities in different states, and the subsequently performance of a set of actions across them in order to withdraw profits with the lowest percentage of loss on tax payments.

In the course of my research, I have tested the hypotheses stated in the first part of this thesis. Based on my findings, it can obviously be stated that the first hypothesis was confirmed. Due to complexity of the environment where TNCs operate, they need to evaluate a much larger number of factors affecting their level of efficiency and profitability, than ordinary companies. This is namely due to the fact that different legal requirements apply to TNCs in different countries at once. The second hypothesis was also confirmed. Indeed, tax optimization starts even prior to TNC establishment, as its founders need to evaluate all the burdens imposed on their corporation in different potential countries of residence.

Thus, I believe that the aim of my research has been fulfilled, and its goals have been reached.

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