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Mövzu: Transmilli korporasiyalar və onların rəqabət və ümümdünya iqtisadiyyatında olan rolu.

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Introduction - 1

1.1. The Essence of Globalization and competition.

Globalization is a process commonly known as unification and integration of political, social, economical and other means, which lead to greater interdependence affecting countries and their citizens. The reason why it happens lies in the tighter interaction of the product and resource markets through trade, immigration and foreign direct investment. Though nowadays the developing global environment has led to the globalization in narrower non-economic means, such as technology, culture and environment.

Speaking simply, in terms of routine of the daily life, globalization means that people are more and more likely to consume foreign products than they used to in previous years, or more likely to use services of the foreign companies, even more likely to travel abroad or contact with foreigners than they used to before. There are known the three waves of globalization.

The first wave took place in the 19-th century due to the shift of transportation means from ships to steam trains and railways, which as a result lead to the decrease of the border tariffs. As a sequence, the share in the capital of the trading countries nearly doubled, and these countries became one of the richest in the world (United States, United Kingdom and etc.)

The second wave of globalization was a result of the end of the WW1 and WW2, and after the end of an exhausting period the transportation costs continued falling, governments attempted to form unions and cooperate for more effective and favorable terms of trade unions on the base of Bretton Woods agreement (1944). The United States of America was one of the richest countries in the world and the Bretton Woods agreement stated that the countries had to fix their national currencies exchange rates in relation to US dollar, which was fixed to gold standard. This allowed the United States to hold one of the strongest currencies in the world. This factor gave a start to series of investment to be done in Europe and parts of Asia. After this investment flow the new type of economy was introduced - agglomerating economy.

Although this wave of globalization brought benefits to the developed countries, almost all developing counties were worse off, since they did not have specialization in manufacturing, and therefore were not parts of the globalization chain which means they did not receive any investment from rich countries. This left them unable to enter manufacturing, and the developing countries could only cling to agriculture sector, while the developed countries kept getting richer due of the inequality of the investment climate.

The third wave of globalization started in the 80-s of the XX century with the developing countries stepping in the manufacturing and global distribution chain, among them the BRICS (Brazil, Russia, India, China) countries are most highlighted. The cheapness and big number of labor and access to resources which is common for most of the developing countries made them attractive for investment. Though this wave allowed third world countries to step more into liberated trade that is believed to be better than the best trade policies, this led to exploitation of labor force and labor outsourcing in those countries. For example, when you compare an engineer in China and Germany you can see that their wages differ by 7000$. Studies show that these occasions allow companies to save up to 30-50% in costs. Additionally, this factor leads to one of the most common events of the third wave of globalization – brain drain. Brain drain is a term that explains the departure of skilled and educated work force from one country to another with the aim to get more appreciation and compensation for those skills and knowledge. For instance, the mentioned engineer from China to Germany to earn 8000$ instead of 1100$ for the same amount of time he spends on a similar job.

1.2. The Definition and historical evolution of the transnational corporations (TNC).

The transnational or multinational corporation (TNC) is a firm or a company that invests and succeeds in a foreign market. The reason why a company decides to take such action varies from sphere, customer base, local market needs, foreign market needs and etc. In general, there are highlighted two orientation types which determine the reasons why a firm decides to go global: market orientation and asset orientation. Market orientation refers to the aims and goals related to market, primarily customers and specific market conditions like access to neighbor markets in the region, while asset orientation is more common and signifies such factors as resource allocation, legislative acts and norms, tax cuts and significant subsidies offered by local governments, lower wage indices and etc.

Before the 1960-s there was no such term as a multinational firm, since all the foreign investment of any firm was simply referred as international capital movements. The firm as an organization was not assigned a specific role in the theories that explained why financial capital moved from one country to another.

At the beginning of the 1960-s the international movement of capital was explained as 'portfolio capital', stating that: : "*Capital movements in and out of countries occur in response to the interest rates prevailing in the countries in question" (Cohen et al. 1979).* Specifically were highlighted the cases when a firm of rich and developed countries would invest in low income developing country's firm, because when capital moves from low-interest to high-interest countries, the market approaches equilibrium (Ohlin 1933 [1967]). But since the risk default in all countries varies, and no perfect international capital markets exist, there will always be benefit in moving the capital from a low-interest country to a high-interest one. Soon enough it became obvious that the portfolio theory does not provide a satisfactory explanation because the rich countries would invest in poorer ones, but the vice-versa did not happen, therefore the capital did not return back which means there was only capital outflow and no capital inflow in the country. Consequently, there would take place the problem in the balance sheet of the country, and this is what happened in the United States of America in the beginning of the 1960-s. As a result, the government of the USA demanded a new theory to explain and solve the issue on the level of the firm, not on the macro level as it is explained in the portfolio theory.

This is the exact time when a researcher called Hymer steps in, with his thesis called: "*The International Operations of National Firms: A Study of Foreign Direct Investment* (1960)".

In 1970-s the topic of transnational corporations was one of the reasons of studies and during this time John Dunning's introduced his theory of the eclectic paradigm (1977), sometimes referred to as OLI model (Ownership, Location, and Internalization). İn this model the firms initiative to internalize is explained by three factors, all of the are advantages of the initiating foreign firm over the local already existing firms of the local market:

1) Ownership specific factor is a competitiveness related factor, it covers patents, specific knowledge accessible to only one firm and etc.

2) Location specific factors are quite broad, including politics, legislation, resources, costs, target customers, all of them specific to a country(location)

3) Internalization is the most hard to measure value in this model, it covers the case when for a firm to produce abroad is more efficient and cost saving than doing it in home country.

This theory reveals the three main reasons of the internationalization of a firm, and adopts Hymer's firms' specific advantages (Chapter 1.2.1).

Speaking of production, TNCs differ by the production geography, since sometimes they decide to locate different functions in different places: *"Every business is a package of functions and within limits these functions can be separated out and* *located at different places" (Haig, 1926)*

One of the type of the productions of the TNCs' is the globally concentrated production type, where all the units of production are fulfilled in one location, and then delivered to the world markets. Second comes the host market production type, in which case for each market all the units of productions are done locally, and no cross-border trade exists. The third is the productions specialization for a global or regional market, where in each market there is fulfilled only one specific unit of production, each one of which is later inter- exchanged between the markets and the production spots. The last, but not least is the transnational integration production type, which allows each unit to be produced in one place, and later sent off to the next stage of production, and this process follows a chain until the final stage of production, which is done in the target country to be later introduced to its market. There are also know cases, when different parts of a good are produced by various small and medium sized firms, and then assembled by one big producer into a final good, which is delivered to the market by that exact firm. This process is referred to as outsourcing, the basic philosophy of which is to let others do what they are capable of to do better than you. And though outsourcing is well known for cost savings, the cost offs of the process sometimes exceed the possible benefits due to different quality, branding value, vulnerability and etc. Hence, only similarly producing manufacturers decide to make such production allies, for instance in computer production such alliances are very common in the industry, allowing resource efficiency and time saving.

Why does a firm take a risk to invest in a country where the local firms of the same sphere already exist, where the business making is done differently, and the consumer may be loyal to the local market, and it is obvious that there is some risk, to which Hymer referred to as "*liability of fereigness*"? Although the main question in Hymmer's research does not focus as much as on the liabilities, as it does on the reasons why a firm is ready to make that risk. In this research he

clearly draws a line that since any firm's main goal is to get profit, it would do what is the most profitable for it. Therefore, a firm would invest in an unknown and risky market only if it expects to get more profit there than if it had invested in the local market. There also follows a conclusion that a firm must have a strong advantage over the disadvantages in the foreign market, including the firms of the foreign market, and for each specific firm that advantage is different. Hymer also covers the reasons why some firms have the advantage over other firms in the same market with the similar conditions, hence the theory of the foreign direct investment flows into the theory of market imperfections, because in a perfect market all the parties have an equal access to the resources that they need, but if one firm has the advantage which allows to outplace other firms, then this firm has an access of greater priority. Hymer referred to the access to these resources as *'firms' special advantages'*. And though he mentions that these special advantages are big in number, they differ by firm, sphere, country, the market and etc. Later Kindleberger (1969) will make a list of '*monopolistic advantages'* based on Hymmer's research (1976), where he states that the advantages can be inside the firm or come from the outside. For example, the firms from developed countries have access to better technology, more capital, and can produce better products for cheaper price than the local firms in the developing countries ;- these are called inner or intangible factors, but sometime the local governments of the poorer countries in order to attempt foreign direct investment accept laws and regulation favoring the foreign firms over the local ones, such as tax holidays, subsidies, legislation that gives firms right to outdraw capital, better access to natural resources, no minimum wage ratio and etc. These factors are outside ones and in some cases they worse off not only the local market, but the consumer as well, who plays both a role of workforce and the household in the market, therefore worsening the social welfare in a country.
In general, Hymer's view of the transnational or multinational corporation as an organization is quiet narrow, since his perception of such firm was a hierarchy,

where the headquarter makes the decision and the lower ends of the firm imply them, and *'the majority cannot consolidate against the minority'* Hymer(1972) which is clearly based on 'divide and rule' principle.
Additionally, his main claim is based on the fact that firm's main goal is profitability maximization, therefore the reason behind investment abroad lies in the fact that such risky investment is outweigh by the advantage that belongs specifically to the firm, hence there exists market imperfection on which he mainly focuses on.
Another main scholar in this area is Raymond Vernon, who is widely known for the development of the "International product Lifecycle" theory. He was working on his research at the same time as Hymer did, but the theoretical background of his research came from technological gap in trade theories (Posner 1961) and the product's life cycle (Kutznets 1953). The main difference of Vernon from Hymer is that while Hymer researched and focused on the firm, Vernon's approach was to concentrate completely on the product. He tried to cover how the new products are discovered and manufactured, how firms introduce them to the market, what is the effect of the product on the firm over different stages of its lifecycle, how those effect vary from local to international markets and etc.
Vernon assumed that behind each product there is an idea, and in order to develop ideas the firm needs knowledge. His assertion was that knowledge is accessible by all the firms, but not all firms have market conditions that allow to apply this knowledge in the production, and even if market allows these conditions, not all entrepreneurs may have the equal access to them. Therefore, the main factor for Vernon was knowledge, which was inseparable from the product and decision making during each stages of its lifecycle.
In the 70-s of the XX-th century the USA was a perfect market with conditions favorable enough to use knowledge on development and production of the main products, since this market was abundant in capital, but scarce in labor, the

average income per capita was high enough, it was a very big market with never ending demand, and the country was not recovering from the tortures of any wars. Consequently, the products were placed in the US, which allowed the firms to act in case of any issues regarding it and adapt it to different consumer groups. Vernon noticed that the reason it is done locally, because it is easy to adapt the product when it is close to the place is was produced. After the initial launch, the product faces lots of changes, no matter that at first stages of introduction to the market it usually holds a monopolistic position and has low price elasticity of demand and high income elasticity.

At his stage, when the product is fixed and appreciated in the market, the competitors start emerging, though they are mostly imitators of the product. The competition rises and due to price and quality differences the leader position no longer belongs to the firm. Whenever this happens usually the firm decides to introduce the product to the new market of a developed country, where this product has not been launched yet and some production costs may decrease as well. After the product is more common and standardized, the competition is so big that in order to minimize costs the firm usually decides to go to a developing country in order to minimize costs as much as possible, and to source the product to different markets, the US included and according to Vernon this is the last stage of a new product's lifecycle. In general, Vernon's reasoning regarding why TNCs emerge was based on the new product and how its lifecycle stages affect the decision making of a firm to become a multinational.

1.2.1 The Reasons behind TNC investment.

In 1968–9 the number of TNCs originating from 14 developed countries was 7276 (Ietto-Gillies (2002a: 12, table 2.1). While in the latest World investment report done in 2012 this number exceeds 10000. In the previous chapters it was mentioned that the start of the TNC period is determined to be in the 70-s of the XX-th century, but there is a question – why exactly this period of time was so significant for the emerge, development and growth of big multinationals that in a modern world are the biggest power holders in their own and related industries.

It is significant to highlight the post WW2 investment environment in the Europe at that period, since the major countries still suffered from the economic instability, that region was in urgent need of investments and industry development. The political situation was quite favorable, which is so important for the foreign direct investment (FDI), that is primarily done by transnational companies.

Another factor is that the development of transportation and communication tools played a great role in TNC development, due to the technological developments which helped to make business more and more efficient and less costly. ICT development allowed the vertical division of the production take place and helped firms to regulate the branches better. Additionally, at this period the organizational structure was also changing, innovative ideas allowed the branch firms add market and customer-oriented changes in the firms' policies, therefore developing the strategy of the whole TNC in general. Last, but not least element is the fact that developing countries in need of FDI accepted different laws and regulations, which put the investors into more favorable position than the home countries.

In modern world the elements attracting TNCs to invest in a country have multiplied and became more complicated, due to how the world and investment climate has changed.

A firm's main goal is revenue maximization, and sometimes in order to do that some firms decide to decrease the costs regarding the production. The main way which

firms commonly use to increase revenue is to decrease the cost of one unit of production, or all of them.
In different countries welfare levels vary, and living standards differ as well, this is caused by different factors, but among them the minimum wage ratio is one of the most significant factors. For TNCs minimum wage rate shows the labor cost in the production chain, hence one of the main factors affecting investment in a developing country is the minimum wage element. In most of the developing countries this rate is much lower compared to developed one, which allows companies from the developed economies save significant amount of costs when there is a cheap labor factor.
Another important factor is that for some cases natural resources are crucial element of production, and the transportation of them is mostly expensive, in this cases companies decide to move the production process closer to resources, and sometimes for different markets they pick closest recourse rich country in order to cover the production of the whole target region. Additionally, the companies from developed countries have access to better technologies which are used for specific resource extraction, hence, in those cases both the host country and the TNC get the benefit from cooperation. For example, the top recipients in African region are resource rich countries, amongst them Nigeria is the most popular due to big amount of oil.
While previously there were discussed the cases when a company decides to go international in order to minimize costs for revenue maximization, there also exist cases when the company decides to maximize production in order to maximize revenue.
One of the reasons behind those cases is the fact that some developing countries have huge potential, amongst them the BRICs (Brazil, Russia, India, China) countries are the most significant. This happens due to the fact that in a growing economy the consumers' needs keep changing and it is easier for big companies meet the demand for new goods when they are located in the target market. It is also easier to distribute

your product to the market with large number of potential customers if you are located directly at the market.
Previously, there was mentioned that in most cases the companies from the developing countries have better access to technologies, which allow the production process take place more efficiently. If companies with such progress invest in the developing country then they are capable to bring those technologies in the country, which allows not only the firm to gain benefit, but also leaves the host country at a better place, allowing technological introduction to the whole market, which later allows the development inside the country. In such and other cases, which are beneficial to host country, the government decides to apply laws and regulations which attract the TNC to the country, and allows both parties to gain benefit.
Alongside, laws and regulations in developing countries are significantly less severe as the ones in the developed countries, which is another motivating cause, additionally to the fact that most developing countries have specific advantages provided to TNCs in order to attract foreign direct investment (FDI) which is primarily provided by TNCs.

1.3 The effect of the TNC on competition

Commonly, when one refers to globalization, specifically to the third wave of globalization, it is mandatory to mention the free trade or liberalized trade policy.

The Concept of Comparative Advantage (The Essay on Profits, David Ricardo) is well known for how well it describes the efficiency and competition. Ricardo's famous theory was derived from Adam Smith's Absolute Advantage theory (1776, Wealth of nations).

Adam Smith used the labor as the only input to describe productions, hence he stated that nations should produce only the products they have an absolute advantage in. Later, David Ricardo derived from that theory adding elative costs to his model. In his model it is clear that both countries producing identical goods spend different time, resources and labor, hence each nation should produce only one good which is the most efficient, and give up the other product to be produced by another country.

Later many scholars derived from Ricardian model, including Heckscher–Ohlin models (1933) and other well-known theories related to trade.

The reason why these theories are so popular and valuable lies in the fact that our world gets more and more globalized and open day by day, which means various trade agreements are conducted between nations, private entities, trade unions are established and etc. Therefore, it was important to determine what will be the effect of such deep economic interdependence and what are the empirically measured actions and decisions to make economic relations between nations more beneficial and efficient to all parties involved in the processes.

Among all the theories regarding multinationals one of the most valuable and complicated is the Internalization theory. The post war period was already accepted as a significant period for the TNC development, during this period many firms emerged, there was registered a noticeable expansion in the Western economies of this period. With emerge those companies faced the issues regarding how they should manage and regulate new products, new geographies, how exactly should they adapt policies to develop their structure in the name of efficiency.

Due to these questions the scholars started to develop the Internalization theory. It first based on the Coase's analyze of the firm(1937), followed by Williamson's further developments (1975; 1981). As a paper it was first conducted by McManus (1972); while a fuller research was made by Buckley and Casson (1976). Further contributions include Teece (1977); Rugman (1981); Caves (1982) and Hennart (1982).

Many researches were inspired by Hymer's thesis called: "*The International Operations of National Firms: A Study of Foreign Direct Investment* (1960)" to conduct papers and studies about the multinational and transnational firms, some focusing both on positive and negative aspects of imperfection in the market that foreign firms bring, because some scholars viewed the market imperfection as an important platform for development of the market and competition, which contradicts Hymer's view discussed in the previous chapter.

Caves among them conducted opinion that the intangible advantages of a firm is primarily a positive aspect, since it represents the ability of a firm to produce and provide the consumer with an innovative and better product and motivates the competitor firms to be more innovative and imply more technology in the production, buy better patents and etc. In his view, there is a limited room for the discussion of the negative aspects of the market imperfections.

On the other hand, there arose some more questions regarding the issue of transnational corporation and the competition with the local firms in the market. Some scholars also tried to cover the question why the firm does not use licensing or acquisition and merge method instead of risking and building a foreign branch in the market. For example, if a firm arranges an acquisition, it will be able to buy its competitor and therefore, will decrease the competition and use the knowledge of the acquired firm about the market and be able to eliminate prices, but so many firms avoid this method. In mid 1970-s the research showed that in the USA only 10% of firms would use licensing for the foreign direct investment, while the rest would directly invest in the foreign market.

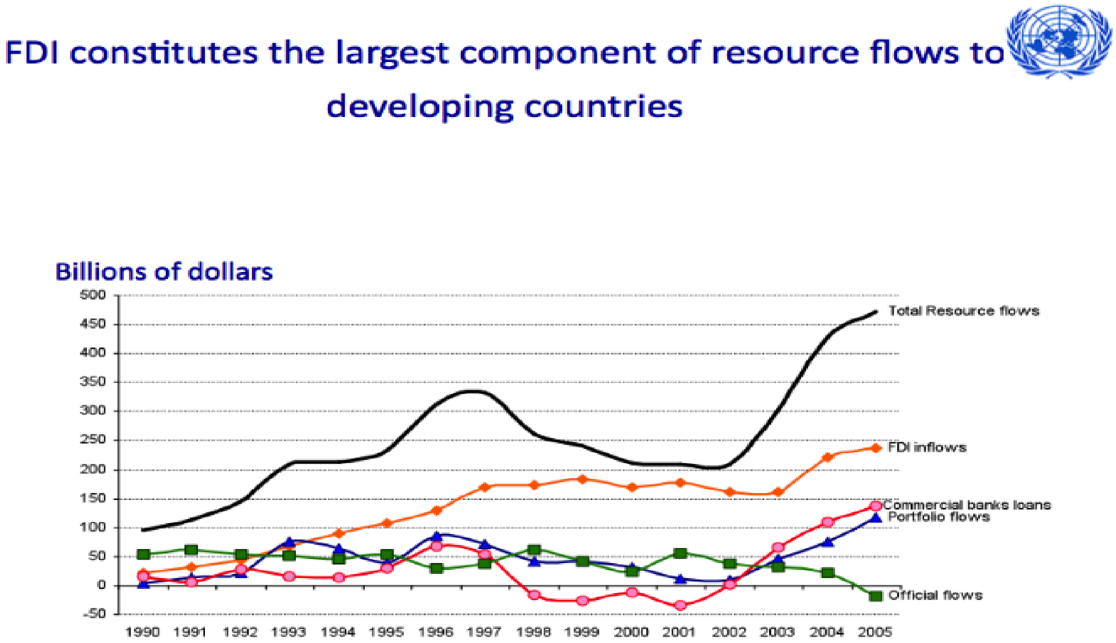
Hymer's view regarding this issue was linked on the oligopolistic view that firms avoid the perfect competition, and try to use their advantages over the competitors and lure the market into the oligopoly.

Chapter 2: The effects the TNC brings to the host market.

2.1 The Benefits associated with TNC investment.

According to Harrod-Domar model, in order to ensure economic development countries should ensure savings growth in order to maintain economic growth, and one of the main issues in the developing countries is that most of them suffer from the big savings gap. Hence, in order to meet this gap, governments have to come away with a solution, one of which is attracting Foreign direct investment into the country, in order to ensure foreign capital inflow into the country. The foreign capital inflow can help to meet the gap, thus stimulate the economic growth. Whilst some countries attract TNC investment solely for these purposes, there are cases of more developed cooperation between the TNC and the host country, which are aimed to decrease the gap in savings. This specific cooperation is called *public-private-partnership* (PPP or 3P) and it is a form of bilateral or multilateral partnership which allows public and private parties to get benefit from this type of cooperation. Those types of partnership arose in the 70-80-s years of the XX-th century, due to macroeconomic dislocations in multiple countries, which led to high level of public debt.

The core idea is that the private company, which is usually represented by TNC accepts a public order from the government. Those orders usually are about the infrastructure, construction, social welfare projects- in general governments make the type of project announcements, which they cannot afford or do not intend to spend from the savings, therefore such partnerships also allow to increase the savings. The benefit for a TNC behind such partnership lies in the fact that after the maintenance of the project, they do not deliver it directly to the government, the company exploits the project for specific amount of time, which is calculated in order to pay back the expenses, and provide the revenue, considering any currency fluctuations that may happen in the shown period. Therefore, those projects are long lasting, taking up to 20-30 years of both maintenance and exploitation, but still is accepted as a very beneficial option since another value of those projects is that after the company or firm gets the revenue and covers all expenses during the delivery of the project, usually the company leaves the market or takes another order from the same government, but the project itself does not leave with the firm, it stays and from then on belongs to the country.



Alongside with investment directly in the economy of one country, the efficient and liberalized trade made by a transnational company can allow the efficient resource allocation in the whole region and even on the international market.

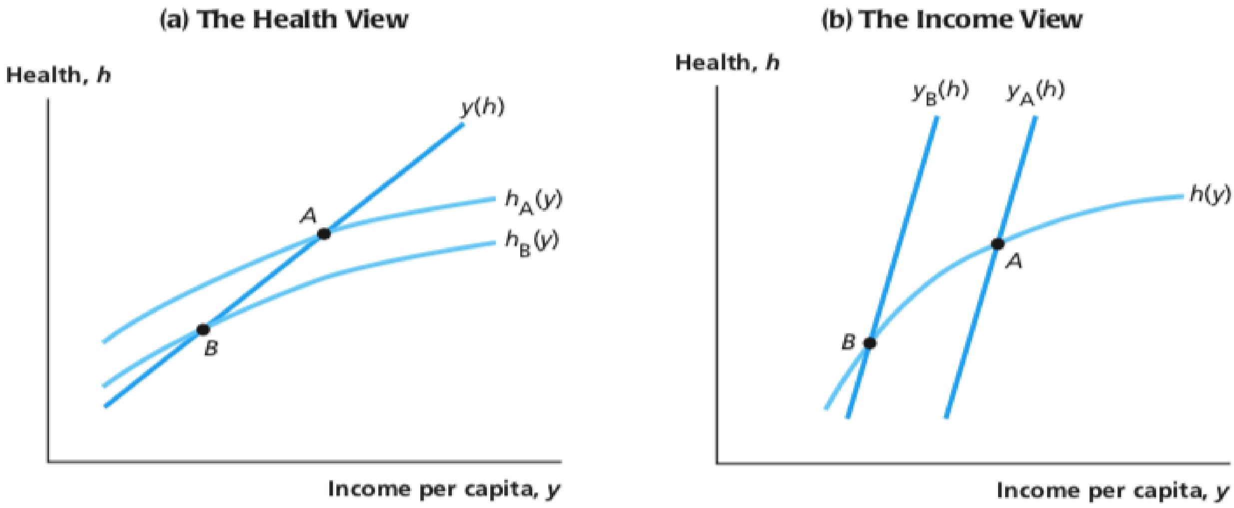
Another beneficial phenomenon of the FDI covers the fact that by investing into the economy, a TNC can actually bring diversification to the economy as a whole, adding a new direction, sometimes made via the greenfield investment, which consequently leads to stronger economic potential. In other case, the TNC may acquire or merge with the already existing business, which mostly enhances their potential. In any case, no matter which way of listed FDI methods a multinational chooses, all of them boost the competition, which is a great tier for economic development.

Competition encourages other enterprises to develop efficiency, to invest in the research and development of the produced good or service. Even mimicking of the product done by another producer ensures transfer of technology and information, higher range of goods, which allows better choice for consumer, inviting all parties to pick up the same good with different quality and price range offered by various producers. Not only a better choice range, but the introduction of such goods that previously were not accessible by the market, thus the consumer could not reach them.

Another favorable and easy method for countries to meet the 'Savings Gap' is the revenue from taxes. Taxes, in general are the biggest tool for any government, gathered from individuals and legal entities. Revenue tax, which is gathered from private companies can reach greater numbers, depending on the amount of revenue made by the TNC. The governments can use the extracted money by investing in their infrastructure, social projects and etc.

Another factor affected by competition is human resource factor. The role of a TNC in this is that whenever a multinational brings its own production information and technology, it ensures that the locally hired staff will learn to use and maintain it. Sometimes in order to ensure this skill integration, the host government accepts laws and regulation that oblige the investing company teach and exchange knowledge with the local staff, decreasing the number of locally hired professionals some years after the investment, providing better jobs for local labor force rather than foreign specialists. Human capital or human resource itself is a valuable factor, since when properly invested, it can cause well-known "Multiplier Effect". The investment in this factor happens in two directions- education and health.

Thus, when invested in health, the income per capita increases, and when the income per capita increases, then the overall health increases as well, which shows dependency of the factors on each other and the cyclic relation between well. In general, when a worker has good health he is able to work more, and earn more. The same way, when an individual earns more, he has better access to healthcare, broader access to high nutritious food and etc. (David W. Neil; Economic Growth, Chapter 6)

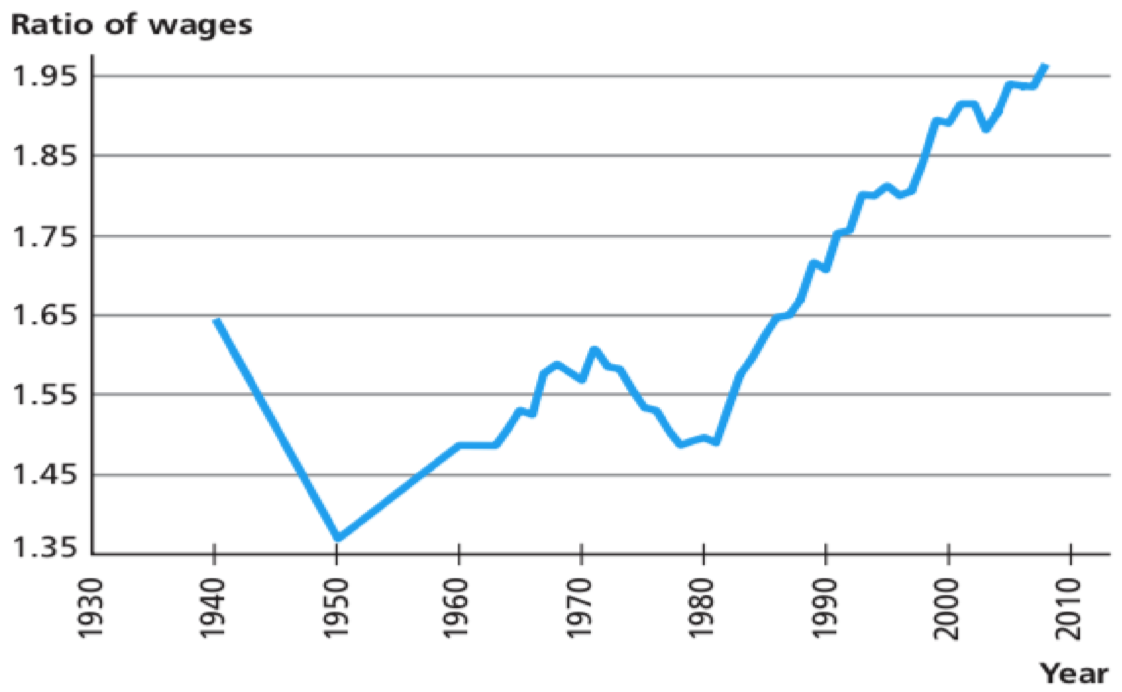


Even historically the health indicator affected income factor, it is especially noticeable in the beginning of 20-th century, in the period of different diseases epidemies and WW1.

The health and education indicators are both exogenous factors.

Additionally, the similar relationship is observed with income per capita(y) and education factor, which usually resembles the skills. Generally, education is a life time investment, mostly not cheap, but it pays off for the whole life of an individual. One way to empirically measure the return of education is called '*college premium*' which is the ration of earnings made by college educated labor divided by wage of those with high school education.

Ratio of College Wages to High-School Wages



Sources: Autor, Katz, and Krueger (1998), Autor, Katz, and Kearney (2008), Acemoglu and Autor (2010).

As the graph shows, from the times of Great depression and till post- WW2 the college educated workers' wages increased. One of the main theories to explain this is the fact that as the time passed, the development of the technologies caused production technologies to demand "skilled workers" which means workers with higher level of education, who will be able to work with high level technologies.

Another reason is that with higher number of educated workforce supply the demand for such labor also increased. Less and less jobs demanded physical advantage, big cities gave space for businesses, rural regions also developed and the overall demand for labor became more and more skill based.

2.2 Risks associated with the TNCs.

2.2.1. Economic risks.

While speaking of risks in the economy and the market, economists usually refer to uncertainties caused by events or actions taken by the parties existing in the market, which can cause failures and disadvantages in the economy. For instance, parties who make an investment of different kind are concerned about the risk that their investment will bring loses instead of expected benefits. Or in a private bank, where the main tool of the earning is credits, these establishments face risk while giving a credit, because there always exists a potential that the borrower will not meet his obligations in accordance with agreed terms.

But if those are the risks in terms of TNC, usually it is referred to potential disadvantages that the multinationals can cause to the host government, among them political and legal risks, economic development and efficiency risk, risks of monopoly in the market, labor exploitation and etc. – all of them bringing harm and degradation to economy as a whole. And most commonly, all the TNC risks, even if they come from different spheres and are related to specific environment, cause significant harm to the economy.

In general, all risks associated with the possible outcomes of a TNC activity is about the lack of regulation over a TNC performance in a local market, but in terms of economy one of the main risks is related to the circulation of capital affected by a TNC activity. One of the common events associated with this takes place when a corporation decides to enter the market by acquiring the already existing business, because commonly in this case the MNC decides to pay to the previous owners of the acquired business with stocks of their company. And even though this is an investment and gain for the selling party, for the government whose concern is the economy, the issue is that there will be no inflow of foreign capital into the economy, which is significant for money circulation within a country, for Central and private banks and etc.

As previously discussed, the main revenue for a government is made via taxes, which later are used for the social benefit and welfare development of the society. The taxes applied to TNC revenues can reach millions, therefore are an important resource for government, but at the same time in order to attract them governments apply some tax holidays or subsidies which leave them at a least favorable situation. This may happen under the pressure of a very strong and powerful MNC and reduce potential government income in developing countries, which are low in supply of such income and projects important for social benefits.

But pressure and power are not the only way a big multinational can artificially reduce taxes, a more legal way for it to imply such actions is referred to as "Transfer Pricing". It happens when a TNC sells parts of a good from one division of the company to another through different countries in order to reduce costs. It works because a TNC sells the goods from one division to another for artificially boosted price in order to show more expenses and reduce shown revenue, and since the tax is reduced from the officially shown revenue, therefore the government's potential income decreases. This is a great issue, since approximately a third of the international trade is made with the sales of one branch of a TNC to another division, and it shows what a big number of revenues has been hidden, and therefore mean actual loses made by the governments in host countries. Even though, additional to the pressure made by the powerful companies, governments take actions and local tax authorities make investigations, such activities are very difficult to be tracked down, because it takes place inside of one corporation therefore is easy for them, but in another country, which is hard to be discovered for the local authorities. This happens mostly to intermediary products, such as car parts, machinery and commodity parts, electrical or different type of equipment and other.

In most cases, a corporation is capable to make frauds and cause risks because there is no strong legislation to prevent such actions. Most of the times the TNC decision of the host country is based on the factors allowing it to reduce costs, and most of the times it is done by avoiding moral and ethical laws that are not defended by legislation. One of the straight consequences of this is the unprotected capital, which is one of the main economic drivers, especially in the developing countries. Usually, the corporations are stronger that the host country, and the amount of capital they invest reaches significant numbers, which can change the country's economic situation with the injections of foreign capital. But the consequences of the inflow of capital in unprotected circumstances is the fact that the corporation can outdraw its capital out of the country. It is a well-known fact that GDP (Gross Domestic Product) of the country is one of the best quantitative indicators of economic situation of a country, calculated in currency means. If the significant amount of money is taken out of the ratio, then the GDP indicator of the host country will drop, which leads to the lower level of production in the country, and lower employment, and the to the decrease of GDP per capita. The capital outflow affects the economy on the macroeconomic level, affecting main economic indicators.

Other bad economic consequence of multinational's activity covers the topic of resource exploitation, when it deliberately enters the country to extract significant part of national resources, pressing the local government for favorable treatment and leaving them with almost no revenue from resource exploitation. The issue is that, if that exploitation is done by the government itself, the gains from trade of those resources are more beneficial for the country's economy, due to higher finances flowing into the country and used in government budget in the future. While compared to that taxes the state gains from this type of activity made by the opposite party is only a part of the revenue, which will in the end mostly belong to the TNC.

Plus, the inefficient resource extraction often leads to other risks, like ecological risk and consequently the ecological risk leads to the health issues. Previously, there were mentioned the economic consequences related to health issues, and it is clear that the way labor and wage ratio of a person increases with better health conditions, the same way the amount of time a person is capable to work decreases in case the person's health indicators worsen off. The healthier the people are, the more they work, hence they earn more, and when they earn more, the consumption increases. In case of detailed analyses, it is noticeable that even the ecological and health related drawbacks affect the economy on a macroeconomic level.

In general, frauds happen because the corporation is avoiding the ethics and responsibilities for the sake of cost reducing and higher income, and the government being unable to monitor the activity of the company due to the pressure or other reasons. But sometimes frauds happen on the conscious motives of the corporation, such as the goal to hide the loses of the company in order not to lose the cost of stocks, which are one of the main capital investments to such big companies. This works in the frame of overstating the actual operating profits in order to show higher worthiness of the company so the stocks do not decrease in price. Most of the times, the accounting frauds involve bribery cases made by companies to the audit representatives and monitors.

2.2.2. Political-legal risks.

Most economist agree that the corporations investing to the developing countries carry more power that may help it to outstand the state of the host country in order to get more beneficial conditions of trade and production. Sometimes it can be done through the pressure towards the country, that needs the FDI provided by the TNC for the capital inflow necessary for the overall economic development. Revenues of GM greater than GDP of more than 148 countries or Walmart's revenue larger than combined GDP of sub-Saharan Africa.

Unfortunately, the consequences of such behaviour lead to different types of failures inside the market and in the global trade environment.

Firstly, they can affect the state to provide them with a lower tax rate or provide them with subsidies, tax holidays and etc., which leads to reduction of government's earnings (Discussed in Chapter 2.2.1. Economic risks). Additionally, sometimes they persuade the local government not to enforce the existing legislation on their activity.

Along the same lines, it is claimed that TNCs carry too much power in general, which affects the global issues. For example, WTO or World Trade Organization is an intergovernmental organization with the main goal to regulate the international trade flow between the nations. Even though this is an independent organization, it still can be affected by the wishes and pressure of such big trade participants like multinationals. The main reason behind such happen due the fact that a budget of a big transnational is a few times bigger than the budget of the organization and sometimes the budget of some states and countries. Basically, their income and size allow them to dictate the rules, because of their size and value on the international trade stage, and WTO is not the only organization affected from their policy. It is important to mention, that even if not influenced by the pressure and power, the persuasion can happen though a less legal way, such as corruption in forms on funds, stocks, luxurious gifts, political campaign contributions and etc. In terms of audit such subjects are called interests, which means that the person interested in the benefit of the TNC due to personal reasons such as income or involvement will commit actions for that benefit no matter the legal and moral laws. Lack of regulation in legal aspects lead to other risks, among them the most common is the ecological and emission risk.

As it was said: one of the most common outcomes of the lack of laws and regulations are related to ecological consequences, the most popular case of which is the scandal that happened with the British Petroleum on April, 20 in 2010. This case is referred to as the largest oil spill in the history, the oil drilling rig exploded causing 4 million barrels of oil spill into the Gulf of Mexico. The explosion caused the death of 11 workers, while the spill resulted in the harm of wildlife in the region, because the layer of oil spread over the sea surface for a period of 87 days. In 2012, BP and the United States Department of Justice stated federal criminal charges against BP pleading guilty to 11 counts of manslaughter, two misdemeanors, and a felony count of lying to Congress. In overall, the reason behind this tragedy was very common, it happened because the corporation did not assure the avoidance of such situations by advancing the equipment, by repairing the rag and ensuring it is in the proper exploitation condition. This particular case is a good example of lack of regulation from the side of government, and the responsibility- from the corporation. It is even said that since the emissions laws are strong in developed countries, the TNCs try to move to countries that lack such laws in order to increase production, decrease internal costs since they will not have to pay for excess emission. This may help to increase their internal cost, but increases the external cost because of the harm it does to the nature and ecological system of the host country. Again, leading to the health and labor relation discussed in chapter 2.1 (The Benefits associated with TNC investment).

Most times, there is not only one type of fraud made by the TNC, usually one risk leads and connects to another, and the issues grow and reflect on the host country's situation and wellbeing as a whole.

One of the most famous mixed fraud cases of TNCs is the Ecuador's Texaco/Chevron lawsuits (THE TEXACO-CHEVRON CASE IN ECUADOR1: LAW AND JUSTICE IN THE AGE OF GLOBALIZATION by ANTONI PIGRAU Professor of Public International Law, University Rovira i Virgili, 2014), that lasted for 20 years, the last update made in October, 2015.
Referred to as the legal fraud of the century, this case covers the facts of bribery, pollution, lack of corporate and social responsibility, a secret offshore company situation and etc.
All in all, in 1964 the Texaco and Ecuador had agreed upon the extraction of the oil to be done by the Texaco in the Amazonian region. Almost 30 years later it was estimated that the company has deforested 2,000,000 hectares of land, dumped the 19 billion gallons of produced wastes into the environment without treatment or monitoring, with no regards to the industrial standards.
"During the time that Texaco operated the main trans-Ecuadorean pipeline, spills from that line alone sent an estimated 16.8 million gallons of crude into the environment. By comparison, the Exxon Valdez spilled 10.8 million gallons into the Prince William Sound in the largest oil spill in the history of the United States." (HURTIG, A.K.; SAN SEBASTIÁN, M., "Epidemiology vs. epidemiology: the case of oil exploitation in the Amazon basin of Ecuador", International Journal of Epidemiology, Vol. 34, Issue 5, October 2005, p. 1171)
Alongside with this, it was estimated that:
- Higher dimensions of youngster ailing health (43%) contrasted with the populace living in regions expelled from the oil exercises (21.5%), with a newborn child death rate of 143/1,000 births.
- The essential driver of death in the zone is malignancy, at 32% of complete deaths, multiple times higher than Ecuador's national normal of deaths by cancer disease (12%) and four to multiple times higher than in Orellana (7.9%) and Sucumbíos (5.6%).

- A rate of unconstrained unnatural birth cycles 2.5 occasions higher in Ecuadorian Amazon people group presented to oil tainting than in comparative networks lacking such introduction.

- Widespread deaths of fauna from drinking water polluted with oil, falling in pits, or by suffocation brought about by flammable gas. The indigenous populaces have additionally lost chasing openings, since timberland creatures are particularly touchy to sullying, clamor, and deforestation.

- 75% of the populace considered were found to utilize tainted water, which causes various kinds of disease. The debased water was utilized for drinking, cooking, and washing, not out of an absence of attention to the risks of the water, however because of an absence of different alternatives.

(FAJARDO, P.; DE HEREDIA, M.G., “El Caso Texaco: un trabajo por la restitución de derechos colectivos y de la naturaleza”, in Estado constitucional de derechos cit, pp. 188-191. All of this data is rejected by the company on its website: http://www.texaco.com/sitelets/ecuador/es/PlaintiffsMyths.aspx. See also the critical commentary authored by a group of scientists and published in a letter in the Journal of Environmental and Occupational Health Vol. 11/No 2, Apr/Jun 2005, entitled “Texaco and its Consultants”; http://chevrontoxico.com/assets/docs/ijoeh-breilh.pdf.)

After the Ecuadorian government stepped in to solve those problems, they agreed with Taxaco that they will clean up the polluted areas. Texaco spen 40,000,000$ on cleaning its agreed upon share. In return the company got a complete release from the government and the local communities.

Alongside with that, in 1973 the contract required Texaco to give a level of its unrefined petroleum creation to the legislature, at a value set by the administration, so as to help fulfill Ecuador's local utilization needs. Texaco was permitted to send out the rest of the oil it delivered available to be purchased at the fundamentally higher global market cost. On the off chance that Ecuador utilized any of the oil for purposes

other than its own interior utilization, Texaco would reserve the privilege to get pay at the worldwide market cost. On 16 December 1977, the country of Ecuador (through CEPE) and Texaco consented to a valuable arrangement with comparable terms to the 1973 contract.
A Treaty between the United States of America and the Republic of Ecuador concerning the Encouragement and Reciprocal Protection of Investment8 was finished up in 27 August 1993. With regards to regular practice, this current bargain's Article III sets up that these speculations won't be straightforwardly seized or nationalized, aside from when this is done in the open enthusiasm, in an evenhanded way, and after brief, satisfactory, and successful installment.

In December of 2006, the Chevron Corporation and Texaco Petroleum Company consented to go to mediation against Ecuador for forswearing of-equity infringement identified with the refered to Article III of the respective speculation settlement, since their seven cases had not been taken up under the steady gaze of the Ecuadorian courts. In the interim, the suit against Texaco for defilement got from the oil activities in the Ecuadorian Amazon had been introduced in the U.S. government courts.

On 1 December 2008, the assertion council chose to think about Texaco's cases, and on 30 March 2010 it issued a fractional restricting honor for the offended party organizations, verifying that a disavowal of equity had happened, deciding for the offended parties and expecting Ecuador to remunerate the companies9. On 22 December 2010, the court granted Chevron and the Texaco Petroleum Company roughly 700 million U.S. dollars. On 31 August 2011, after an intrigue by Ecuador, this sum was diminished to 96 million dollars.
On 7 July 2010, Ecuador brought an activity for invalidation of the different decisions before The Hague District Court. The situation of Ecuador depended on two principle contentions. To start with, the postponement of the legitimate procedures because of absence of enthusiasm of the organization to drive them, by

not doing the regulatory methodology mentioned by the Ecuadorian judges. Second, the Treaty between the United States of America and the Republic of Ecuador concerning the Encouragement and Reciprocal Protection of Investment, of 27 August 1993 went into power in 1997, five years after Texaco left the nation, so retroactive utilization of the bargain wasn't possible, in light of the fact that, as per its Article XII it "will apply to speculations existing at the season of passage into power just as to ventures made or gained from that point".

2.2.3. Market risks.

Market risks usually involve the failures and frauds connected with the participants of the production market- firms, household, factors market and the actual market of the goods and services. Surely, most of the times the multinationals activity in a country brings benefits to the market, diversifying it, providing bigger range of quality products for cheaper prices, exchanging information and technology, but in case it does not commit its responsibilities and causes fraud, then the outcomes outweigh all the potential benefit.

One of the main market risks associated with the TNC is regard their ability to take over the market because of their power and wealth. Generally speaking, all the participants suffer if the TNC holds a monopolistic position in the market. Speaking from the view of firms, such event is not desired since the TNC is capable to get rid of the competitors. And usually it does this because a TNC is wealthy enough to take actions that cause more costs than revenues in order to attract the consumers and the customers in the market, while a small or medium sized firm cannot afford such actions. Hence the corporation sells the good of the same quality for much lower price, which for sure will make customers switch to a new seller. It happens because in a monopolistic market if one decreases the price the others should follow, and most of the times the price decrease made by the big firm is artificial, therefore is done with purpose to attract the consumers and worsen off the other companies. The science of game theory is a good tool to measure at which price the big company can remove the competitor firms from the market, because the new price will be much lower than the one they can actually afford in order not to bankrupt. Sometimes some big multinationals in the market unite and create a syndicate in order to dictate rules to the market, but such actions are considered illegal in the majority of countries.

From the vies of a consumer the biggest fraud related to TNC activity which they may suffer from is related to the good or service provided, its quality and price. In case the monopolistic corporation takes over the market it gets power to set literally any price it wants, because it is the only supplier of the good in the market, and no one can object. Plus, most of the times in order to multiple revenues, the firm decreases the quality of production, and the consumer has no other choice than to purchase a bad quality item for a very high price. Consumers come from the households, that make the major part of the country's labor. And this labor is engaged in the process of production in the market of factors. Basically, people who buy the TNC products are the people that work for the TNCs and earn wage, which they later spend for purchasing the items produced by the TNCs. This leads to a conclusion that the TNCs affect the workforce and consumers of the country, affecting the whole market economy and the growth on microeconomic level as well. One of the reasons of these situations are related to the ability of a TNC to apply policies replacing the labor-intensive production by the capital-intensive production. This means that the main factor for which TNCs would "fight for" will be the resources, the technologies, patents that allow to produce with less waste and etc. Although those factors are important, most of the times TNCs invest in the developing countries, where the minimum wage is so low in comparison to the number of hours an employee spends at work, that from a civil view it is referred to as exploitation. Adding this to an unacceptable work environment, exposed hazardous element used in the production with no safety standards worsen off the labor situation in a country. Regardless to mention, that most of the times the corporation brings its own professionals to the country, giving them the management positions, hiring locals as lower tier workers, and do not provide them with any training that the government expects of them to do. Alongside with wage, the labor and employment laws in the country are weak, which leads to hiring persons who have not reached the acceptable age of employment – children. Child labor is one of the most unethical forms of labor, alongside with modern day slavery, it breaks the human rights of the individual, especially such young as a child.

Speaking about the other participants of the market, the firms, we also divide them into firms who supply the corporations with the intermediary production materials and resources, and the firms who are the competitors of the TNC in the market. In case the firm gains a monopolistic position in the market, not only do their competitors suffer, but also their suppliers do. This happens because of the pressure the firm can have on them, affecting them to decrease their prices on raw materials or services they provide, augmenting it with the desire of other suppliers to work with them. In an efficient economic environment, prices on any good or service should not be forced, it is common for them to determine themselves over time, with change in demand and supply, reaching the equilibrium point. Hence, any artificial effect causes disbalance on both microeconomic and macroeconomic levels.

In general, we can conclude that all risks caused by the big corporations lead to harm in the economy of the country, sometimes interconnecting, causing different risks, but still affecting the economic situation.

Chapter 3: Transnational corporations in Azerbaijan.

3.1. The History of FDI in Azerbaijan.

In developing countries, it is common for the long-term development to be determined by the flow of capital done through private investment and business. And Azerbaijan is no exception to this as well.

The history of FDI in Azerbaijan started on 24 September, 1994 with the signing of the Contract of the century, named so due to its importance. Behind the core idea of this contract was the attempt to attract the FDI to such important and profitable area as oil and gas industry.

The estimated time period for this contract was 30 years, but in 2017 the second Contract of the Century was signed as well, with the estimated period of the next 30 years.

Twelve companies from 8 countries were the involved participants who signed the contract. All in all, the volume of estimated investment made by the companies was \$7.4 billion with the operational costs determined as \$5.9 billion. The area determined for the operations was the Azeri', 'Chirag' and deep-water 'Guneshli' oil fields in the Azerbaijani sector of the Caspian Sea – and made up 432.4 km2. The expected amount of oil production was determined as 510 million tons, but the official reports claim that it has exceeded the expected amount by 120 million tons. Additionally, the natural gas can be discovered and extracted while extracting the oil from the soil, therefore the additional natural gas made up 70 billion cu.m.6.

According to the contract, the government had to make only 20% of the investment, while the foreign companies were obliged to deliver the other 80% of it. The shares of the companies in the Production Sharing Agreement are:

1. SOCAR Azerbaijan 10.0000%
2. British Petroleum Great Britain 17.1267%
3. Amoco USA 17.0100%
4. Unocal USA 10.0489%

5. Lukoil Russia 10.0000%

6. Statoil Norway 8.5633%

7. Exxon USA 8.0006%

8. TPOC Turkey 6.7500%

9. Pennzoil USA 4.8175%

10. Itochu Japan 3.9205%

11. Ramco Great Britain 2.0825%

12. Delta Saudi Arabia 1.6800%

The importance of this contract is that additional to the investment that helped to boost Azerbaijan's economic development, it had also helped to attract investment in the future, helped to determine Azerbaijan as a good place for investment, promoting the investment climate in the country.

After this contract, the capital flows and FDI to Azerbaijan increased by 6 times in the following years.

Figure 1. FDI flows, 1995-2002
(Millions of dollars)

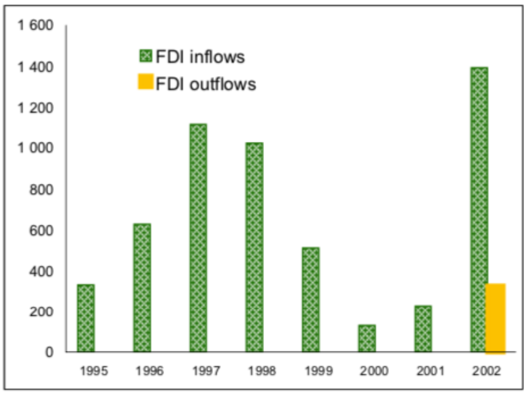
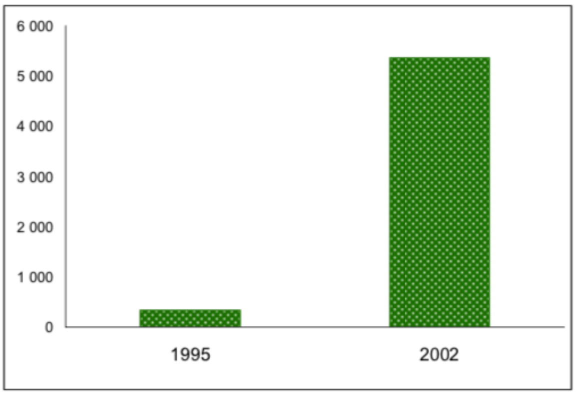
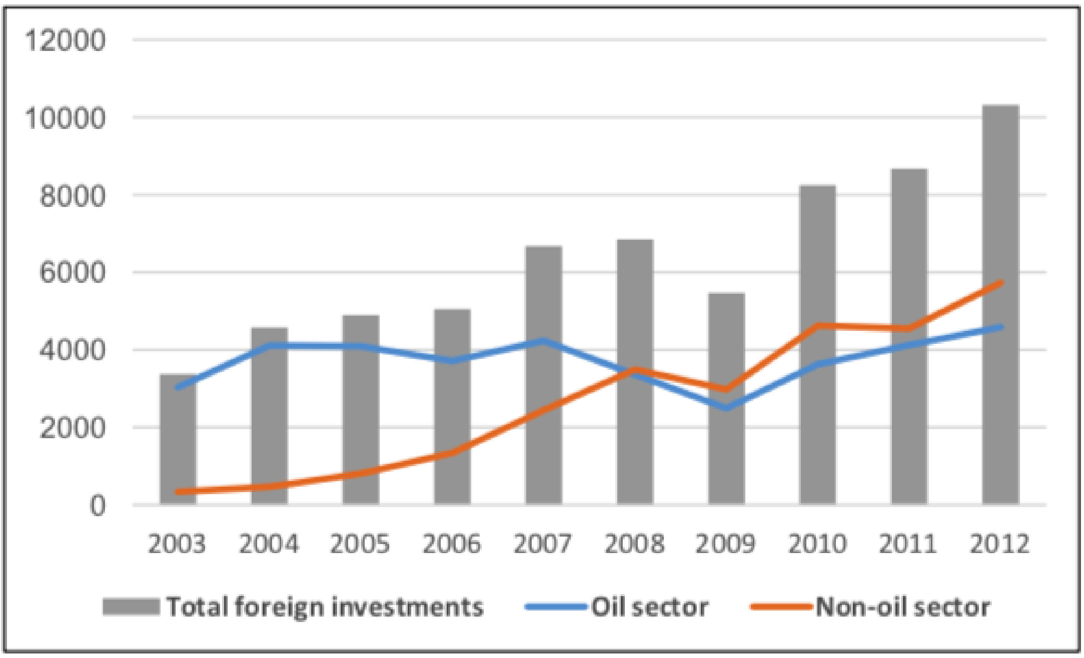


Figure 2. Inward FDI stocks, 1995 and 2002
(Millions of dollars)



It is important to highlight that the decline in 2000 was influenced by external factor, such as the devaluation of Russian ruble, and due to close economic ties with the Russian Federation and because of the effect of the devaluation on the whole region, Azerbaijan was also affected by it, and therefore the decline in the economy took place for a short time, which decreased the FDI.

In 2002, the United States, the United Kingdom and Norway held 57 per cent of the total FDI made into Azerbaijan (table 1) and still more than 70 per cent of FDI flows to Azerbaijan were made to the oil and gas industry (figure 4).



Source: Ministry of Economy and Industry of Azerbaijan

It is notable that for more than two decades the investments into Azerbaijani economy kept increasing, and the oil and gas industry was the primer one. It is notable that before the actual flow of capital into a non-oil sector, it was a major challenge for Azerbaijan to attract investment to non-oil sector, because the country is famous for its oil and gas. And after the non-oil sector developed enough to reach the point where this sector shared the almost equal portion of investment starting from 2008, and over time exceeding it till 2012.

Foreign investments	1995-2002	1995-2012
Oil sector	6105.3	43464.6
Non-oil sector	3014.4	29773.6
Total	***9119.7***	***73238.2***

Source: Ministry of Economy and Industry of Azerbaijan

3.2. Special programs and services supporting TNC in Azerbaijan.

Legal framework allowing the investment to be done in the territory of the Republic of Azerbaijan is determined by the Law on "Investment activity" (1995) and on "Protection of foreign investments" (1992). The government gives to foreign investors the following additional legal provisions:

a) Against deterioration of legislation: the existing law will be valid for 10 years while implementing investment projects;

b) Against nationalization and requisition of investments: if requisition or nationalization is implemented, injured foreign investors are provided with emergency and adequate compensation;

c) As a result of illegal measures taken by the authorities' injured foreign investors are paid compensations;

d) Repatriation of revenue after paying taxes.

Private companies have right to freely establish and make business in the country, they can lease the land, but not own it as a property.

The economic freedom score of Azerbaijan is 65.4, which ranks it as the 60-th freest in the world.

The local government is well known for promotion of various kinds of projects that will attract the investment into the country, alongside with the law applied in order to provide better taxation laws and make the investment climate in the country more attractive.

One of the greatest projects done by the government is the ASAN service (Azerbaijani: ASAN xidmət), that is the agency for public services, established by the state. One of the main aims of this service is to help people solve legislative and documentative procedure faster and easier. The acronym "ASAN" stands for "Azerbaijan Service and Assessment Network". This service is one of the most transparent agencies in the country, it allows both locals and foreigners to get consulted, provided with guidance, use the lawyer cervices, apply for various documents through the agency.

Other projects of legislative kind that are done in order to make the investment into the country an easier process, is the constant work of the government done in order to make double-taxation agreements, the investment protection contracts. At this moment the Republic of Azerbaijan has such agreements with more than 53+ countries, and the local government is working hard in order to have such agreements with more countries and states.

The major goal for the country is to attract the investments to the non-oil sector. Hence, the Azerbaijani government has established the Ministry of Economy has established the Azerbaijan Export and Investment Promotion Foundation (AzPROMO) in 2003. The main goal of this organization is to fulfill projects designed in order to attract foreign investments to non-oil sectors and promote the export of non-oil products. The major work of this agency is to provide foreign companies that wish to invest to the country's on oil sector with all the required information, introduce them with the investment climate and etc. It is important to highlight that those companies usually will to invest based on the principle of "one stop shop", therefore they apply to this foundation, since multiple services are provided at this agency.

Public-private-partnership discussed in previous chapter is a form of agreement that is also familiar to Azerbaijan, one of the first projects of such type of investment is the building of the housing for the students, the fulfillment and delivery of this project is expected to be done in 2019.

Chapter 4: Conclusion

The benefit that the multinationals bring to the economy of a developing country is undeniable, no matter the potential risks and the actual frauds caused by the corporations.

In terms of reasons behind these particular risks, most of the times it is referred to the lack of laws, regulation and monitoring inside the host state. It means that alongside with strong legal system, the government should understand the importance of monitoring whether the responsible parties follow the implied laws or not. It is recommended to do so through audit, tax officials, public reactions and etc. While this may seem as a good and rational idea for many there used to be ones against. Reviewing "Coase theory" we can understand that it claims that the only aspect important for economic efficiency are well defined property laws and nothing more, including international laws and regulations. "Tiebout theorem" suggests that competition among local parties is the main tier needed for economic development. But neither of them is actually a perfectly correct theory, fit for the real market. Coase theory requires no moral hazard, no imperfect information and minimal transaction cost, while the Tiebout theorem misses that markets by themselves are not perfect, they cannot be efficient just by existing (Greenwald-Stiglitz, 1986). If there is no regulation over them, the market can exist by itself only for a few weeks, resulting in chaos in the end. Also, the legal framework set by regulating parties should cover the fact that modern legal environment should not put boundaries for the economic development (Greenwald-Stiglitz, 1986).

In such complicated environment, where many requirements should be met for the benefit of all parties, there is an important role for the government needs to be capable of settling sets of efficient laws. It is important to understand that those rules and laws regarding conflicts, dispute settlement, corporate regulations and etc. may vary and sometimes there is not one but a few sets of laws for different cases. It is also important to be able to enforce those laws, and this needs low level of corruption, or good anti-corruption system alongside with audits of uninterested third party. Additional to this a state should participate in unions and organizations that work in order to harmonize the laws which will allow every participant of trade to be in charge equally and have a third party as uninterested judge. It is related to the fact that in cross-border relations the bad outcomes do not primarily happen to the host country, it can also affect the foreign corporation, since foreigners are not voters, who can affect some inefficient laws, neither can they apply to their own court, since the host community's court is the primer one. But the other side of the coin is that the corporations usually are capable to hind behind the frontiers after their actions are exposed, so they can get away with it. Hence, this shows another reason of why international commerce unions and organizations are so important.

But sometimes there are also the cases when the government has issued laws regarding the activities, but is pressured not to enforce them. In those cases, the legislation regards the corporations exists but is powerless. One of the main reasons behind it is corruption, or a form of bribery which makes the state officials interested parties.

Most of the cases the actions are done openly to the public eye with no hesitation, covered as legal actions.

For a politician at the start of career it is really difficult to get chosen to office in case he is not supplied financially. It is important to note that especially at the start of their career those politicians are more in need of financial support in order to make contributions while promoting their campaign. This is the moment when a TNC steps in and starts the exchange with the politician, they give political support as an end-result of different favors.

On the off chance that the leading body of a major partnership needs to purchase a congressional vote, they don't offer the politician cash. Rather, somebody on the board knows a person who knows a person who can "help" the politician's family member with some issue, like enrolling a prestigious college or getting a credit for business from a bank. Then again, in order not to attract attention, it can take another form as an anonymous donation, extravagant gifts, which cannot be tracked down, holidays at luxurious hotels and etc.

Enterprises and different associations or people looking to impact lawmaking offer exchanges and supports so as to have enormous effects on policymaking. Usually, the politicians at the very beginning their career accept bribe in monetary terms, due to high need of it. Politicians who have already made name and can provide financial support to their campaign by themselves usually accept gests and favors. Favors and referrals are a lot harder to recognize as pay off, are progressively hard to demonstrate once suspected and leave no paper trail at all.

This was only a simple case of bribery, but even it is hard to be tracked down for a government, most of the times the investigations take years and years to clarify the situation. What a government can do is try to prevent such events beforehand, by implying harsh punishment laws, spread awareness among public, encourage the public to report such cases to the special commission and etc. Alongside with it, the officials can demand corporation provide audit reports on their activities, stock owners, and other interest personas.

But what happens if a country is willing to imply its laws, is capable to outstand the pressure and still fails to do so? The reason behind this is that the corporations usually hide behind the local management, as it was with the Dow and Bhopal in India, a company producing chemicals and pesticides. In 1970-s the corporations were attracted by the investment possibilities in India, with the richness of resources it had and the possibility of cheap labour. One of such companies was he Union Carbide India Limited (UCIL) pesticide plant in, that build a big factory in Bhopal. In December of 1984 a gas explosion on the factory caused the death of almost four thousand workers, with the claims varying from 150 to 600 thousands of people injured and suffering from the consequences of explosion of the methyl isocyanate

(MIC) gas, the highly toxic gas, which affected the villages around the Bhopal as well.
The reasons of the leak are argued to be the lack of safety standards, the corporate negligence and so on. Skipping the details, we focus on what was done by the local government in order to prevent such cases in the future.
In 1989 the Supreme Court of India approved the settlement of the civil claim, finding the corporation guilty and decided for it 470 millions in US dollars to the victims of the accident. But it still has not payed more than the half of the sum. The final decision of the court was taken in 2010 with a verdict finding the corporation and 7 of its management executives guilty of negligence. The company was required to pay a fine of 500,000 rupees ($10,870) and the sued persons were each condemned to two years in jail and fined 100,000 rupees ($2175) per person. However, this was not the finish of the story, on 30 July 2014, the US District Court of the Southern District of New York stated that Union Carbide could not be sued for the on-going pollution from the plant, no matter that the suing party had presented the proof and evidence of their guilt. The offended parties advanced in November 2014, and guarantee that they have given new proof that show Union Carbide's association. On 24 May 2016, a US court decided that a claim against Union Carbide recorded by nearby networks may not continue in spite of solid proof the organization's concoction plant keeps on causing water contamination in Bhopal, India. In July 2016, the exploited people requested that the court rethink its 24 May choice. In August 2016, the US court of requests dismissed their allure for a rehearing, permitting stand the lower court choice deciding that UCC was not at risk to stand.
In other words, the real guilty party did not receive any verdict, though the main reasons of criminal negligence came from the upper tier management of the company, but they did not face any lawsuits and basically this is the situation when a corporation hides behind the back of local management of lower ties, finding them guilty and pretending the headquarters never knew about the risk.

In order to escape such cases the government should work hard in a legislative and administrative context in order to prevent them from happening.
It important to highlight that while the undercover of fraud done by big corporations is important, the more important are the outcomes shown in the actions of the governments and organizations taken in order to prevent those cases from repeating in the future.

All in all, the conclusion is that the transnational corporations as a phenomenon of the modern economy are valuable for the benefits they provide. Regardless to say, the valuable work they do for the globalization process and how useful they are for the liberalized trade. No matter how strong a TNC is, if treated carefully, in a strong legislative framework, ethical business and strict monitoring, the partnership of the developing countries and the corporations via public agencies or face to face can be fruitful for the both sides. And Azerbaijan is an example of a developing country fulfilling its goal to enter the globalized trade and economy, developing its inner economy and introducing itself to the worldwide trade stage as a strong participant by attracting the FDI into the country through the attractive investment climate.

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