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TRANSNATIONAL CORPORATIONS IN THE WORLD ECONOMY: FORMATION, DEVELOPMENT AND PRESENT POSITION

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Abstract: The following article attempts to answer the question about the role transnational corporations (TNCs) play in the modern world. The issues discussed in this article have been presented in two main parts. The first part focuses on the world's largest TNCs according to the following criteria: the value of the revenues, market capitalization and foreign assets. The discussion in the second part focuses on defining the role that transnational corporations play in the world economy. A number of different characteristics reflecting the economic potential of TNCs have been used in this article such as: asset value, employment rate, sales volume and research and development po-

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tential, which are linked to selected parameters describing the volume of international production. The analysis of TNC development and their present position has been presented from a historical perspective, which made it possible to identify the conditions of as well as the major changes in the process of enterprise internationalisation. The following article highlights the dynamic development of corporations in developing countries and the ever more common phenomenon of state-owned enterprises or enterprises with a state's capital playing a role on the international stage.

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■■■ INTRODUCTION

Embarking on international business ventures is not a new phenomenon. Some researchers suggest that examples of early transnational corporations (TNCs) can already be found in the history of colonial expansion of the ancient Phoenicians and Romans (Dunning 1993, 96; Moore, Lewis 2000, 17–42), and other ancient civilizations before them (Moore, Lewis 2009). Others look for predecessors of modern transnational corporations in the Middle Ages (Dunning, Lundan 2008, 146–148) and the Renaissance period, linking the colonial conquests to the development of famous British and Dutch trading companies (Carlos, Nicholas 1988, 398–419; Robins 2012a; Robins 2012b, 12–26). It was not, however, until the Industrial Revolution of the late 18th and early 19th century that new opportunities in terms of the organization of production processes emerged and changes in the existing patterns of production took place, which led to the emergence of economic organizations resembling modern enterprises. It was mainly because of the above changes that the emergence of modern corporations, sharing a number of characteristics with the TNCs operating today, is usually believed to have originated in the second half, or more specifically, in the last three decades of the 19th century (Dunning 1993, 99; Castro 2000, 7; Wilkins 2001, 4; Dunning, Lundan 2008, 154–175).

The dynamic growth of international production, however, falls predominantly in the 20th century, at the beginning of which, especially in the United States, a corporate economy model emerged, based on large enterprises no longer managed by their owners but by hired qualified professionals (Langlois 2007, 1). At that time, basic legal and ownership forms (public limited companies) were established and improved on as well as organisational solutions proposed (divisional structures), which prepared corporations from highly developed countries for the global conquest (Zorska 2007, 84). The conquest became possible only after the war and intensified in the 1960s and 1970s, after which

the corporations acquired a nickname *cosmocorps*. It was then recognized that the largest corporations can control or even dominate many business areas as well as perform roles previously reserved for state structures (Callies 2011, 601–615; Irogbe 2013, 223). At this time, mainly thanks to S. Hymer and Ch.P. Kindleberger, there was also a wider interest in explaining the nature of multinational corporation activity using theoretical concepts (such as the theory of ownership-specific advantages). It was R. Vernon who made the first ever attempt at estimating the number of corporations, identifying 396 parent companies and their 28,318 foreign affiliates (Cox 1997, 9–46).

In 1974, the United Nations set up a special program for the monitoring of international business activity and the flow of foreign direct investment (FDI), which until 1992 was carried out by the United Nations Centre on Transnational Corporations. It is this organization that introduced the term “transnational corporation” into the international nomenclature, which along with the traditional term “multinational corporation” has become a widely used term for enterprises engaging in foreign direct investment and holding or controlling production or services companies operating in more than one country (Dunning 1993, 3, 11; Zorska 2007, 10).

Rapid technological progress, liberalization of trade, capital flows and the global development of capital markets as well as the processes associated with privatisation, deregulation and de-monopolisation (Thomsen 2000, 3) brought a spectacular increase in business activity as well as the number of transnational corporations in the 1980s and 1990s. In 1982, the total global value of FDI amounted to \$579 billion (UNCTAD 2009, 18). In 1990, the volume of this type of investment reached \$1,786 billion, while the number of corporations was estimated at about 30,000 and the number of TNC foreign affiliates at 150,000 (Dunning ed. 1993, vii). The years that followed saw further dynamic growth of TNC international expansion (table 1).

Table 1. Outward FDI stocks and the numbers of TNCs, 1995–2010 (\$ Millions)

Item	1995	2000	2005	2010
Outward FDI stocks	3,769,042	8,008,434	12,563,770	21,288,584
Number of parent corporations	38,541	63,459	69,727	103,786
Number of foreign affiliates	251,450	689,520	690,391	892,114

Source: compiled by the authors on the basis of: UNCTADStat, <http://unctadstat.unctad.org> (accessed: 15.11.2014); UNCTAD (2000), World Investment Report 2000, Cross-border Mergers

and Acquisitions, United Nations, New York and Geneva, 11-13 UNCTAD (2005), World Investment Report 2005, Transnational Corporations and the Internationalization of R&D, United Nations, New York and Geneva, 264-265; UNCTAD (2011), World Investment Report 2011, Non-Equity Modes of International Production and Development, Web Table 34, United Nations, <http://unctad.org> (accessed: 10.11.2014).

Notes: Estimated data; the numbers of parent corporations and foreign affiliates given in 1995, 2000, and 2005 based on particular economies evidence from the latest available year.

The changes that are shaping today's world economy (technological advances, liberalization of trade and capital flows, etc.), which are enabling TNCs to grow, have made it possible for entirely new corporations to emerge, for which large scale operations and substantial capital resources were no longer a prerequisite for the internationalization of their business activity. More and more small and medium-sized enterprises were transforming into transnational corporations of which international new ventures have become the most telling phenomenon (Aggarwal, Berrill, Hutson, Kearney 2011, 557-577). It was not simply the scale and the scope of their business activity that became crucial for determining the specific nature of transnational corporations but, more importantly, their organizational skills providing them with a better configuration of distributed resources and coordination of their processes on a global scale.

Today TNCs are defined as organisations consisting of a parent company and its foreign affiliates (UNCTAD 2002, 291), whose activity permeates national borders (not necessarily very many) and is organized, integrated and coordinated by the headquarters operating in the home country (Zorska 2007, 10).

In 2010, the value of global FDI exceeded \$21,288.5 billion, the number of transnational corporations was estimated at over 100,000 and the number of TNC foreign affiliates at over 890,000 (table 1). It seems that multinational corporations have become an important, if not central, element of the global economy and their importance seems to continue to grow. This article presents a description of these organisations and attempts to answer the burning question about the role that transnational corporations play in the modern world.

THE RESEARCH METHODOLOGY AND THE COURSE OF THE RESEARCH PROCESS

Determining the importance of transnational corporations for the world economy is neither easy nor obvious. The majority of authors dealing with the subject of TNCs take their significant role in forming international economic relations for granted, without attempting to specify it any further (e.g. Birkinshaw, Ghoshal, Markides, Stopford, Yip 2003; Ietto-Gillies 2005). At the same time,

there is still a shortage of studies based on factual documentation, statistical data or research findings which could illustrate the real role that TNCs play in the world economy. Some of the few publications in that field include work by such authors as J. Kleinert (2004), A. Zorska (2007), J.H. Dunning and S.M. Lundan (2008), M. Gasz (2012) or W. Karaszewski (2004; 2013). This article aims to at least partially bridge this gap.

The aim of this paper is to present the world's largest transnational corporations and to indicate the role that TNCs play in the global economy. That is why the paper has been divided into two main parts. The first part will demonstrate a leading group of TNC-type organisations, which have been classified in terms of their:

- revenues, which made it possible to define the largest “trading powers”;
- market capitalization value, which made it possible to define the “capital powers”;
- TNC foreign assets, which made it possible to define a group of companies with most capital invested outside their home country.

To determine a leading TNC group, periodical rankings have been used published by organizations such as: United Nations Conference on Trade and Development (UNCTAD), PricewaterhouseCoopers (PwC), Strategy&, as well as lists of largest companies presented in the *Fortune* journal.

The second part of this article is an attempt to define the role that TNCs play in the world economy. Unfortunately, there are no synthetic measures which could be used to define that role. Therefore, in order to assess the role transnational corporations play in the world economy, data showing the economic potential of TNCs has been used, in particular the description of their foreign affiliates business activity, including the value of their assets, revenue, exports, the number of employees and value added. The article also presents the TNC affiliate value of revenue and their value of exports against world exports as well as compares the affiliate added value to global GDP. It also points out the research and development potential of selected TNCs, as measured by the volume of research and development (R&D) expenditure.

The choice of economic parameters presented below and the related parameter formulas proposed by the authors are based on preliminary research of academic publications included in the canon of the literature on the subject as well as available rankings of transnational corporations and the authors' own conclusions. The methods of comparative analysis, the diachronic analysis and the method of induction have been used in this study.

THE WORLD'S LARGEST TRANSNATIONAL CORPORATIONS

Since 1994 the *Fortune* magazine has presented an annual classification of enterprises according to their value of revenue ranking 500 corporations – the biggest global trading powers. In 2013, these 500 largest companies had a total revenue of \$31.1 trillion. Their profit had increased by 27%, reaching nearly \$2 trillion. There were 95 Chinese and 128 US corporations on that list, making the United States the world leader (*Fortune Global 500 2014*). The leader on the list was a United States corporation – Wal-Mart Stores – with the total revenue of \$476,294 million and the profit of \$16,022 million. The top ten also included another US company, one corporation from Japan, four from Western Europe and three from China (table 2).

Table 2. The world's top 10 TNCs, ranked by revenues, 2013 (\$ Millions)

Corporation	Home economy	Revenues	Profits
Wal-Mart Stores	United States	476,294	16,022
Royal Dutch Shell	United Kingdom / Netherlands	459,599	16,371
Sinopec Group	China	457,201	8,932
China National Petroleum	China	432,008	18,505
Exxon Mobil	United States	407,666	32,580
BP	United Kingdom	396,217	23,451
State Grid	China	333,387	7,982
Volkswagen	Germany	261,539	12,072
Toyota Motor	Japan	256,454	18,198
Glencore	Switzerland	232,694	-7,402

Source: *Fortune Global 500 (2014)*, <http://fortune.com/global500> (accessed: 27.10.2014).

This TNC classification according to their market capitalization value is prepared by PwC. It includes 100 of the most valuable companies in the world. Market capitalization of all the companies included in the 2014 ranking amounted to \$15,020 billion (\$8,403 billion in 2009), of which only 29 companies had a market value of less than \$100 billion. The list included 47 TNCs from the United States, 18 from the Euro zone and 8 from China / Hong Kong

(PwC 2014). A US corporation Apple topped the list with a market capitalization value of \$469 billion. Among the first 10 TNCs with the largest market value there were as many as eight companies from the United States and two from Switzerland (table 3).

Table 3. The world's top 10 TNCs, ranked by market capitalisation, 2014 (\$ Billions)

Corporation	Home economy	31 March 2014		31 March 2009	
		Rank	Market Capitalisation	Rank	Market Capitalisation
Apple	United States	1	469	33	94
Exxon Mobil	United States	2	416	1	337
Google	United States	3	409	22	110
Microsoft	United States	4	318	6	163
Berkshire Hathaway	United States	5	286	12	134
Roche Holding	Switzerland	6	266	18	119
Johnson & Johnson	United States	7	261	8	145
General Electric	United States	8	256	24	107
Wells Fargo & Co.	United States	9	244	55	60
Nestle	Switzerland	10	244	15	129

Source: PwC (2014), Global Top 100 Companies by Market Capitalisation, <http://www.pwc.com> (accessed: 27.10.2014).

Classification of transnational corporations with the largest foreign assets includes the most significant and specific attribute of TNC business activity, which, according to the researchers, is the capital invested outside their home country. The list of the world's 100 largest companies with the largest assets abroad is prepared by UNCTAD. As of the end of 2013, most TNCs were from the United States (24). There were a total of 72 corporations from the five Triad countries (United States, Japan, Germany, France, United Kingdom). The total value of foreign assets of the 100 largest non-financial TNCs amounted to \$8,103,862 million (UNCTAD 2014a). The General Electric Corporation from the United States topped the list with \$331,160 million. An average rate of transnationalisation of the 100 TNCs included in the 2013 UNCTAD ranking was 64.5%, with Nestle from Switzerland having the highest rate at 97.1% and ranking 15th on the list.

It is important to note the ever more significant role of transnational corporations from developing countries. Among the top 100 world's largest corporations at the end of 2013 there were as many as 10 TNCs from developing countries. A state-owned corporation from Hong Kong – Hutchison Whampoa Limited – ranked the highest among these enterprises at 26th place (UNCTAD 2014a).

Table 4. The world's top 10 non-financial TNCs, ranked by foreign assets, 2013 (\$ Millions)

Corporation	Home economy	Assets		TNIa (percent)
		Foreign	Total	
General Electric	United States	331,160	656,560	48.8
Royal Dutch Shell	United Kingdom / Netherlands	301,898	357,512	72.8
Toyota Motor	Japan	274,380	403,088	58.6
Exxon Mobil	United States	231,033	346,808	62.6
Total SA	France	226,717	238,870	79.5
BP	United Kingdom	202,899	305,690	69.7
Vodafone Group	United Kingdom	182,837	202,763	88.9
Volkswagen	Germany	176,656	446,555	58.6
Chevron Corp.	United States	175,736	253,753	59.3
Eni SpA	Italy	141,021	190,125	71.2

Source: UNCTAD (2014a), World Investment Report 2014, Investing in the SDGs: An Action Plan, Annex Table 28, United Nations, <http://unctad.org> (accessed: 27.10.2014).

Notes: ^aTNI, the Transnationality Index, is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

While presenting the world's largest TNCs, it is worth mentioning the state-owned TNCs (SO-TNCs). Even though they form a small fraction of transnational corporations, SO-TNCs have a significant number of foreign branches and assets. According to UNCTAD, there are at least 550 SO-TNCs operating globally and their total foreign assets are estimated at over \$2 trillion. These enterprises originate in both developed and developing countries (UNCTAD 2014b, 21). A French corporation GDF Suez topped the list of the largest SO-TNCs with the value of foreign assets at \$175 billion (table 5).

Table 5. The world’s top 10 non-financial state-owned TNCs, ranked by foreign assets, 2012 (\$ Billions)

Corporation	Home economy	State share (percent)	Assets		TNia
			Foreign	Total	
GDF Suez	France	36	175	272	0.59
Volkswagen	Germany	20	158	409	0.58
Eni SpA	Italy	26	133	185	0.63
Enel SpA	Italy	31	132	227	0.57
EDF SA	France	84	103	331	0.31
Deutsche Telekom AG	Germany	32	96	143	0.58
CITIC Group	China	100	72	515	0.18
Statoil ASA	Norway	67	71	141	0.29
General Motors	United States	16	70	149	0.47
Vattenfall AB	Sweden	100	54	81	0.72

Source: UNCTAD (2014b), World Investment Report 2014, Investing in the SDGs: An Action Plan, United Nations, New York and Geneva, 21.

Notes: ^aTNI, the Transnationality Index (see the notes in table 4).

THE ROLE OF TRANSNATIONAL CORPORATIONS IN THE WORLD ECONOMY

Determining the role TNCs play in the world economy requires taking many aspects of their functioning into account. There is no single synthetic indicator that would directly reflect the role TNCs play in the world economy. Numerous characteristics outlined below prove the importance of the organisations featuring in this article.

TNCs have greater economic potential than many national economies around the globe and they take strategic decisions and actions, which are to a certain extent independent of the interests of the countries in which they operate. To fully understand the economic power of these enterprises in today’s global economy they are often compared to national economies. Such a comparison was made in 2000 (Anderson, Cavanagh 2000, 9), and then repeated by UNCTAD in 2002 after making adjustments for certain methodical inaccuracies. The list of the world’s 100 largest economic powers drafted at that time included 29 corporations and 71 countries (table 6).

Table 6. The world's top TNCs vs. economies in 2000 (\$ Billions)

Rank	Corporation / Economy	Value Added/ GDPa	Rank	Corporation / Economy	Value Added/ GDPa
1	United States	9.810	46	Pakistan	62
2	Japan	4.765	47	General Motors	56b
3	Germany	1.866	...	...	...
4	United Kingdom	1.427	54	Hungary	46
5	France	1.294	55	Ford Motor	44
6	China	1.080	56	DaimlerChrysler	42
7	Italy	1.074	57	Nigeria	41
8	Canada	701	58	General Electric	39b
...	...	...	59	Toyota Motor	38b
28	Poland	158	60	Kuwait	38
...	...	...	61	Romania	37
42	Columbia	81	62	Royal Dutch Shell	36
43	Philippines	75	63	Morocco	33
44	Chile	71	64	Ukraine	32
45	Exxon Mobil	63b	65	Siemens	32

Source: UNCTAD (2002), World Investment Report 2002, Transnational Corporations and Export Competitiveness, United Nations, New York and Geneva, 90.

Notes: ^aGDP for countries and value added for TNCs. Value added is defined as the sum of salaries, pre-tax profits, depreciation and amortisation; ^bValue added is estimated by applying the 30 percent share of value added in the total sales, 2000, of 66 manufacturers for which the data was available.

The importance of transnational corporations in the world economy can be proven by the characteristics relating to the value of TNC foreign affiliate assets, employment rate, value added and export volumes, which grew steadily in the period 1982–2013. A 47-fold increase has been observed with respect to the asset value. The role of TNCs in the world economy can also be seen by looking at the indicators relating to the foreign affiliates' share of sales and export in the world exports of products and services. At the end of 2013, foreign affiliates' export accounted for over 30% of world exports and their sales were 1.5 times higher than the global exports (table 7). J. Kleinert (2004, 26–28) also indicates that the role TNCs play in forming international trade flows

is even bigger. He estimates that TNCs participate in around 80% of all international trade, while approximately a third takes place within TNCs themselves (intra-firm trade), of which over half are indirect goods (materials, parts, components).

Table 7. Selected indicators of international production, 1982–2013 (\$ Billions)

Item	1982	1990	2000	2010	2013
Total assets of foreign affiliates	2,036	3,893	21,102	78,631	96,625
Employment by foreign affiliates (thousands)	19,864	20,625	45,587	63,043	70,726
Value added (product) of foreign affiliates	623	881	3,167	5,735	7,492
Exports of foreign affiliates	635	1,498	3,572	7,436	7,721
Sales of foreign affiliates	2,530	4,723	15,680	22,574	34,508
Value added (product) of foreign affiliates to global GDP ratio	0.05	0.04	0.10	0.09	0.10
Exports of foreign affiliates to global exports of goods and services ratio	0.27	0.36	0.51	0.39	0.33
Sales of foreign affiliates to global exports of goods and services ratio	1.06	1.15	2.23	1.19	1.49

Source: compiled by the authors on the basis of: UNCTAD (2001), World Investment Report 2001, Promoting Linkages, United Nations, New York and Geneva, 10; UNCTAD (2009), World Investment Report 2009, Transnational Corporations, Agricultural Production and Development, United Nations, New York and Geneva, 18; UNCTAD (2013), World Investment Report 2013, Global Value Chains: Investment and Trade for Development, United Nations, New York and Geneva, xvi; UNCTAD (2014b), World Investment Report 2014, Investing in the SDGs: An Action Plan, United Nations, New York and Geneva, xviii.

A crucial aspect of the role TNCs play in the world economy is their participation in research and development work around the globe. In 2002, 700 leading corporations allocated approximately \$310 billion to R&D activity, which was equivalent to 46% of the total global R&D expenditure and as much as 69% of the funds spent on R&D by the whole business sector (OECD 2002, 103). It should also be noted that in some countries the TNCs' share in the financing of R&D can be decisive and may be as high as over 50% (Lall 2002, 54; UNCTAD 2005, 292–293). According to the 2014 ranking, five companies from the United States, two from Switzerland and one from Japan, South Korea and Germany were among the top 10 TNCs in terms of R&D expenditure. Volkswagen from

Germany spent most on R&D. Their research and development expenditure of \$13.5 billion accounted for 4.6% of the corporation's total sales (table 8). The highest R&D expenditure in relation to their sales volume was achieved by Swiss Roche – 19.8%, followed by a US corporation Intel – 18.9% (Strategy& 2014).

Table 8. The world's top 10 R&D spenders, 2014 (\$ Billions)

Corporation	Home economy	Industry	R&D Spend
Volkswagen	Germany	Automotive	13.5
Samsung	South Korea	Computing and electronics	13.4
Intel	United States	Computing and electronics	10.6
Microsoft	United States	Software and Internet	10.4
Roche	Switzerland	Healthcare	10.0
Novartis	Switzerland	Healthcare	9.9
Toyota	Japan	Automotive	9.1
Johnson & Johnson	United States	Healthcare	8.2
Google	United States	Software and Internet	8.0
Merck	United States	Healthcare	7.5

Source: Strategy& (2014), The Global Innovation 1000 Study: The Top Innovators and Spenders, <http://www.strategyand.pwc.com> (accessed: 10.11.2014).

Substantial spending on research and development (the most active corporations have larger R&D budgets than medium-sized countries – UNCTAD 2005, 120), the ability to implement cost-intensive innovation projects and generate innovative organisational solutions form the basis for the global competitiveness of TNCs. The result is impressive profits (table 2), which allow even greater accumulation of capital and further intensive international expansion through the implementation of large scale and impressive range investment projects (Karaszewski 2013, 227–240). This phenomenon results in a significant concentration of resources at the disposal of a limited number of companies, which leads to continuously growing disparities in the use of the world's knowledge, skills and technology (Karaszewski 2004, 400–402).

FINAL REMARKS AND CONCLUSIONS

Although researchers cannot fully agree on the origins of the structures that gave rise to the emergence of transnational corporations, it is clear that the dynamic growth of these companies dates back to the second half of the twentieth century, and in particular to its last two decades and the first decade of the 21st century. Between 1995 and 2010 the number of TNCs increased more than 2.5-fold, and the number of their foreign affiliates – over 3.5-fold (table 1). In 2013, TNC foreign affiliates employed a total of 70,726,000 employees, the value of their assets was estimated at \$96,625 billion and the scale of their business activity accounted for 10% of global GDP. TNC affiliates' sales at that time amounted to \$34,508 billion and were nearly 1.5 times higher than total world exports. The value of their export sales stood at \$7,721 billion and accounted for 30% of total world exports (table 7).

The economic potential of transnational corporations can be proven by the leaders' performance in the various categories analyzed in this study. In 2013 alone, the world's 500 largest trading powers among TNCs generated a total revenue of \$31.1 trillion, and their profits were estimated at \$2 trillion (Fortune Global 500 in 2014). Market capitalization of the 100 most valuable TNCs amounted to as much as \$15,020 billion as of March 2014 (PwC 2014). Their considerable investment outside their home countries can be seen by looking at the value of their foreign assets, which in the case of the world's 100 largest non-financial TNCs totalled \$8,103,862 million in 2013. An average value for the TNI index for this group of businesses at that time stood at 64.5% (UNCTAD 2014a).

All TNC characteristics presented in this paper confirm the great economic power of these companies. It is so impressive that they are often compared to national economies. The list of the world's 100 biggest economic powers drafted in 2002 by UNCTAD included 29 corporations (UNCTAD 2002). TNCs also play an important role in research and development work. R&D spending among the most active corporations can be larger than that of medium-sized countries. In 2014, the top ten R&D spenders allocated \$100.3 billion to research and development projects (Strategy& 2014).

The rankings presented here highlight the importance of the world's largest corporations, which stand out in terms of trade, capital, investment and research. It should be noted, however, that although these enterprises utilize considerable resources, and hence also attract the attention of the world, they

reflect achievements of a relatively small number of organisations which belong to a wide and diverse category of TNCs. It is a small fraction of a community of over 100,000 companies. One should keep in mind the growing number of small and medium-sized enterprises, which now form a sizeable part of transnational corporations and which to a large extent shape the landscape of the modern world and play a significant role in the world economy even if they do not top the rankings presented in this paper. There has recently been a rapid increase in the quantity and strength of corporate capital from developing countries, in particular from countries in South Asia, East Asia and South-East Asia, including China and Hong Kong, South Korea, Taiwan and India. More and more state enterprises or enterprises with state capital can also be seen in the international space.

If we consider the tendency outlined above, it can be concluded that the changes that have been observed in the processes of formation and international expansion of TNCs suggest that this historically rooted process of international business growth, shaped mainly by large private companies from developed countries, is now increasingly complemented and enriched by the dynamic growth of corporations in developing countries. These are often smaller than the world's leading corporations, though not necessarily small in themselves, but with similarly high international, if not global, aspirations. It is to be expected that the pursuit of these aspirations will probably be one of the most exciting symptoms of the changes in international business growth in the near future.

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