# UNIT 7 TRANSNATIONAL CORPORATIONS

## Structure



## 7.0 OBJECTIVES

After studying this unit, you should be able to:

- explain why firms become transnational
- describe the features of TNCs
- discuss the theories explaining emergence of TNCs
- explain the record trends in TNCs
- describe the issues and controversies regarding TNCs
- discuss the Indian Perspectives of TNCs.

## 7.1 INTRODUCTION

An overview of globalization and International Investment have been dealt in Unit 5 and 6. You have already become familiar with both units. Transnational corporations further accelerate the process of globalization. The growth of international operations is an important part of the process of globalization. The operations of a firm in different countries have given the birth of the transnational corporations. Transnational corporations are engaged in the international operations of the goods and services. The attributes of transnational corporation include the geographic scope of the firm's value chain, management styles, ownership of productive assets and strategic vision. In this unit, you with learn the features and growth of transnational corporations, theories of emergence of TNCs and various issues and controversies of transnational corporations.

## 7.2 DEFINITION OF TNCs

At the outset it must be made clear that very often the term 'Multinational Corporations' is used in the literature for the TNCs. There is, however, according to some, a difference between MNCs and TNCs. According to some experts, MNCs produce commodities/products for domestic consumption of the countries in which they operate. The TNCs, on the other hand, concentrate on producing products/commodities to meet the markets of third countries. This difference is not normally made while referring to either MNCs or TNCs. Therefore, in our context MNC can also be called TNC.

Transnational corporations are defined as an organisation that owns productive assets in different countries, and has common strategy formulation and implementation across bordes. They are engaged in international production under the common governance of their head-quarters. Factors of production move among units located in different countries. These systems increasingly cover a variety of activities ranging from research and development to manufacturing to service functions. They are also increasingly established through mergers between existing firms from different countries or the acquisition of existing firms in the countries by firms from other countries.

**UNCTAD defines Transnational Corporation** as incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates. A parent enterprise is defined as an enterprise that controls assets of countries other than its home country usually by owning a certain equity capital stake. An equity capital stake of 10 per cent or more of the ordinary Shares or voting power for an incorporated enterprise as its equivalent for an unincorporated one is normally considered as a threshold of the control of assets. Consequently, a TNC has central control with the objective of profit maximization. Central decision making is an important feature.

**Subsidiary :** An incorporated enterprise in the host country in which another entity directly owns more than a half of the shareholder's voting power and has the right to appoint or remove a majority of the members of the administrative management and supervisory body.

**Associate :** An incorporated enterprises in the host country in which an investor owns a total of atleast 10 per cent but not more than a half of the shareholder's voting power.

**Branch :** A wholly or jointly owned unincorporated enterprise in the host country which is one of the following : (i) a permanent establishment or office of the foreign investor; and (ii) an incorporated partnership and joint-venture between the foreign direct investor and one or more third parties.

It may be added here that recently some TNCs have decentralized some of their decision making. Some TNCs do have decentralized decision making and profit centres. Yet all the final decision on a number of important issues rest with the parent. If there is no central decision ,making features, the TNC does not exist, as K. Ohame once puts it.

## 7.3 WHY FIRMS BECOME TRANSNATIONAL?

The firms become transnational due to number of reasons. The major reasons are discussed below:

i) **To protect themselves:** The firms are exposed to the risks and uncertainties of the domestic business cycle. By setting up operations in another country, they can often diminish the negative effects of economic swings in the home country.

ii) **To tap the growing world market:** As a result of globalization, the rapid growth of similar goods and services are produced and distributed by TNCs on a world scale. The firms want to tap such a growing world market for goods and services.

iii) **Response to increased foreign competition:** The Firms become transnational in response to increased foreign competition and to protect world market shares. In order to follow the competitor's strategy, the firm sets up operations in the home countries of competitors.

iv) **To reduce costs:** TNCs set up operations close to the foreign customer to reduce costs. By doing so, they can eliminate transportation costs, avoid the expenses associated with having middlemen to handle the product, respond more accurately and rapidly to customer needs and take advantage of local resources.

v) **To reduce tariff:** The firms may overcome tariff walls by serving a foreign market from within. For example firms producing the goods within the European community can transport them to any other country in the bloc without paying tariffs.

vi) **To take advantage of technological expertise:** In order to take advantage of technological expertise, the firms manufacture goods directly in the foreign market. The direct involvement in foreign markets brings the company closer to increasing technological developments. They are prepared to respond by acquiring new technology. Thus, they are able to protect their international competitiveness.

## 7.4 FEATURES OF TNCs

The main features of TNCs are as follows:

i) TNCs are normally very large in size as measured by the value of their total sales. The average TNC has billions of US dollars as its total sales value which is often equivalent to more than the national incomes of one, two or three large developing countries. In the eighties, and nineties, however there has been a growth of smaller TNCs from Canada, Japan and the UK. Even the USA has now some small TNCs.

ii) Many TNCs depend to a large extent on their foreign sales. There has been a steady growth of the share of foreign sales in total sales. Sales of TNCs exceed the value of world trade in goods and services.

iii) TNCs are multi product enterprises something that gives them tremendous market power.

iv) The main strength of TNCs is their command of technology and innovation. They spend sizable amount on research and development (R & D). Most TNCs spend 5-6 percent of their sales value on R & D which amounts to billions of dollars. This is the reason for their tremendous market power.

v) The affiliates of the TNCs are responsive to a number of important environmental forces, including competitors, customers, suppliers, financial institutions and government.

vi) It draws on a common pool of resources including assets, patents trademarks, information and human resources.

vii) The affiliates of the TNCs are linked by a common strategic vision. Easch TNC formulates its strategic plan so as to bring the affiliates together in a harmonious way.

**Market Power of TNCs**

TNCs, apart from the features described above, have also distinct instruments which differentiate them fundamentally from other enterprises and give them market power. These are related to each other: Intra-firm trade and Transfer pricing.

**Intra Firm Trade:** Intra-firm trade is defined as trade between two related parties very often situated in different countries and aims at maximizing joint profit rather than individual profit as would be in the case of trade between two unrelated parties. Intra-firm trade with the affiliates accounts for 1/3rd of world trade, 1/2 with non-affiliates.

**Transfer Pricing :** Transfer Pricing is defined as pricing that is different from arms length price which is market price used by the TNCs to achieve certain corporate goals. Transfer Pricing is used by the TNCs to tackle certain problems that arise:

a) High direct and indirect taxation not only in host countries but also in investing countries. Through appropriate transfer pricing concern, TNCs would like to reduce tax incidence;

b) TNCs also use Transfer Pricing as a marketing tool: either to support a market position of a product or enhance its market share

c) Some times transfer pricing is used by a TNC to reduce the profit sharing by the collaborator with it.

d) Transfer pricing is also used to insulate the adverse impact of volatile exchange rate.

Every TNC has a well established department to determine appropriate Transfer Pricing. The limits to Transfer pricing, it is considered come from the problem of getting the required information. But with the revolution in information technology this problem is receding. Yet another limit to excessive Transfer Pricing is the impact of reduced profitability of a subsidiary which can dampen the enthusiasm and morale of people working in the subsidiary. Here, of course, a TNC is expected to take care of it.

**Transnational Corporations from Developing Countries**

The growth of TNCs from developing countries is a relatively new phenomenon. These firms with home basis in developing countries have grown substantially. The majority of them are from South Asia, South East Asia and Latin America.

There are a large number of factors which are expected to differentiate them from the TNCs of developed countries.

- The TNCs from developing countries are more interested in developing countries although developing countries occasionally establish subsidiaries and joint ventures in developed countries. Most of them, however, are established in export supporting activities.
- In some cases they have management approahces and technologies better suited to the developing countries context because of their own basic background and orientation to developing countries.
- It is also believed that sometimes the TNCs of developing countries provide competition to TNCs of developed countries.
- The TNCs of developing countries are less able to inernalize their parent/subsidiary transactions.

## 7.5 THEORIES EXPLAINING EMERGENCE OF TNCs IN WORLD ECONOMY

The growth of TNCs has been a subject matter of great concern for various reasons. While they have grown in importance as seen in the previous section in post-war period, their origin can be traced to the nineteenth century.

A number of theories have been developed to understand and explain why an enterprise would like to invest in a foreign country in view of a large number of problems and risks that it could face in an alien environment. The foreign firm has to adjust to a new government, new culture and most often competition from the local companies which have many advantages. The foreign firm, it is further argued, can achieve its corporate goals by directly exporting and licensing its technology without risking its investment. Yet firms have chosen to invest. The theories on TNCs try to explain this phenomenon.

Let us discuss a few major theories which try to explain the growth of TNCs in the post-war period.

1. Stephen Hymer, one of the original contributors to the theory of TNCs emphasized that when a firm operating in imperfect market structure seeks monopoly rent which through the internalization of related activities can be increased and captured by the internalizing firm. This is also a market failure of the structural kind.
2. An enterprise which innovates new products enjoys market domination in its home country. It could be an enterprise or a few enterprises. When a product gets standardized, a large number of national firms start imitating by producing similar products. The original producers in order to retain their domination move to other economies by establishing production units. These economies largely belong to the same income groups. Once these firms face competition in these foreign countries by the imitators, the original producer moves to other countries which are mainly developing countries. This theory was propounded by Raymond Vernon and is known

as Product Life Cycle Theory. This theory very often applies to firms dealing with consumer products.

3. Many like John H. Dunning, Mark Casson, have attempted to explain the 'Theory of International Resource Allocation' and the theory of 'Market Failure'. Dunning puts it "Between them, we believe that these theories help to explain the origin of the Ownership Location and Internalization (OLI) advantages created or acquired by firms and strategic management of theirs". The unique characteristic of the TNC is that it is both multi activity and engages in the internal transfer of intermediate products across national boundaries. In other words, it produces at different points of the value added chain and in different countries. Since firms which produce at more than one point on the chain necessarily engage in intra-firm rather than, or in addition to, inter firm transactions, and are multi activity, this implies the existence of some kind of market failure, in the sense that whether within or between countries, firms are motivated to replace the market as transaction agent. When these activities are undertaken across national boundaries, then there is international market failure. It is the failure of the market to organize a satisfactory deal between potential contractors and contractees of intermediate products that explains why one or the other should choose the hierarchical rather than the market route for exploiting different factor endowment situations.

   The market failure arises from the inability of arms length transaction to perform efficiently. This might happen for three reasons: First, perhaps the most important factor, the difference between international and domestic failure, is the additional risk and uncertainty associated with cross border transactions. Such risks are particularly noteworthy in raw materials and high technology industries that typically incur high development costs where there is a danger of disruption of supplies or where there is likelihood of property rights being displaced or abused by foreign licences. The second reason for transactional market failure is that the market cannot take account of the benefits and costs associated with a particular transaction between buyer and seller which accrue to one or another parties but which are external to that transaction.

   The third reason for transactional market failure arises whenever the market is insufficiently large to enable firms to capture economies of size and scope when facing an infinitely elastic demand curve. Such economies may be in production or in purchasing, marketing, research and development, finance, organisation and so on.

4. The reasons for firms to produce abroad also include explanations minimizing tax burden and exchange risks. Companies are also expected to move their production centres across the border to derive advantages arising from cheap labour, plenty of raw materials etc.

5. Production facilities are established by an enterprise across geographical and political areas which are policy induced. One variety is called Tariff Jumping Operations that are to overcome the restrictions imposed by the host country on imports of final products. Yet another approach is to receive the benefits offered by the host countries for foreign investment.

There is no one theory. There could be a large number of explanations for a single firm to go abroad. It could be considered as Dunning points it, as eclectic theory.

**Identity of TNCs with their home countries**

USA, UK and Germany have been dominant home countries of the TNCs. This has led to raise questions whether TNCs coming from these respective countries have any different characteristic features. This question has arisen, in particular, in view of differences in the type of capitalism. Some scholars of capitalism and management argue that there is difference between the capitalism of Germany and Japan on the one hand and capitalism of USA and UK on the other. The former is called 'Communitarian Capitalism' while the latter is known as 'individualistic'. In Communitarian capitalism the firms play a game termed as strategic conquests while Individualistic Capitalism of the US and the UK believe in consumer economics. The UK and the US capitalism maximizes the profit and hence customer and employee relationship are the means of achieving higher profits. Similarly workers also seek higher wages and go in search of them. In Germany and Japan, especially Japan employees are primarily important and shareholder next. Profits can be sacrificed to maintain wages and employment. Further, banks and firms have collective strategy. Germany thinks of having a 'Social Market' and not just the market. Social welfare is part of the market. In the Anglo-Saxon market economy, social welfare policies would not be necessary. There are other differences as well.

With regard to the national identities of TNCs there are clearly two view points. Some argue that there is a difference between the TNCs of leading countries. Hence their behavioural and the results of their transnationalisation are different. According to others, the transnationalisation process totally blurs the national identities and interests. Hence, there will not be any difference in the behaviour of Japan for instance, from that of the behaviour of TNCs from the US. The approach stems from the assumption that TNCs are 'stateless' corporations. In 1969, Charles Kindleberger wrote that international corporation has no country to which it owes more allegiance than any other nor any country where it is completely at home. Over the last few years this approach has grown substantially.

The latter view has been prominent in the context of TNCs of Japan. In the US, Robert, B. Reich has argued that while foreign direct investment comes to America from any country, it will become American. His famous statement attracted considerable attention.' They are us' "The cosmopolitan corporations eager to avoid appearances of national favouritism and desirous of a familiar and reliable image wherever it does business around the world, also hires and promotes citizens of many nations to its executive ranks".

Others argue that the TNCs retain their national identities, objectives and character in their corporate behaviour. There are no, it is further argued, such stateless corporations. TNCs from various countries do keep their national identities. For, they keep important R & D units in their home countries, boards of decision making of the parent consist of nationals of the parent country. Some thus say, 'they are not us.'

**Check Your Progress A**

1) What do you mean by Transnational Corporation?

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2) What is transfer pricing?

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3) Enumerate three features of TNCs

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4) State whether following statements are **True** or **False**.

   i) The firms become transnational in response to increased foreign competition.

   ii) The firms may not overcome tariff walls by serving a foreign market from within.

   iii) The main strength of TNCs is their command of technology and innovation.

   iv) Transfer pricing is not used to insulate the adverse impact of volatile exchange rate.

   v) Companies move their production centres across the border to derive advantages arising from cheap labour.

## 7.6 RECENT TRENDS IN TNCs

**The world's 100 Largest TNCs**

The analysis of the world's 100 largest TNCs reveals that approximately 85% of the top 100 TNCs list is dominated by firms that have been in the top 100 ranking during the past 5 years. A substantial part of these TNCs originate in the European Union, United States and Japan. Look at Table 7.1 which shows the assets, Sales Employment and average index of transnationality of 100 largest TNCs of the world.

**Table 7.1 : The world's 100 largest TNCs 1997**

*(Billions of dollars, number of employees and percentage)*

| Variable | 1997 | 1996 |
|---|---|---|
| Assets | | |
| Foreign | 1791 | 1808 |
| Total | 4212 | 4200 |
| Sales | | |
| Foreign | 2133 | 2149 |
| Total | 3984 | 4128 |
| Employment | | |
| Foreign | 5980740 | 5939470 |
| Total | 11621030 | 11796300 |
| Average index of transnationality | 55.4 | 54.8 |

**Source:** World Invesment Report 1999.

The above table shows that between 1996 and 1997 the total amount of foreign assets held by the 100 largest TNCs were about $ 1.8 trillion which did not change much. The total foreign sales of the largest TNCs amounted to $ 2.1 trillion and remained relatively unchanged between 1996 and 1997. The largest increases in foreign sales were realised by TNCs from Japan. The total number of foreign employees of the largest TNCs were estimated to about 5 million. Companies expanding the number of foreign employees operating mainly in the automobile or telecommunications industry. The index of transnationality has increased from 54.8% in the year 1996 to 55.4% in the year 1997.

**The Country and Industry composition**

The origin of the top 100 TNCs remains one of the stable factors in the ranking. The headquarters of about 89% of the top TNCs were located in Triad i.e. European Union, North America and Japan. Since 1990, this percentage has always been between 85 and 87%. About two thirds of the companies were from four industry i.e. automotive, electronics and electrical equipment, Petroleum and chemicals and Pharmaceuticals industry. The shares of these firms in total foreign assets and foreign employment of the top 100 TNCs remained unchanged. The shares in Sales registered a modest increase. Look at table.7.2 which shows regionwise foreign assets, foreign sales and foreign employment of 100 top TNCs of the world.

The TNCs from European Union have top ranking on the transnationality index, foreign assets, foreign sales and foreign employment followed by North America and Japan.

**Table 7.2 : Regionwise break up of world top 100 TNCs**

| Region | Average Transnationality Index | | Foreign Assets | | Foreign Sales | | Foreign Employment | |
|---|---|---|---|---|---|---|---|---|
| | 1996 | 1997 | 1996 | 1997 | 1996 | 1997 | 1996 | 1997 |
| European Union | 64.8 | 62.5 | 41.0 | 40.9 | 40.1 | 41.8 | 51.2 | 51.4 |
| North America | 47.8 | 47.9 | 35.0 | 35.1 | 29.7 | 27.5 | 29.5 | 27.7 |
| Japan | 36.2 | 39.5 | 15.8 | 15.7 | 23.1 | 22.8 | 10.3 | 10.7 |

**Source:** World Investment Report, 1999.

**50 Largest TNCs from Developing Countries**

Look at Table 7.3 which shows 50 largest TNCs from developing countries. The major TNCs are from Hong Kong, China, Republic of Korea, China , Venezuela, Mexico and Brazil. They account for about 80% of the foreign assets of the 50 largest TNCs. The major TNCs were from the indsutry of the food and beverages, Petroleum and construction.

**Table 7.3: 50 Largest TNCs from Developing Countries 1997**

*(Billions of dollars, Number of employees & percentage)*

| Variable | 1997 | 1996 |
|---|---|---|
| Assets | | |
| Foreign | 103 | 106 |
| Total | 453 | 457 |
| Sales | | |
| Foreign | 136 | 136 |
| Total | 306 | 337 |
| Employment | | |
| Foreign | 483129 | 538767 |
| Total | 1737756 | 1583558 |
| Average Index of Transnationality | 34.20 | 35.2 |

**Source:** World Investment Report 1999.

## 7.7 ISSUES AND CONTROVERSIES

Currently there has been a broad consensus that TNCs are efficient allocators of resources in the world economy. Further, they are also technological giants and innovators. Yet there are a large number of issues on which the controversies exist. They are:

a) The TNCs interest and the interest of host countries specially developing ones conflict with each other. TNCs produce products which are not very essential for a host developing countries and thus they divert scarce resources away from production of necessary items.

b) The TNCs dominate high profit oriented consumer sectors. They monopolize profits of these sectors without providing any scope for local enterprises. This they do through their market power which includes promotion of brand name, trade mark etc.

c) While the TNCs possess technology, they are extremely reluctant to transfer technology to the host country. Therefore, they make developing countries depend on TNCs for their technology. TNCs preserve all their important R & D in home countries.

d) In order to protect their market share they take recourse to restrictive business practices. These restrictive business practices include tying imports to specific sources of interests of TNCs, conditions of technology transfer, price fixation, exports restrictions, and restrictive use of brand names and trade marks.

e) Through the transfer pricing, the TNCs avoid paying taxes to government of host countries and thus transfer resources away from them. The TNCs also deprive the partners from host countries of their legitimate profits.

f) The TNCs do not appoint host countries personnel at higher positions.

g) The TNCs create balance of payments problems for the host developing countries through large imports and repatriation of huge dividends, royalty, technical and management fees.

h) The TNCs do not create necessary backward and forward linkages. This failure very often leads to non-industrialization of host countries.

i) The TNCs are not necessarily very efficient institutions. Lately, many of the giant TNCs have met with huge losses.

j) The TNCs increase their dominant power through mergers and acquisitions thus preventing the needed competition.

k) The TNCs have a tremendous capacity to influence their home governments and international organizations. This capacity enables them to promote national and international legal frameworks consistent with their needs at the cost of interest of many countries specially the developing ones.

**The Home Country Perspective**

While home countries promote their TNCs, their operations are not without criticism

i) The TNCs divert resources away from their home countries without paying adequate taxes.

ii) The TNCs establish production centres in those countries where cheap labour is available thus creating unemployment in the home countries.

iii) The TNCs also often violate environmental considerations by establishing industries in many countries where environment regulations are lax. This leads to (a) global environment problems and (b) import of environmentally hazardous goods.

Currently, however, the supporters of TNCs argue that these criticisms are exaggerated and not based on adequate evidence. They argue that TNCs assist host developing countries to develop. Very often they refer to the economic development of Malaysia, Thailand and some Latin American countries. The late eighties and nineties are considered to be a period of cooperation between governments and TNCs.

## 7.8 THE INDIAN PERSPECTIVES

India had a restrictive foreign direct investment policy till 1990. Even then a large number of TNCs operated in India either through collaboration with Indian enterprises through minority share holdings or through their own subsidiaries. The TNCs even then had dominated many consumer industries. Many of them had nearly 60-70 per cent of the market share. Many TNCs found that the India's domestic market was large and hence persisted to operate within the framework of the Indian policies.

Since 1991, the Indian Government has liberalized its Foreign Direct Investment (FDI) policy. Hence, India has emerged as an important market for serious considerations of TNCs' operations. Generally, large TNCs like Philips, Union Carbide, Unilever, Glaxo, Boots, Welcome, Coca Cola, Pepsi, IBM, BrookeBond, ITC are operating in India. They are entering in a large number of consumer industries as well. International Banks are also showing interest in the Indian economy. The free entry of TNCs is, however, still subject to some concern in Indian industry and political circles. Indian industry fears that the TNCs with the liberalized policy of the Government will adversely affect the operations of the domestic enterprise. Therefore, many of them seeking level playing fields for them. Political parties are wary about the domination of TNCs on Indian economy. But the debate is rather weak. Hence we can conclude that TNCs will increasingly come to India. But their primary pre-occupations, one can envisage, would be to exploit the growing domestic market.

**Indian Companies Operating Overseas**

Indian policy on joint ventures has now permitted Indians to establish not only joint ventures but also owned subsidiaries. There are various subsidiaries either established overseas or in the process of getting established. But they have not acquired a status of TNCs. Among the TNCs of developing countries only Tata Steel Works is treated as an emerging TNC. It will take sometime for Indian companies to acquire the status of a TNC.

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**Check Your Progress B**

1) Distinguish between capitalism of Germany & Japan and Capitalism of USA & UK.

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2) Enumerate three controversies regarding TNCs.

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3) Enumerate the name of three developing countries from where major TNCs originate?

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4) State whether following statements are **True** or **False**.

   i) A substantial part of TNCs of the world originates from Africa and Latin America.

   ii) The largest increases in foreign sales for the year 1997 were realised by TNCs from Japan.

   iii) The TNCs expanding the number of foreign employees operating mainly in the petroleum industry.

iv) About 89% of the world's top TNCs were located in Triad.

v) Germany thinks of having a social market and not Just the market.

## 7.9 LET US SUM UP

Transnational Corporations are defined as the companies which have subsidiaries and affiliates in a large number of countries, with a central control and with an objective of global profit maximization. The TNCs are huge companies measured in terms of their sales. They are multi product companies. They are technology intensive companies. Hence technology ownership is their core strength. However, lately , medium sized TNCs have also become important. The TNCs normally dominate the markets of products which they are producing. Their market power emanates from three major aspects: Intra-firm Trade, Transfer Pricing and Promotion and advertisement Since 1991, the Indian government has also liberalized its FDI Policy. Hence India has emerged as an important market for TNCs.

## 7.10 KEYWORDS

**Intra-Firm Trade:** Trade between subsidiaries, branches and affiliates of the same TNCs, the objectives being joint project maximization.

**Transfer Pricing:** Price used in an Intra-Firm Trade which is expected to be different from the market price (or arms length price) with certain corporate objectives.

**Host Country:** An independent nation state where TNC establishes TNC its subsidiary or affiliate.

**Investing Country:** Country of origin of the parent company.

**Market Power:** Strength or capacity of a TNC to dominate market, change price, financial and marketing policies including advertising.

**Market Failure:** When functioning of the markets do not satisfy the needs and expectations of the corporations.

## 7.11 ANSWERS TO CHECK YOUR PROGRESS

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|---|---|---|---|---|---|
| A 4 | i) True | ii) False | iii) True | iv) False | v) True |
| B 4 | i) False | ii) True | iii) False | iv) True | v) True |

## 7.12 TERMINAL QUESTIONS

1) What is TNC? Why firms become transnational?

2) Describe main features of TNC.

3) Explain various theories explaining emergence of TNCs in the world economy.

4) Describe the recent trends in the leading transnational corporation of the world as well as developing countries.

5) Discuss various issues and controversies related to transnational corporations.

6) Highlight the main advantages and disadvantages of TNCs operations for the host country and the investing country.