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Transnational Corporations and Business Networks in ASEAN: Building Partnership in the Asia– Pacific Region

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Abstract

There are many factors that promote the close, mutual cooperation within the group of ASEAN countries. These states are linked by the economic, social and political ties. One of the elements that can contribute to the deepening of the integration between the ASEAN countries are the transnational corporations and the business networks they create. Transnational corporations (TNCs) are an economic power in today's global economy. TNCs are important players and their role is manifested in capital flows, technology transfer and merchandise trade. The importance of corporations as global players is growing due to their economic potential, and also because they make foreign direct investment and create business networks, thereby, contribute to the flow of the state-of-the-art technologies from the developed to the developing countries. They play a significant role in shaping the global economy along with the individual national economies, both those developed ones, from which TNCs mainly originate, and the developing economies, to which they relocate their subsidiaries or chosen elements of the value chain. The aim of this paper is to examine the activities of the transnational corporations in the ASEAN countries and the impact these corporations have on building partnerships between the countries. The analysis will also cover corporations originating from the ASEAN countries, which through creation of business networks, actively affect ASEAN relations with the Asia-Pacific region.

Keywords: ASEAN, business networks, transnational corporations

1. Introduction

There are many factors that promote the close, mutual cooperation within the group of ASEAN countries. These states are linked by the economic, social and political ties. One of the elements that can contribute to the deepening of the integration between the ASEAN countries are the transnational corporations and the business networks they create. Transnational corporations (TNCs) are an economic power in today's global economy. They form global competition, affect the distribution of manufacturing factors, and through the intensification or absence of their operations, have an impact on the situation of the host countries. TNCs are important players and their role is manifested in capital flows, technology transfer and merchandise trade. The importance of corporations as global players is growing due to their economic potential, and also because they make foreign direct investment and create business networks, thereby, contribute to the flow of the state-of-the-art technologies from the developed to the developing countries. They play a significant role in shaping the global economy along with the individual national economies, both those developed ones, from which TNCs mainly originate, and the developing economies, to which they relocate their subsidiaries or chosen elements of the value chain.

Currently, the transnational corporations are the entities in the global economy that are developing in a dynamic pace. Each year new corporations emerge, but also those already existing multiply their assets, move to new markets and create new production networks. Although the corporations from the economic triad (the USA, EU and Japan) still dominate at the forefront of the global corporations (Fortune, 2016), other regions of the world also come to the fore, including Asian countries in particular. Fast pace of the economic growth that is currently taking place in majority of the Asian countries, contributes directly to the development of the local companies. These companies, in order to develop, make transfers of capital in the form of foreign direct investment, which in turn, affects the host and the home economies of the investor, as well as the mutual relations between the countries.

1.1 Research Questions and Methods

The aim of this paper is to examine the activities of the transnational corporations in the ASEAN countries and the impact these corporations have on building partnerships between the countries. The analysis will also cover corporations originating from the ASEAN countries, which through creation of business networks, actively affect ASEAN relations with the Asia-Pacific region. Based on the aim of the paper there are 3 research questions to be answered in the article: (1) What are the investment trends in ASEAN region? (2) What is a model for business networks in ASEAN countries? (3) Can business network have an influence on the process of building partnership inside the ASEAN group and between ASEAN and the rest of Asia – Pacific region? Those research question inscribe into the topic of economic integration in ASEAN region, but can add some new ideas to the topic. Majority of research about integration don't cover the clusters approach and that is why the analyze from the cluster point of view can be new in the whole integration trend in research. There no many research articles about the role of clusters in the integration process, that is why in the article mostly reports were used.

A critical analysis of available literature on the subject of transnational corporations and business networks in the global economy has become the starting point in the article. The paper presents the deductive-analytical approach. The research method used in the article is a causal analysis method that was used to study the impact of corporations and networks on building partnerships in the region.

2. Transnational Corporations and Business Networks – Theoretical Approach

No unambiguous definition of the transnational corporation can be found in the literature of the subject. This comes as a result of different approach to this concept adopted by numerous authors of definitions. Transnational corporations are the entities that have evaluated over years. The origins of TNCs date back to the 19th century, therefore, the existence of many different definitions of this concept seems to be natural. In explaining the term corporation, many of the authors focus on the ownership structure, some others on the number of affiliates or subsidiaries, yet others emphasize the vital role of the parent company. Further, various names are used for these entities, such as transnational corporations, multinational companies or multinational corporations. For the purposes of this chapter, the term transnational corporation will be used, which was officially approved by the United Nations (UN) in 1974 (Dunning & Lundan, 2008).

Currently, the study on this topic is conducted by a specialized agency of the UN, the United Nations Conference on Trade and Development (UNCTAD). In accordance with UNCTAD, a transnational corporation is a company that has a legal personality or not and consists of a parent company and its foreign subsidiaries. The parent company is defined as an enterprise that controls the assets of other companies in a country other than enterprise's home country, usually through having a share in the equity of this company (not less than 10% of the ordinary shares or voting rights at a general meeting of the company). While a foreign subsidiary is a company, in which an investor residing in another country owns a stake of shares that allows it to exert a lasting influence on the management of this company (UNCTAD, 2007).

P.J. Buckley and M. Casson made a significant contribution to the formulation of the TNC definition. They recognized that a transnational corporation is a company with subsidiaries in different countries that controls their operations. According to this definition, TNC's control over the operations of its subsidiaries abroad allows it to correct market deformations and transaction costs (Buckley & Casson, 1976). Along with the evolution of corporations and their role in the global economy, newer elements began to appear in their definition. J.H. Dunning and S.M. Lundan linked the corporation with possession of foreign direct investment. They indicated that a corporation is a company that creates and manages business, which in turn generates the value added outside their home country and internalizes at least a few foreign markets in order to create a product that is a consequence of such action. J.H Dunning and S.M. Lundan also raised the issue concerning nationality of the corporation owners. They claimed that TNCs are 'nationally controlled' and at the same time 'internationally owned', in practice it means that the management is usually composed of employees from corporation's home country, but owners are scattered all over the world (Dunning & Lundan, 2008).

As noted by G. Letto-Gillies, companies which are involved in the international business only through export or import of products or services, may not be considered a corporation. A corporation, in order to be recognized as transnational one, must operate directly on the foreign market through establishment of subsidiaries there or taking over assets located outside the home country (Letto-Gillies, 2005). Many experts link the transnational corporations with foreign direct investment. S.D. Cohen notes that FDI is the core activity of the corporations, which is exactly what makes them transnational and emphasizes that not all companies involved in foreign trade are considered TNCs (Cohen, 2007).

A change in approach to the activities of the transnational corporations took place in the 1960s. Previously, the corporations formed their subsidiaries, mainly in production, in the host economies, and the products manufactured in the subsidiaries were to satisfy demand of the local markets. The reason behind it was the need to circumvent tariff barriers and restrictive import policies of the individual economies. The exception was the resources – oriented FDI, as it satisfied the lack of raw materials necessary for the manufacture of goods in the home country. Currently, the corporations base their structure on networks and create 'network corporation' and thereby the 'network society' (Wai-Chung, 1998). Integration processes taking place in different parts of the world have exposed the corporations to direct competition, offering unprecedented opportunities, but also risks. Corporations are no longer just the combination of their foreign affiliates and the headquarters. The objective of the modern corporations is to use the local advantages of their units and to include them in the world-wide efforts of the headquarters to reach global efficiency. Due to such an approach to corporations, one may consider these companies as business networks that are created in order to reap the benefits from the presence on the global market.

Business networks are characterized by a closed membership that distinguishes them from clusters. The networks are also only a relationship based on cooperation rather than cooperation and competition. Network allows firms to focus on core competencies and major outcome is to increase profits and sales (Bobowski, Jankowiak & Mazurek, 2011). Business networking can contribute to growth of the company, to acquisition of new resources, market information and many opportunities offered by the national and international markets. The benefits offered by activity in a group and creation of networking encouraged many organizations to use business networks as their deliberate strategy of operation (Transnational, 2008).

3. TNCs Located In the ASEAN Countries and Their Activities

Transnational corporations are active players in the international arena affecting the situation in the global economy through their activities. This effect is best visible due to foreign direct investment made by the corporations. There is no just one single country in the world that is uniquely attractive to foreign investors, because capital transfers in the form of FDI are subject to various factors that widely transcend the economic category. Further, the social, cultural, demographic, geographic, and extremely important, political factors, also count. The place to make FDI is determined by the production profile of the corporation, its target markets, adopted strategies or financial capacity. For corporations engaged in production, which operate mainly in the Western Europe, the Central and Eastern Europe countries, especially members of the European Union, will be an attractive market for FDI. Through membership in the integration group, companies gain tangible benefits, in the form of preferential customs duty rates as well as facilitation of trade and capital movements.

Although, as mentioned earlier, there is no just one single country in the world objectively attractive for FDI placement, the Asian countries, including ASEAN ones, are among the leaders in attracting FDI to their economies. Despite the economic slowdown of the global economy in the recent years, in 2016, the region of East and South-East Asia attracted 361 billion USD. Further increase in the dynamics of FDI inflows to the countries of the ASEAN group is expected, especially in the light of ASEAN and six FTA partners (Australia, China, India, Japan, the Republic of Korea and New Zealand) negotiations aimed to establish the Regional Comprehensive Economic Partnership (RCEP). In 2016, the FDI inflows to these countries accounted for 20,7% of the world's FDI inflows (World, 2017). Creation of regional and transregional integration groups and agreements will contribute to further increase in FDI inflows to the East and South-East Asian countries.

According to the World Investment Report, East Asia attracted less investment in 2016 (Figure 1), but it should be noted that there was a decrease in East Asia and South – East Asia about 20% (from the level of 445 billion USD). It is an indication of slowdown in dynamics of FDI inflows to the region and stabilization in the stream of inflowing FDI.

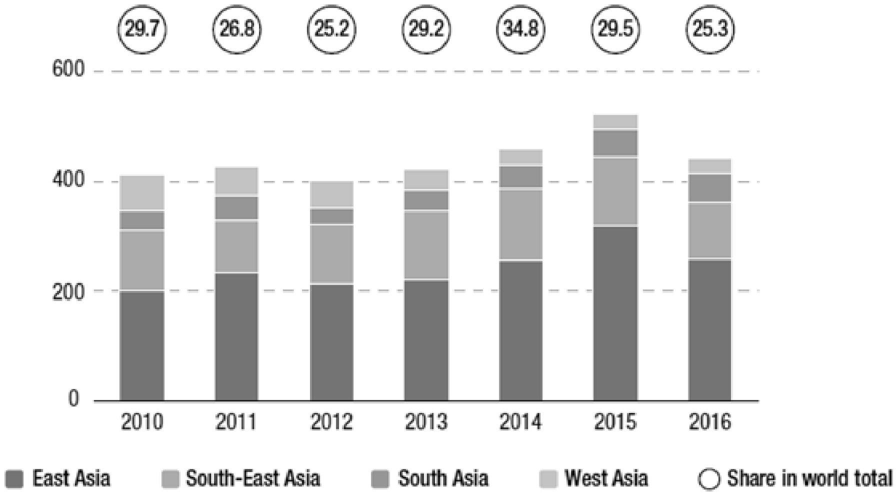

Figure 1. FDI inflows in 2010-2016 in Asia [in billions of USD]

Source: World Investment Report 2017, *Investment and Digital Economy*, UNCTAD, New York and Geneva, p. 50.

In the light of the above data, the East Asia region seems to be attractive to foreign investors, but the situation is changing. South–East Asia and the ASEAN countries gain an increasing number of arguments on their side, so their investment attractiveness and competitiveness is growing. In 2014 – 2016, the investment inflows to the ASEAN countries were greater than the investment outflows from the region. Greenfield investments (see Figure 2) in the ASEAN countries were made mainly by the Japanese, Chinese and South Korean investors. In 2016, the inflow to ASEAN countries was twice as big as outflow (Asia-Pacific, 2017).

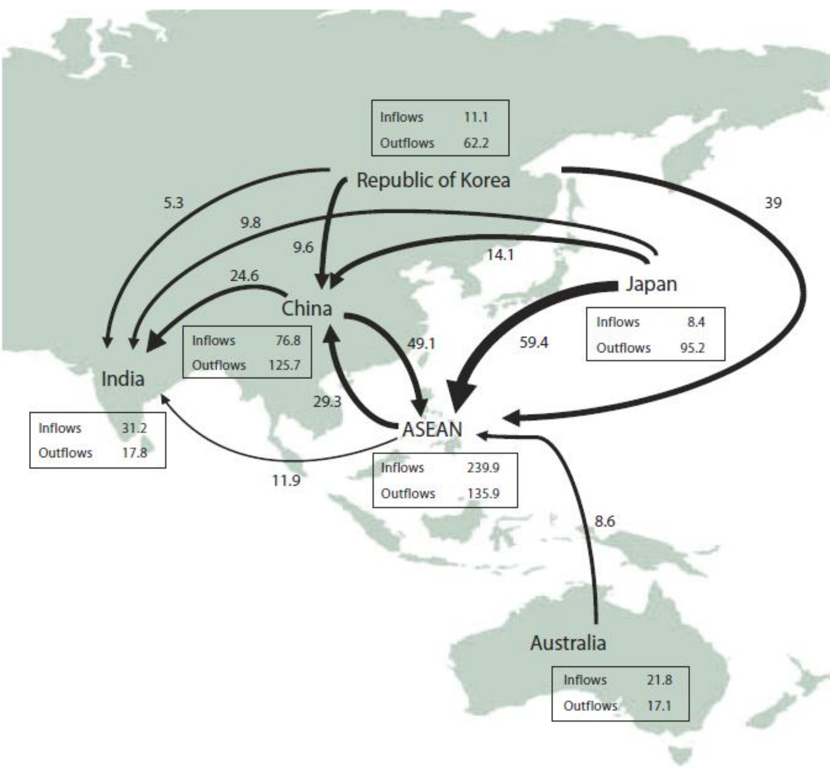

Figure 2. Intraregional greenfield foreign direct investment flows between selected countries and total inflows and outflows to and from those countries, 2014-2016 (billions of USD)

Source: Asia-Pacific Trade and Investment Report 2017, *Challenging Trade and Investment into Sustainable Growth*, United Nations publication, New York, p. 49.

On the one hand, the activities undertaken by the ASEAN countries to expand the infrastructure or promote anti-corruption contribute to the increase in attractiveness, and on the other hand, transnational corporations discouraged by the growing labour costs in countries such as China or India, extend the scope of their search. Therefore, the attractiveness of the ASEAN countries consists of both internal factors as well as those originating from the environment and the situation in other Asian countries. At this point, it is worth posing a question as to what makes the ASEAN countries a convenient place for foreign investment and transnational corporations. The ASEAN countries have a favourable demographic structure, with an overwhelming predominance of young people before the age of 40. This phenomenon is extremely conducive to transfer of capital by the corporations, because on the one hand, the host countries offer the workforce, often well-educated and English-speaking, and on the other hand, they are ready markets for products manufactured by the corporation. The middle class from the ASEAN countries, that is growing rich, wants to consume more and more products, therefore, the companies find consumers for goods they manufacture. ASEAN is an extremely diverse group of countries, thus the TNCs perceive each national market differently.

It is possible to notice certain specialization in the types of foreign investments made in the individual ASEAN countries, thus in the business profiles of transnational corporations, which locate their business in particular countries. The specialization arises from competitive advantage and equipment as well as the costs of production factors. Vietnam attracts corporations and investments in the export-oriented manufacturing industries as well as in the real estate and service sector. While Cambodia is the destination for garment manufacturing, financial service and agriculture. Lao Peoples' Democratic Republic attracts mainly investments in services, while Myanmar production-oriented investments based on natural resources. Thailand and Indonesia are the main destination for the production-oriented greenfield investments in automotive and metals (Asia-Pacific, 2013). In rich countries like Singapore, TNCs seek customers and employees providing services, such as financial services, and in countries like Vietnam or Laos, corporations will focus on production. Corporations are extremely flexible in pursuit of global efficiency, so they choose a location that fits the global strategy of the company. It seems that in this respect, ASEAN is extremely attractive, just by virtue of its economic and social diversity. Dynamic economic development, economic growth and macroeconomic indicators are further factors of the ASEAN investment attractiveness. ASEAN countries may be perceived by the investors as a strong group in their region, which follows a coherent policy of attracting potential corporations. Due to many agreements signed by the ASEAN countries (see Figure 3), barriers in the movement of capital, goods, services or labour have been removed, which has made the region even more attractive. ASEAN can be seen as one of the driving forces in the Asia-Pacific region, stepping up more daringly to the fight for the leadership in this part of the world.

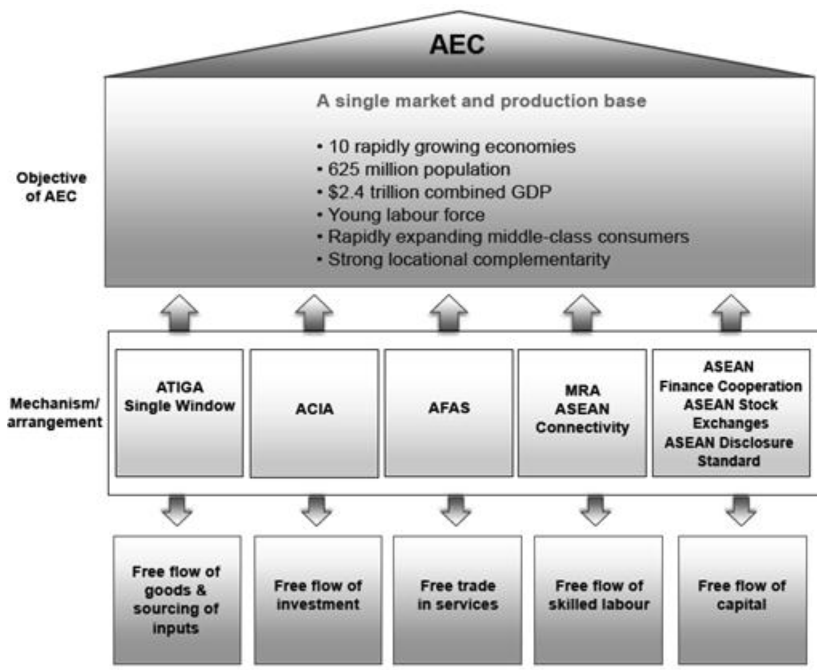

Figure 3. ASEAN Economics Community: Influences on business and investment decision

Legend: ATIGA= ASEAN Trade in Goods Agreement; ACIA= ASEAN Comprehensive Investment Agreement;

AFAS= ASEAN Framework Agreement on Services; MRA = Mutual Recognition Agreement

Source: *ASEAN Investment Report 2013-2014. FDI Development and Regional Value Chains*, Jakarta: ASEAN Secretariat, October 2014, p. XIV.

Corporations, by making an investment in one of the ASEAN countries, automatically get access to other markets. A part of the corporations remains in one or two national economies, but a significant part of the TNCs makes investments in many ASEAN countries, getting access to all of the offered production factors and consumer markets. Through the activity of TNCs in the entire ASEAN group, chains and regional production networks are created. Such activity is typical for Asian as well as the European and American corporations. Integration processes and a range of trade and investment agreements concluded within the ASEAN group are intended to promote and facilitate investments in the discussed countries. These agreements are aimed not only at foreign investment flowing from outside ASEAN, but also on cross-border investments made in particular by the regional corporations. ASEAN has developed institutional mechanisms common to all member countries that promote and create investment facilitations in order to be more effective in attracting foreign investors to the region. Such a policy and effective activities increase the level of ASEAN attractiveness for transnational corporations from inside and outside the region.

The market of the ASEAN group is extremely attractive for the transnational corporations, hence, the world's largest companies have been present on it for several years. Depending on the type of products or services offered by the companies, global TNCs choose more or less developed countries of the discussed group. For example, an ideal location for financial services will be Singapore and for the production of parts for the automotive industry - Myanmar. Brands such as Coca-Cola, Unilever, Suzuki or Nissan have long recognised the potential of the ASEAN countries for their activities. The presence of the international players in the researched countries is constantly evolving, reflecting the increasing involvement of corporations in the region, but also the ever-growing level of ASEAN investment attractiveness. Integration processes taking place in ASEAN constitute a significant facilitation, which is evident in the foreign investment. Corporations from the aforementioned Fortune Global 500, make simultaneous investments in several ASEAN countries. On the one hand, they diversify the risk by operating on many markets, and the other hand, they reduce the time of return on investment.

Japan has been the largest investor in the group of ASEAN countries for many years, because since 1960s. onward, the ASEAN countries have been the main beneficiary of Japanese FDI. These long-term relationships between Japan and ASEAN have contributed to high activity of the Japanese TNCs, which have permanently settled in the ASEAN economies. Japanese investors focus their attention mainly on production-oriented investments (58.8% of all FDI), while the services constitute less than 40% of the investment (ASEAN, 2013-2014). Currently, Japanese TNCs present in the ASEAN countries (e.g. Toyota, Toshiba, Mazda or Suzuki Motor) expand their production networks, launch new production lines, creating other types of products in new or existing production facilities. Japanese investors are also active in mergers and acquisitions, both in production as well as banking, finance and real estate. This considerable scale of Japanese corporations' involvement in this place results from Japan's engagement in South-East Asia, which in a way plays the leading role in the Asia-Pacific region, thereby affects the social and economic development of the countries in this part of the world. Japan, as a highly-developed country, transfers significant amounts to the states of the region by means of Official Development Aid (ODA), both in the form of grants and loans. Japanese involvement in ODA, partially stems from the need to create appropriate infrastructure in the countries of this part of the world, including the ASEAN countries and to ensure appropriate level of economic development, so then the Japanese corporations would be able to explore the region. Japan, as a donor, provides opportunities for further development in the developing countries, but on the other hand, gives its corporations new markets and places of potential investment activity.

Investments of the Chinese TNCs make a huge contribution to the infrastructural development of the ASEAN countries. Chinese construction companies are extremely active in winning contracts for the construction of mines and ports, as well as roads, bridges or power plants. This is due to the price advantage of the Chinese TNCs over corporations from other countries of the world. Currently, a very interesting situation can be observed in the activity of smaller Chinese corporations that make a lot of manufacturing investments in the ASEAN countries. China, until recently, the most attractive market for the clothing industry companies, has been forced to seek markets with lower labour and production costs. Companies from the ASEAN countries, including in particular, from Myanmar, Cambodia, Laos and Vietnam, become subcontractors of Chinese companies that are suppliers for the global clothing giants. CLMV countries[1] are characterized by a high level competitiveness of the workforce costs. In 2013, the average monthly payout in Cambodia was 125 USD, in Vietnam 130 USD and in Myanmar only 64 USD. Compared to the average monthly earnings in China (240 USD) (Opportunities, 2013), CLMV countries are extremely attractive to foreign investors.

Chinese corporations invest capital mainly in the form of green field investments, but brown field projects grow in popularity year to year. Chinese corporate involvement in the economies of the ASEAN countries is not only based on the economic grounds, but is also justified by the political factors. Under the agreement of 2004, ASEAN together with China created ACFTA (ASEAN-China Free Trade Area), which is designed to remove barriers and tariffs in trade, and as from 2009, in bilateral investments. Analysis of TNCs' world investment flows leads to an assumption that the Chinese companies will be increasingly active in the ASEAN countries. China, from the country that mainly hosts investors, with growing frequency is becoming a country transferring capital abroad, thus one can assume that the mutual investment relationships with the ASEAN countries will deepen.

4. TNCs from ASEAN Countries – Place in Rankings and Their Activity and Business Networks

Transnational corporations originating from the Asian countries are developing very dynamically, increasing their economic power and influence in the home and host economies. Asian corporations make a lot of foreign direct investment permanently increasing their transnationality index (TNI). Among 100 largest non-financial world corporations, 18 are companies from the region of East Asia and South-East Asia. Japan has the dominating position, 11 companies originate from this country. The average percentage of TNI (66.1) has been exceeded by 9 Asian corporations, which show a high degree of their internationalisation. From the perspective of the subject discussed in this chapter, a corporation from Malaysia should be noted, which ranks on 91st position with internationalization percentage at 42.5%.

A completely different situation is observed in a group of 100 non-financial corporations originating from the developing countries (Table 1). Companies from the Asian countries dominate in this group, especially from East Asia and South-East Asia. Out of 100 companies, as much as 62 come from these regions of the world. Vast majority are firms from China (18), Hong Kong (14), and Singapore (10). Further, the advantage of companies from the ASEAN countries is clearly outlined – from Taiwan (China) there are 9 corporations, from Malaysia 5 and from the Philippines 1 corporation. This result clearly indicates the advantage of the Asian transnational corporations over those from other developing regions of the world. Obviously, the list is dominated by the most dynamic regional economies, however, still it is far from internal potential. That is because of relative lower volume of foreign assets and employment, that confirm continuous concentration of production processes within home markets. Opening of the Asian corporations to the global market is directly related to the economic development of these countries and perceiving the international market as a chance for further development.

[1] CLMV – Cambodia, Laos, Myanmar and Viet Nam

Table 1. The world's top 100 non-financial TNCs from developing and transition economies, ranked by transnationality index (TNI), 2016 with special regard to East Asia and South – East Asia

TNI [b]	Foreign assets	Corporation	Home economy	Industry [c]	TNI (per cent)
1	77	Golden Agri-Resources Ltd	Singapore	Food & beverages	100,0
2	81	Galaxy Entertainment Group Ltd	Hong Kong, China	Hotels and restaurants	98,2
3	36	First Pacific Company Ltd	Hong Kong, China	Food & beverages	97,0
4	88	Guangdong Investment Ltd	Hong Kong, China	Electricity, gas and water	95,2
5	90	Banpu Public Company Limited	Thailand	Mining, quarrying and petroleum	95,1
6	49	Shangri-La Asia Ltd	Hong Kong, China	Hotels and restaurants	94,7
7	64	Broadcom Limited	Singapore	Electronic components	94,4
8	83	Shenzhen International Holdings Limited	Hong Kong, China	Transport and storage	92,6
9	39	Noble Group Ltd	Hong Kong, China	Wholesale Trade	91,2
10	61	Flex Ltd	Singapore	Electronic components	86,5
11	1	CK Hutchison Holdings Limited	Hong Kong, China	Retail Trade	85,8
12	89	Compal Electronics Inc	Taiwan Province of China	Computer Equipment	85,4
13	3	Hon Hai Precision Industries	Taiwan Province of China	Electronic components	84,3
14	74	Pou Chen Corp	Taiwan Province of China	Textiles, clothing and leather	83,1
16	94	Li & Fung Ltd	Hong Kong, China	Wholesale Trade	81,4
20	60	Axiata Group Bhd	Malaysia	Telecommunications	76,7
21	41	YTL Corporation Bhd	Malaysia	Construction	76,2
25	35	Genting Bhd	Malaysia	Hotels and restaurants	69,9
27	79	Wistron Corp	Taiwan Province of China	Computer Equipment	68,4
28	87	China Resources Beer (Holdings) Company Limited	Hong Kong, China	Retail Trade	68,3
33	14	Singapore Telecommunications Ltd	Singapore	Telecommunications	65,3
34	47	Quanta Computer Inc	Taiwan Province of China	Computer Equipment	65,0
35	91	City Developments Ltd	Singapore	Real Estate	64,5
37	4	Samsung Electronics Co., Ltd.	Korea, Republic of	Communications equipment	63,4
40	25	CapitaLand Ltd	Singapore	Construction	60,9
41	70	WH Group Limited	Hong Kong, China	Agriculture, forestry, & fishing	59,8
46	86	Sembcorp Industries Limited	Singapore	Electricity, gas and water	57,3
47	33	Lenovo Group Ltd	China	Computer Equipment	55,8
50	24	Legend Holdings Corporation	China	Computer Equipment	52,7
54	78	Olam International Ltd	Singapore	Food & beverages	49,9
55	6	China COSCO Shipping Corp Ltd	China	Transport and storage	49,8
56	27	Wilmar International Limited	Singapore	Food & beverages	49,2
58	73	Sime Darby Bhd	Malaysia	Wholesale Trade	48,9
59	92	LG Electronics Inc.	Korea, Republic of	Electric equipment	48,8
61	15	New World Development Ltd	Hong Kong, China	Construction	47,6
62	67	Keppel Corp Ltd	Singapore	Other Transportation Equipment	46,4
63	19	China National Chemical Corporation (ChemChina)	China	Chemicals and Allied Products	46,3
65	57	CLP Holdings Ltd	Hong Kong, China	Electricity, gas and water	44,2
66	100	SK Hynix Inc	Korea, Republic of	Electronic components	44,0
67	5	Petronas - Petroliam Nasional Bhd	Malaysia	Mining, quarrying and petroleum	42,5
68	31	Jardine Matheson Holdings Ltd	Hong Kong, China	Wholesale Trade	40,9
69	59	Doosan Corp	Korea, Republic of	Electronic components	40,5
70	34	Sinochem Group	China	Mining, quarrying and petroleum	39,9
72	17	Tencent Holdings Limited	China	Computer and Data Processing	36,1
78	20	Hyundai Motor Company	Korea, Republic of	Motor Vehicles	32,2
79	32	Fosun International Limited	China	Metals and metal products	30,7
81	65	China Electronic Information Industry Group Co., Ltd. (CEC)	China	Computer and Data Processing	26,8
83	38	POSCO	Korea, Republic of	Metals and metal products	25,4
85	26	Sun Hung Kai Properties Ltd	Hong Kong, China	Construction	25,0
86	16	Formosa Plastics Group	Taiwan Province of China	Chemicals and Allied Products	24,9
87	2	China National Offshore Oil Corp (CNOOC)	China	Mining, quarrying and petroleum	23,8
88	68	San Miguel Corp	Philippines	Food & beverages	21,7
89	8	China Minmetals Corp	China	Metals and metal products	20,9
90	66	Cofco Corp	China	Food & beverages	20,7
91	12	Hanwha Corporation	Korea, Republic of	Wholesale Trade	20,4
92	43	Dalian Wanda Group	China	Construction	18,7
94	23	Sinopec - China Petrochemical Corporation [e]	China	Petroleum Refining and Related Industries	12,9
95	13	China State Construction Engineering Corp Ltd (CSCEC)	China	Construction	12,6
96	80	China Communications Construction Company Ltd	China	Construction	10,4
98	99	HNA Group Co Ltd	China	Transport and storage	5,0
99	22	China National Petroleum Corp (CNPC)	China	Mining, quarrying and petroleum	3,4
100	56	China Mobile Limited	China	Telecommunications	3,3

Source: World Investment Report 2017, Investment and Digital Economy, UNCTAD, New York and Geneva, Annex table 25.

An analysis of the data presented in Table 1 shows that although corporations from the ASEAN countries are not dominant in the ranking of the largest corporations from the developing countries, their economic potential is growing. It is associated with the dynamic economic development of the countries from the discussed group, therefore, it is reasonable to expect that the further economic development of the ASEAN countries will be a driving force for development of the local corporations. Even now, one can indicate many important companies from the countries of the ASEAN group. These corporations have become important players not only in their region, but also, by entering the business networks, significant international entities in the global economy.

Corporations from the ASEAN countries constantly increase the stream of foreign investment within their group, which contributes to strengthening of ties between them. The integration processes in the region are controlled by the governments of the ASEAN countries, which through their policy, enhance the activities of the business entities. On the other hand, the domestic companies, which make foreign expansion, form a network of interdependences, and consequently local firms are included in the regional business networks. Similarly to the global corporations, large companies from the ASEAN countries make investments in the countries belonging to the discussed group. The main beneficiaries of the intra-ASEAN investments are least developed countries, in which the production costs are the lowest in the group, and where the pace of infrastructure development is high (Table 2). It should be noted that the investment expansion is made not only by large companies but also by small and medium-sized enterprises. In accordance with the definition of the transnational corporations provided at the beginning of this chapter, a company that has two subsidiaries or affiliates is considered a corporation, so due to investment expansion within the group of ASEAN countries, even small companies become corporations. Many SMEs have or are planning to make investments outside their home country, while remaining within the ASEAN region (ASEAN, 2013-2014).

Table 2. Intra-ASEAN investment expansion (selected cases) in 2016

MSMEs	Home-country	Industry/business activities	Selected host-country(ies)	Remarks/reasons
ICT Group	Indonesia	Steel	A number of ASEAN Member States	• Sales and marketing offices overseas • Opportunities arising from growing steel demand in ASEAN
Barong Batik	Indonesia	Garments	Philippines and Indonesia	• Business opportunities in host markets • Strategic asset seeking to a degree (access to skilled artisans in batik production)
Human Nature	Philippines	Beauty and care products	Malaysia and Singapore	• Use of partnerships with long-established distributors in host-country
Love and Madness	Philippines	Clothing	Singapore and France	• Distributorship arrangement with overseas partners
Phoenix Voyages	Myanmar, Viet Nam	Tour and travel	Cambodia, Indonesia, Lao People's Democratic Republic and Thailand	..
Vela Diagnostics	Singapore	Molecular solutions for infectious diseases	Malaysia, Germany and the United States	• Representative offices overseas, including with overseas partners • Choice of locations also motivated by availability of strategic assets (skills and technology)
Technofit	Malaysia	Engineering services	Indonesia and Oman	• Representative offices overseas
Phibious	Viet Nam	Brand marketing and communication consultancy	Cambodia, Indonesia, Lao People's Democratic Republic and Myanmar	• Offices overseas
Quo Global	Thailand	Advertising and marketing agency	Singapore, Viet Nam, India and the Netherlands	• Offices overseas in order to be close to clients
Cool Company	Thailand	Manufacture of commercial freezers, coolers and cold chain products	Indonesia, Malaysia, Philippines and Viet Nam	• Service centres and a warehouse overseas • A contract manufacturer
Applied Total Control Treatment	Singapore	Metal finishing industry	Indonesia, Malaysia, Philippines and China	• Offices overseas to be close to customers
Efficient Technology	Malaysia	Mechanical services to energy markets	Singapore	• Operates in Singapore to be near lead firms in the industry • Has developed technical partnerships with these lead firms, which are foreign MNEs
KLT Fruits	Philippines	Processing of tropical fruits	Singapore	• A trading and marketing office in Singapore for the ASEAN market
Java Offshore	Indonesia	Oil and gas survey and subsea solutions	Malaysia and Singapore	• Representative offices where major clients operate
ADI Group	Thailand	Human resource and recruitment agency	Indonesia and Singapore	• Established offices in host countries with market potential
Zanroo	Thailand	Software (social listening tool technology	ASEAN Member States	• Expanding markets for big data processing

Source: ASEAN Investment Report 2016: Foreign Direct Investment and MSME Linkages, ASEAN, Jakarta, 2016 p.XXIII.

A high level of internationalisation is particularly visible in the case of corporations originating from Thailand. The expansion of Thai corporations began back in the 1990s., but its dynamics slightly faded after the Asian crisis of 1997. Thai investors make their investments mainly in the countries of the ASEAN group, and particularly Singapore has become the main beneficiary of Thai FDI. The investors are looking for consumers of their goods outside Thailand, and by presence in less-developed countries that offer lower labour costs, they improve their effectiveness. Some of Thai companies go beyond the operation at regional level and show global ambitions. Those companies focus on international market in order to move up the value chain and become the significant global player (Asia-Pacific, 2013).

5. The Influence of TNCs and Business Networks on ASEAN Relations with the Region

Transnational corporations create links across countries as a consequence of seeking profitable opportunities for production, trade, investment or technology contracts. Created networks and links ensure that corporations have a lot of flexibility and increase their competitiveness in the rapidly changing conditions of the global economy. Changes on the international market are caused by the development of technology, exchange rate volatility, as well as government policy and regulations affecting mechanisms governing individual markets (Dobson & Slow, 1997). Transnational corporations in the ASEAN region create production networks to benefit from the economic complementarity, which stems from regional integration within the discussed group of countries. The economies of the ASEAN countries are perceived by the foreign corporations as one market formed by 10 countries, rather than as individual national economies. In general, the transnational corporations in the region use the production networks to create only one element of their value chain, for example, to manufacture parts for further production. However, there is a group of corporations from outside the region, that uses the production networks as part of its regional value chain in order to combine the various functions and business operations into an integrated business arrangement. The investment attractiveness of the region, the integration processes within the group and zero common internal tariffs have encouraged TNCs to adopt regional production and business networks to expand their activities over the whole region (ASEAN, 2013-2014).

The relations between the global transnational corporations and the regional production networks in the countries of the ASEAN group have been developing dynamically since the 1980s. In some cases, the local networks are a part of a larger international production network or a global value chain of major corporations operating in the region. A characteristic feature of corporations is the ability to divide the different stages of the value chain, and then to move them to other entities. The global corporations, when taking decisions on involving the companies from the ASEAN group in their production chains, contributed to building strong production networks in the region. Then, these networks have been included in the global economy, which also strengthened the position of the ASEAN countries on the international arena. Currently, ASEAN takes a leading position in the production and export of selected goods, from such sectors as electronics, automotive, automotive parts and components, machinery and palm oil (ASEAN, 2013-2014). ASEAN countries take the first place in the world in the export of natural rubber products, palm oil or in the shrimp farming (ASEAN, 2013-2014). It was the presence of large transnational corporations, among many other economic and social factors, that has contributed to inclusion of the countries from the region in global production chains. The existence of the ASEAN Economic Community (AEC) directly contributes to creation of regional value chains, that through growing integration in the region and export, are included in the global value chains (Figure 4). Growing regional integration brings a number of facilities and enhancements in the functioning of the business and production networks, which has a direct impact on the connectivity of various players within the ASEAN group. This connectivity, manifested through the production, investment, trade and business linkages, is visible on the scale of the companies, countries and industries.

Figure 4. Regional integration, RVCs and ASEAN's connectivity

Legend: RVCs – regional value chains, GVC- global value chain, EMS - electronic manufacturing services

Source: *ASEAN Investment Report 2013-2014. FDI Development and Regional Value Chains*, Jakarta: ASEAN Secretariat, October 2014, p.106.

Membership of the ASEAN countries in the global production networks, through the existence of strong regional manufacturing companies, is particularly noticeable in two industries, which are really important for the development of the region. The first industry is the production of hard disk drives (HDD), with the dominant role of TNCs from the US, Japan and South Korea. The second one is the automotive industry with the key role of the Japanese automotive corporations.

The electronic industry, and particularly the production of HDDs, takes an important position in the economies of the ASEAN countries. Thailand is an undisputed leader in the production and export on a global scale, but the production networks are also present in Malaysia, the Philippines, Vietnam and Singapore (Figure 5). In 2012, Thailand made almost half of the world's HDD production, which enabled it to achieve the position of the global leader (Afzulpurkar, 2015). Thailand and Singapore are the main installation base in HDD manufacture, while the production of components and parts is concentrated in other ASEAN countries. In Malaysia they produce media platters and printed circuit boards, while in the Philippines sliders and head stack assemblies are produced. Individual countries are responsible for the production of the selected elements of disks, then these parts are transported mainly to Thailand, where they are installed in the final product. In this way the regional networks are formed, and through the presence of global companies, also networks of the global type (Cheewatrakoolpong, Sabhasri & Bunditwattanawong, 2013). Major HDD manufacturers are present in the ASEAN region (for example, Seagate Technology, Western Digital, Toshiba, Samsung), but also through their presence in the business networks, the local companies become significant in the global HDD production.

The electronic industry, in particular HDD production, is a good example of using the production networks in the ASEAN region, which became the world centre of hard disk drives production. Inclusion of the region in the global production was due to low costs of manufacture, manpower resources and relatively low cost of transporting components between the countries of the region, which allowed to divide the production chain into individual countries. Specialization of production is reflected in the activities of the countries in the region, which undertake a range of activities connected with the development of the electronic industry. An example of these activities may be the establishment of the HDD Cluster, comprising the Thai HDD producers. Also the government actively participates in the development of the high-tech industry in Thailand. The Thai Board of Investment, which operates directly under the supervision of the Prime Minister, promotes Thailand as a place convenient for investment related to HDD production. The importance of Thailand in the global HDD production and in the global value chains was particularly evident in 2011, when the country was hit by massive floods. The production process in many plants was suspended, through which the total production of HDD in Thailand decreased by 30 % (Thailand Remains, 2012), and this in turn had negative consequences on the prices in the world market of HDD products.

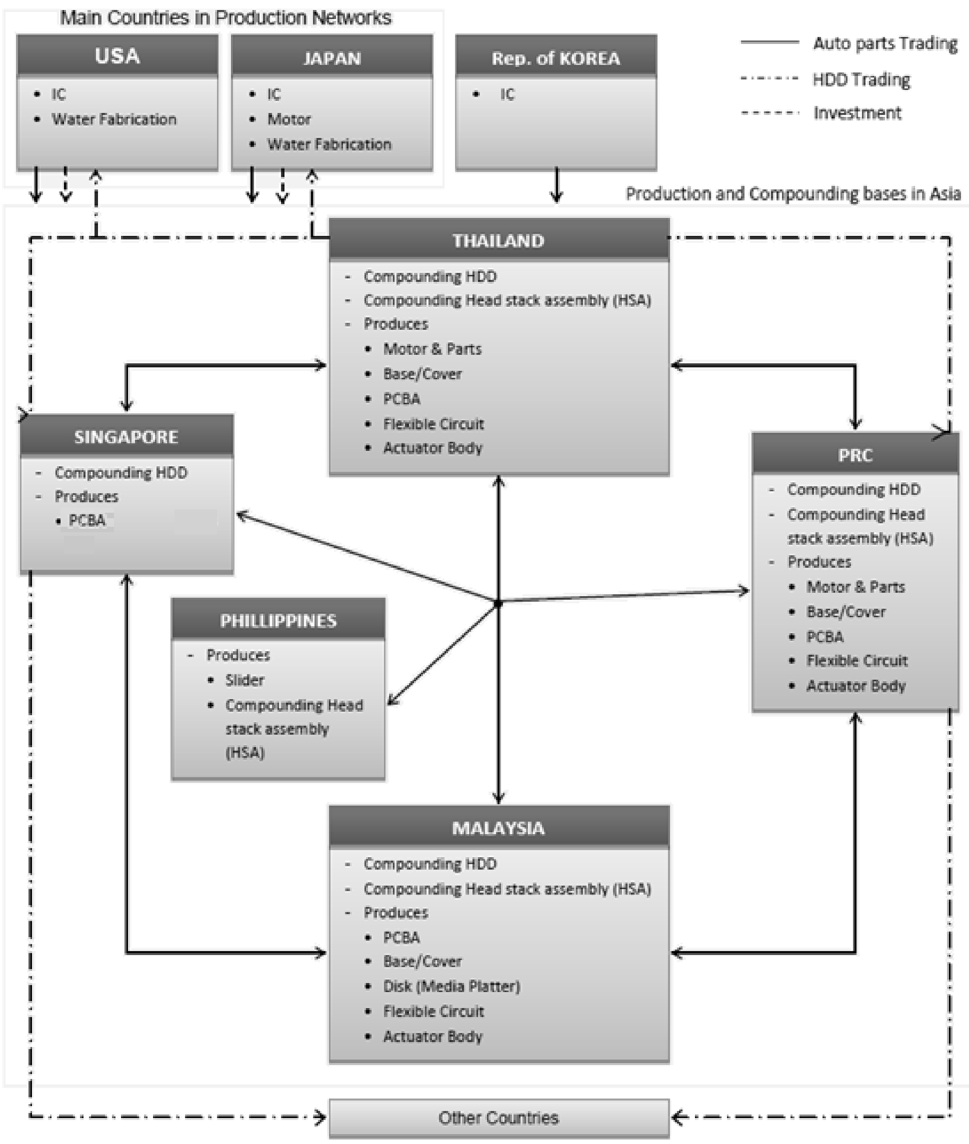

Figure 5. International Production Networks in the HDD Industry in East Asia

Source: K. Cheewatrakoolpong, C. Sabhasri, N. Bunditwattanawong, *Impact of the ASEAN Economic Community on ASEAN Production Networks,* ADBI Working Paper Series, No. 409, 2013, p. 32.

Production of cars and their components is extremely significant for the economic development of the ASEAN countries. Japanese transnational corporations from the automotive industry that dominate in Asia, for many years, have made foreign investment in the ASEAN countries. For example, only Japanese Toyota has 11 production units in the ASEAN countries – 4 plants in Indonesia, 3 in Thailand, 2 in the Philippines and 1 in Malaysia and Vietnam. A significant proportion of these establishments was set up already in the second half of the 20th century, but the company continues to expand its activities through establishing new plants (Worldwide Operations, 2016). Majority of establishments manufacture selected items of the company cars, which are then assembled in the final products on the assembly lines. Traditionally, foreign units manufactured elements for the production of the final products, but an essential component of the vehicle was brought from the home country. In connection with the establishment of the strong production network in the region, low cost of transport and customs simplifications in the ASEAN group, the production is based on components manufactured locally. The international production network of the auto industry in ASEAN, shown in Figure 6, is the complicated network of ties between the ASEAN companies and Japanese automotive corporations. This type of production network leads to intra-industry trade in auto industry in the ASEAN countries (Cheewatrakoolpong, Sabhasri & Bunditwattanawong 2013). In this network of economic and business relations, Japanese corporations are responsible for making investments and providing parts and components with the highest degree of technological advancement. After the last tsunami, which took place in Japan in 2011, many companies have recognized the need to diversify the risk and the need to make the units located in the host countries independent from the parent company. Production of selected Toyota models had to be stopped due to the aftermath of the disaster, which directly influenced the production in the entire region and the financial situation of the companies.

The cost of production and transport of the individual elements needed in the automotive industry is crucial in the process of making the decision on dividing the production chain into the individual countries. Although the cost of transporting elements for car production is higher than in the case of HDD manufacture, the labour costs in the ASEAN countries contribute to cost reduction throughout the entire manufacturing process. Further, the agreements within ASEAN and ASEAN with external partners concerning customs rates and restrictions are also very important. Under CEPT-AFTA, (The Common Effective Preferential Tariff (CEPT) Agreement for AFTA), the rates initially limited to 5% are to be further reduced and ultimately, in the group of ASEAN countries, are to achieve the level of 0% in 2018 (Protocol, 2016). From the point of view of Japanese automotive corporations, including Toyota in particular, the crucial one is the bilateral agreement between ASEAN and Japan. Due to the ASEAN – Japan Comprehensive Economic Partnership (AJCEP), Japan can benefit from tariff elimination in the high-tech automobile parts. Those parts are being produced in Japan and then exported for assembly in the ASEAN countries (Figure 6).

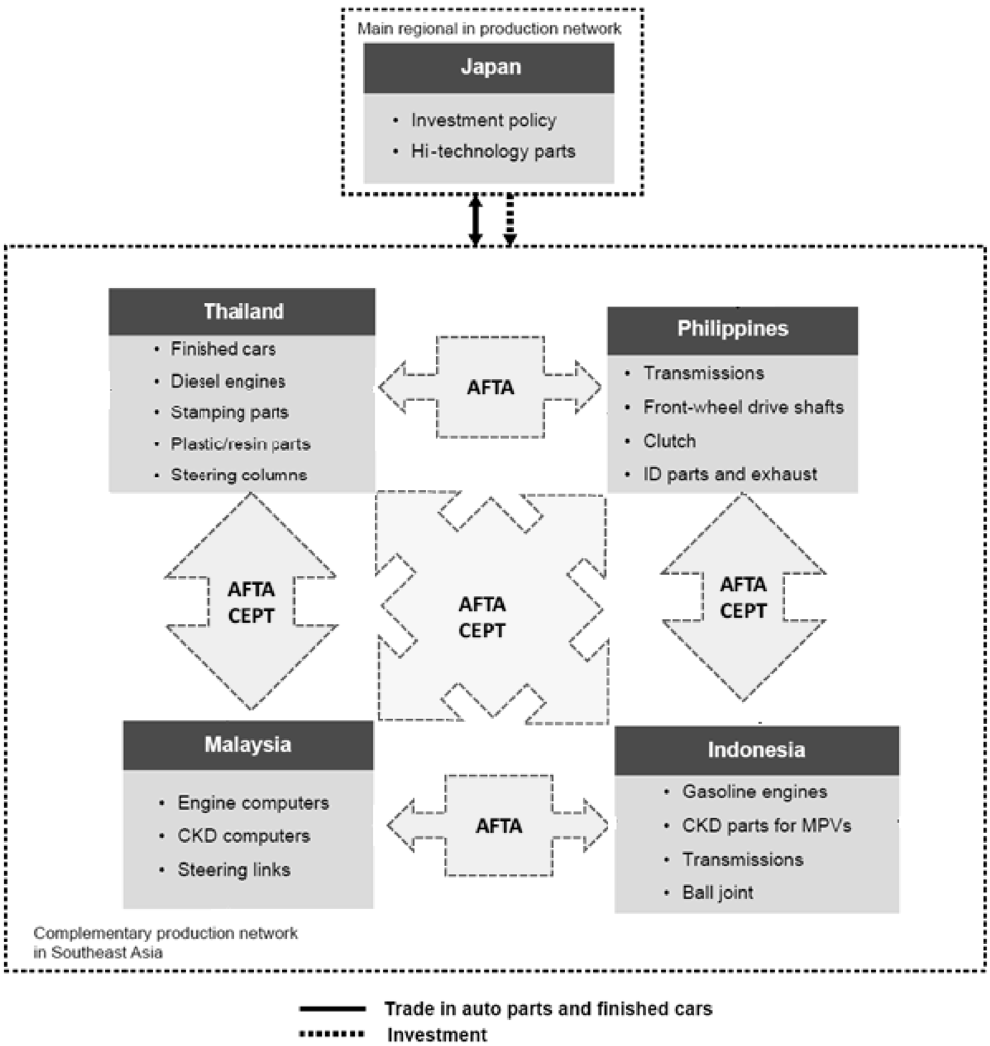

Figure 6. International production network of the auto industry in ASEAN

Source: author’s own work based on K. Cheewatrakoolpong, C. Sabhasri, N. Bunditwattanawong, *Impact of the ASEAN Economic Community on ASEAN Production Networks*, ADBI Working Paper Series, No. 409, 2013, p. 26 and D. Hiratsuka, *Production Networks in the Asia-Pacific Region: Facts and Policy Implications*, Prepared for the Asia Pacific Study Centers Consortium (ASCC), Conference in San Francisco, California,

September 22-23, 2011, www. *basc.berkeley.edu/ascc/papers/Hiratsuka_Paper.pdf*, p.21.

6. Discussion

Global economy determines dynamic convergence and flexibility of business systems within international competitive environment. Expansion of TNCs, driven by new technologies and proceeded liberalization, a phenomenon of global resourcing, transform the way of conducting economic operations worldwide towards creating business networks. Today, nobody can deny the significant role of transnational corporations in the global economy. According to the first research question about investment trends in ASEAN region it can be concluded, that studied region is extremely attractive for other Asian countries and companies from outside Asia. The region is characterised by strong competitive potential compering other part of the world. High investment attractiveness of the ASEAN countries contributes directly to the economic growth in the discussed countries and to improvement of the social situation of their citizens. However, it should be taken into account that the transnational corporations care about their economic interest and profits, therefore they constantly monitor the situation in other parts of the world. Changes in the costs of production factors in other regions may have influence on withdrawal of foreign TNCs from the ASEAN countries or on limiting their expansion. Greater attachment to the location of the TNCs is necessary for the ASEAN countries and the local companies. Local companies that have developed very dynamically in the recent years, should get involved in the business networks and global production chains to become, through operating locally, a part of a global company. Corporations from the ASEAN countries may, in fact, become not only suppliers of global players, but also their equal partners and that is a model for business networks in ASEAN countries (research question number 2).

Growing integration and interdependence in the global economy have made TNCs competition more intense. Intensified global competition has squeezed the profits and has also driven up the cost of market introduction of new goods and services. 'TNCs can no longer rely on their own resources (…); they must pull together other firms, competitors and collaborators to help them ride out unpredictable storms in the global economy'(Wai-Chung, 1998). Seeking for effectiveness, TNCs create network structures. They form strong intra-firm networks and wide inter-firm networks. Many of them 'is thus not so much a transaction-cost-economising entity as a network co-ordinator in charge of the worldwide web of relationships and transnational operations'(Wai-Chung, 1998).

Even though the corporations from the ASEAN countries cannot boast a long history, as in the case of certain American, Japanese or European corporations, they show high dynamics and business potential. Transfer of capital in the form of FDI by the local transnational corporations within the region, strengthens the economic position of the ASEAN group. Further development of the economies in the ASEAN countries suggests that the activity of corporations inside their own region will intensify, with the trend to enter the international arena. Growing number of corporations from ASEAN can also contribute to creating further networks by the corporations from outside the region. Global companies are not only looking for the production factors, but also suppliers and partners for their business, and in this way the business networks are formed.

Strong economic ties as well as regional integration processes are crucial for the region, but access to the global market through transnational corporations and the business and production networks, is necessary for further economic development in ASEAN. Transnational corporations, both those from outside the region and those from the ASEAN countries, are the connecting link between ASEAN and the rest of the world, integrating the region with the global economy. Sa it was proofed in the article business networks can have a huge influence on the process of building partnership inside ASEAN countries and with external partners as well (research question number 3).

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