

Economic impacts of transnational corporations on industrialised countries



Identify and comment on the economic and environmental impacts of transnational corporations on newly industrialized countries you have studied.

Introduction

The object of this report is to assess the economic & environmental impacts of the transnational corporations (TNC) on the newly industrialized countries (NICs) such as India, China, Thailand, Mexico, Philippine, Malaysia, Turkey, South Africa and Brazil

Since the mid of 1980s, the economic strategies of NICs include Singapore, Malaysia & Thailand have shown a amazing degree of meeting in one impact-driven growth strategies. They rely essential on transnational corporations (TNCs).

While achieving this type of strategic economic growth the newly industrialized countries have been dun economical & environmental both positive and negative impacts from the transnational corporations.

Under below arias the report describes how TNCs impact to the NICs. The mainly focused arias are Investment, Technology, Transport, Employment, Urbanization, Environment-Safety, Furthermore the report assess TNSc overall impact to the Environment as well as to the economy of NICs.

What are TNCs?

Trans National Corporations (TNCs) are companies which operate in at least 2 countries. Its organization is very hierarchical with the headquarters as well as research & development often located in the mother country.

Production centers tend to be host countries. When organization becomes more worldwide regional headquarters and regional research & development will widen in the manufacturing countries.

This gives TNCs many advantages, such as right of entry to the global market, cheap labor, low production costs, & consequently greater profits. The headquarters of these remains in its mother country, most of the time lots of them are developed nations in the world, like USA & UK. Their established factories all over the world, which either produces entire finished Goods or parts, for the company to sell on the global market.

Among all the TNCs in the world, Most of them are oil companies such as Exxon (Esso) & BP, & car manufacturing companies (for instance Toyota, Ford, Nissan and Volkswagen). Other familiar companies like IBM, Sony & Coca-Cola are also can defined as being TNCs.

Transnational Corporations are established globally for their advantages, to earn more profits. They bring with them both positive and negative impacts for the country which host to TNCs.

Top 10 TNCs in 2009

TNC's manufacturing

high-tech

Scientific instructions, pharmaceuticals & microelectronics, (Mitsubishi, Smithkline, Glaxo- & Sony)

Large volume of consumer goods

Tyres, Motor vehicles, televisions & other electronic products (Toyota, Daimler, Ford, Volkswagen, General Motors)

3) Mass produced consumer goods cigarettes, beverages, breakfast cereals, cosmetics & branded goods (Mars, Unilever, Nestle, Kraft foods)

4) Service

Banking/ insurance, hotel chains, freight transport, advertising, & fast food outlets (IN group, AXA, Citigroup, HSBC, Allianz, Dexia)

TNCs organize & manage economic activities in different regions & develop trade inside & between units of the similar corporation in different regions. It means most of the time control the terms of the trade & can diminish the effect of quota boundaries on the movement of products, go around trade tariffs.

What are NICs?

Country that has within recent decades experienced a get through into rapid productivity growth, rapid export oriented economic growth, quick industrialization farther a high amount of investment and assets formation largely funded from local savings, and a high tendency to export, with end user durables and machinery accounting for a large share of exports.

Superior examples are South Korea, Hong Kong, Taiwan, and Singapore.

These countries invest capital and production facilities in other developing countries like China, Vietnam, India, and some countries in South East Asia.

Within 20th century lots of East Asia countries were industrialized such as South Korea, Taiwan, Philippines, Singapore, Thailand, and Japan.

These states are called as NICs (Newly Industrialized Countries). Further sometimes they are called as Tiger Economies because of the attractive growth rate of these regions.

The governments of NICs controlled over industrial development & motivated industries to export manufactured products to abroad such as more developed states.

The exports profits were re-invested in the local economy. Local businesses did grow; wages rose & workers did spend their new assets to buy domestic goods and services thus motivating further growth.

This type of rotation, knock-on effect, in that money paid out from businesses is invested again inside the country, is often called the multiplier effect.

NICs have been being succeeded for the last 30 years. That successfulness of these economies has contributed to the turn down of manufacturing industries in MEDCs like UK. Industries struggled to compete with the NIC's competition, because their production cost and wages were very low.

Characteristics of NICs

Countries whose market exporter share is increasing, they often copying existing products & then reproducing for a much low price.

Continues growth in the production sector that results for more exports & continues increasing of GDP.

Generally NICs Can be developed by three stages, that's traditional society to a developed country society. Three stages are explained below. The time frame of whole process can be minimum 30 years.

Traditional society:

There are more labors work under the industry, its labor oriented.

Concentrating on small cottage-style traditional industries, concentrated on local raw materials. Instance could include food processing, textile manufacture

Most of the time, lots of people are still work in the primary sector, doing things include farming.

Using primary technologies & most of the people have less money.

Import the products what they want, that indicate county is not producing what they actually needed & addicted to import products.

Import substitution industries:

The country does promote its own industries.

Newly started companies imitate products from well known market giants and then produce them for low price.

The government operates tariff barriers for the products are being imported & trades that make similar products. The purpose of that is protecting their own domestic companies whilst they grow.

Instance industries are computer manufacture, car manufacture, electronic goods and other electrical goods, like hi-fi's.

Export orientated industries:

The new companies set up in their state they are allowed to run free upon the global market.

Industries are being capital intensive, using high technology & aimed at earning a big profit.

The gross domestic product (GDP) of the country starts to increase, mostly growing at above 5% per One year that is a wonderful rate.

Now the country has been being an NIC.

How do TNCs affect to the NICs economy & their environment?

Investment:

Advantages: The companies earn, invest, & bring foreign currency into the country. Though most of their earnings come back to the company's country of host, all the remunerations do come to the local economy

Disadvantages: The salaries paid to host country workers are very low and a lot of companies have been accused of exploiting the workforce before

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benefiting that. There are frequently tax incentives for such TNCs to establish in countries in the developing world. Due to the fact that they get lots of their profits out of the country that says the real economic benefit to the country could be limited.

Technology:

Advantages: TNCs help the development of the NICs by bringing in latest technology and new knowledge that the host country doesn't use.

Disadvantages: If not the company does actively participate in the program to educate domestic companies in the latest technologies, the country's industry won't actually benefit. TNCs are not going to share too much information. If the local industry competition will increase because of new knowledge TNCs have to compete even with the local companies.

Transport:

Advantages: The new TNCs mostly help to develop transport links around the company area.

Disadvantages: Mostly serve only the direct roads, rails that needs of the company, not the surrounding area as well.

Employment:

Advantages: They do create job opportunities for the NICs domestic employees.

Disadvantages: Most of the jobs opportunities are highly skilled & so the company uses their own people to do the work Because of the technological environment of these companies. Remain less jobs opportunities.

Urbanization:

-launching a TNC in a city in NIC does encourage urbanization. Young migrant workers gather to the city. It influence to the rural communities & their development

Environment-Safety:

Advantages: TNSc bring with them some environmental friendly technologies & expertise to decrees harmful pollution & establish a safe working environment.

Disadvantages: a lot of TNCs have very bad history on environmental pollution & workers safety. They have been complained of trying to cut both safety of working environment and environmental pollution in order to keep costs down.

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Advantages to TNCs

They have the capability to take benefits of spatial differences in factors of manufacture line.

TNCs can utilize differences in the accessibility of labor, capital, and building or land costs.

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In 2002 Dyson did move its manufacture plant in Malmesbury, Wiltshire to Malayasia to take benefit of cheap labor. Dyson retained several hundred jobs of employees in Wiltshire for research and development (R&D) saving of 30% of cost in production.

They can position to take benefit of government policy barriers include, subsidies, lower taxes & grants and less strict government laws on employment and environmental pollution.

Overall impact to the Economic growth

Development of NICs can be potentially promoted by transnational corporations through their activities that generate economic growth.

Some evidence exists that the foreign exchange and foreign direct investment that TNCs provide can improve the performance of the economy of the NICs which they operate in. " The process of economic growth is impacted by the TNCs influencing the transfer of soft & hard technology, quality & amount of capital formation, growth of trade opportunities & the imprudent of labor."

Further, Such as Taiwan, Province of China & South Korea demonstrates that under some situations economic development can promote social development. For instance in Taiwan, enormous growth of economy has been combined with developed educational levels, the longer life spans, got good health conditions, advanced political liberalization, housing environment, & superior civil liberties.

Theoretically TNCs can uplift the development of the NIC's society by fostering economic growth; practically this relationship exists for two reasons. Mainly, in the host countries it is not clear whether transnational corporations are really responsible for the growth of economy. In the most recent two notable cases related to economic transformation, Taiwan and South Korea, a negligible role was played by transnational corporations. Further, TNCs actually have the ability to prevent NICs local economic growth by running local entrepreneurs out of the business zone, along with the importing of main goods and services, reducing large amounts of the profits from their local NICs, and transferring royalties and fees to the main companies which are located away from the host economy.

Secondly, even if the economy of the NIC is not developing, there is a tenuous relationship between social development and economic growth. Even though there is an global economic growth annually, it is yet hard to prevent the problems of poverty, unemployment, inequality in wealth, and such other issues of social malaise. For example In Cote d'Ivoire, from 1960 to 1975 the TNCs could have helped to foster aggregate the growth of the economy, they did only a very little to uplift the development of the society: increase in unemployment, income distribution expanded and nationals increasingly started losing the control over the industrial capacities of the country. In some, under some circumstances TNCs can act as the engines of growth of economy, the power of economy is very rarely harnessed to the achievement of development.

Overall impact to the Environment

Transnational corporations can have a negative impact through a demotion of resources in the environment to the social development. And over the past ten years such entities had been responsible for environmental disasters. For an example, Union Carbide in Bhopal, India, Exxon's Valdez spill off Alaska, and Texaco

To a group of environmental problems TNC's have been linked. Fifty percent of the green house emissions are generated by them, in which they are responsible for global warming. Furthermore they are also the users of ozone-depleting chlorofluorocarbons (CFCs) and they are also producers of CFCs. Explaining further, transnational corporations are responsible for the pollution of land, air, wetlands, water and the oceans. Ultimately, through their mining activities and commercial logging, there is a contribution to deforestation by the TNC. For example in the mid-1980s, there was a control of 90per cent of the logging by the foreign corporations in Gabon and in Congo it was 77 per cent. As a result of such mining and logging negative effects such as flooding, loss of topsoil rapid run-off of rain have occurred; Farmers are economically not in a rich status to buy the land from forest owners and usually TNC's don't internalize such social costs. Hence such negative externalities cannot be prevented.

The connection between TNCs & the environment is massively complex even though transnational corporations can definitely obstruct social development through their environmental practices . But yet the Critics don't mention that consumption of environmental resources should be abstained by

transnational corporations, instead they should promote sustainable growth
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and development via their activities. In the meantime there is a practice by the TNCs to follow demoted environmental standards in the developing countries with comparison to the developed countries; and it is found with evidence that environmental practices are very responsible in developing regions than in domestic firms functioning in such countries. Nevertheless, critics emphasize that, as a result of having better resources they have better access to R&D, it is the liability of the TNCs to promote environmentally sustainable practices and they bare that responsibility. Some companies undergoing so much of pressure have started to follow more environmentally responsible policies. Example, a maligned polluter named Dow Chemical, had to establish one-and-a-half days each session with the environmentalists brief senior management quarterly. The salary of the manager was pegged to the goals of the environment, and a toxic release of 32 per cent between 1988 and 1991. Further some laudable environmental practices were also implemented by the IBM including rewards for the employees for technical innovations which helped to comply with the environmental standards. Finally 18 environmental awards were won by AT&T since 1990.

On the other hand, expect these three companies majority pillage to consume environmental resources from the countries that are developing and they consume these environmental resources in a destructive and unsuitable manner. - practices that definitely hamper prospects for development. Some of the companies that involves in issues related to the environment are General Electric and DuPont, for example, Dupont was responsible for toxic chemical releases in 254 million pounds during the

period of 1991 in the United States, and this has led to minimize such practices that destroys environment.

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Conclusion

The report offers a basic understanding of the economic & environmental impacts of the transnational corporations (TNC) on the newly industrialized countries (NICs) such as India, China, Thailand, Mexico, Philippine, Malaysia, Turkey, South Africa and Brazil. It presents and showing that state to some famous beliefs, TNCs investments helped the host states in industrialization of the host states were given credits. An in detailed analysis is given on the variety of critical factors that TNCs concentrate on the investment decisions. Such as Investment, Technology, Transport, Employment, Urbanization, Environment-Safety and so forth.

The report will be a useful source to be aware of how sustainable economic growth will achieve by reducing environmental pollutions & saving environmental resources for potential needs. Further the NICs must reach their targets by focusing their concentrations towards TNCs & their habits.

Otherwise NICs will not be able go for their future goals through TNCs operations. NICs must be the strongest partner & NICs need to be influence the TNCs by using their power. Then finally both NICs and TNCs can reach the goals together.