

The power of transnational corporations



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Footloose can be defined as free to go wherever one likes or to do as one likes. According to Taggart (2010), he said that “ organizations which are flexible and no national loyalties in moving their businesses or operations to anywhere quickly & freely and have different nations of consumers”.

Transnational Corporation can be defined as a company that operates in more than one country. According to UNCTAD (2004), “ a Transnational Corporation (TNC) is an organizations which control the foreign assets other than its home countries, they usually owning certain of equity capital stake”. Nestle and Ford is the example of TNCs in the international country”.

Based to Fox, Tom and Prescott (2004), they stated that “ globalization has lead the organizations to spread or operate widely to search for cost efficiency and to implement production strategies across states and regions”. Nowadays, Transnational Corporations (TNCs) are central players in the economic environment. According to Macleod and Lewis (2004), “ TNCs has affect the government’s policies which not only local but also include international, besides they also affect the agenda of the World Trade Organization (WTO)”. Moreover, TNCs also affect the economies and eco-system in the developing world, the wage-levels set by them can influence the purchasing power and demand of goods as well.

Power of TNCs

According to Dunning and Rugman (1985), “ TNCs has the capabilities to overcome or reduce market imperfections, improving local and international markets, and to develop systemic, network-related rather than just asset-based only”. Furthermore, the power or strength of TNCs also include they can support the global market in terms of survival, profitability and growth.

According to Christian Aid (2001), he stated that " TNCs has increased and growth quickly and dramatically over the past 30 years, there were only 7, 000 TNCs available during 1970, however today there are 63, 000 parent companies which operating with about 690, 000 subsidiaries in the world". (Further information refers to Appendix 1 & 2). TNCs have involved themselves in different sectors, industries, economic activities in the global market.

Most of the TNCs are mainly from Western economies, TNCs now occupy a powerful position in the global economy, which around two-third of international trade. General Electric which is one of the TNCs, had revenues of \$126 billion in year 2001, which is more than the combined national incomes of sub-Saharan African countries, except the Republic of South Africa. TNCs are playing important roles in the global economies and it might be possible that they have the power to control over the economy in the future. As Michael Kitson (No date) states, " TNCs are " very powerful than the previously, nowadays they are playing an important roles and act as powerful players in the global economy". TNCs not only affect the local economic but it is also involve the global economic because they operate in large business which surrounding the world, it would affect the global employment rate and economics.

Factors to Move As “ Footloose”

The factor that drive TNCs move and operate freely in the international country is the cost of production and also labor cost. This issue usually will be the first and most important reason for TNCs to consider with. According to Schaub (2004), he states that " TNCs are profit from a division of labor,

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they tend to concentrate their operations in those countries which are usually allocate labor-intensive and specialized tasks to peripheral countries". They invest in different geographical areas to get multiple advantages from other countries so that they are able to improve their operation in their home country. Many of the US firms prefer to set up production facilities in the foreign market because they saw an opportunity to reduce production and distribution costs or low threat of their market position. For example, Renault-Nissan is one of the examples of TNCs which manufactures its product in China, Taiwan, and the Philippines, to profit from low-cost, high quality labor.

Other than generate huge profits, resources available will be also one of the factors that lead TNCs to operate freely and globally. The resources are referring to human resource management, technology resources and also the resources to build up the products. This can be explained by the technology advancement, human capital and capabilities, rich of the resources in a country. TNCs will consider all these factors in a country only will decide to operate or set up their manufacturing factory in a new place. Due to limited of capital resources, Intel actually relies extensively on the global manufacturing network, they set up manufacturing company at Penang, Malaysia is because they can get the resources at there and the human capabilities is high.

On the other hand, political conditions will also affect the TNCs to operate freely in a country. Since China opens their market to the foreign investors and enters into the international trade, China has become the new and favorite place for TNCs and FDI to make investment and set up new

subsidiaries and factories. China's rapid integration into the global economy has created many investment and trade opportunities between China and the rest of the world. It has created a lot of business opportunities and employment opportunities for the local people of China. China is a country which has the advance infrastructure, reasonable levels of taxation, cheap labor cost and production cost, and also the conditions that support personal security and the most important is stable political. Examples of TNCs which operate their business in China include Wal-Mart Stores, BP, Royal Dutch/Shell Group, Toyota Motor, Ford Motor and many others. TNCs will rather invest in China than Middle East Countries as they always suffer with political unstable as well as race discriminations.

Barriers That Restrict TNCs to Move

However, there are some factors such as Trade Barriers that will restrict TNCs to move freely in the international countries. It is usually refers to the external factors that is unable to be control by them. The most common sorts of trade barriers are things like subsidies, tariffs, quotas, duties, and embargoes. While TNCs enjoy the profits they earn, governments are usually concern with the consequences of these products have produced, and these consequences is usually caused by smoking, drinking, asbestos, chemicals and fertilizer/pesticide that can seriously lead to water pollution. Many countries are suffer 80% of their water is polluted by the chemical toxic such as pesticides, fertilizers and herbicides with consequential effects and the nations have to pay higher price for their water. Besides, the other TNCs needs to overcome this entire problem before the consumer can use it or consumed it safely. In this situation, profits of TNCs will be reduce when the

citizen pay for what an unpolluted and healthy resources or goods, they always have a human right to consumed clean, safe and drinkable water.

Besides that, some of the governments argue that TNCs locate in third countries or poor countries just want to make a profit only, they usually pay low wages, especially to those innocent such as women and young children. Some of the people said that TNCs usually look after themselves rather than them. Local labors usually poorly paid, most of the profits will go overseas, and products often of little value to local people and TNCs may pull out anytime. In order to guarantee the life and also the rights of local people, government usually will restrict some rules to protect their peoples. Senegal is the example that the government and the Committee on Economic, Social and Cultural Rights of International concern with the worker's rights and health. For your information, Senegalese workers are employed with low wage and do not provide basic social services such as social security, medical check up and health insurance. Hence, TNCs wish to offshore to Senegal must be able to fulfill the requirement of the government whereby treat the local labors fairly.

Besides that, culture will be also one of the barriers for the TNCs to offshore or move abroad. Cultural issues would not affect all the TNCs, it is usually refer to the food industry. For example, McDonald is carefully selected suppliers and also producers of their ingredient. The food of McDonald is including beef, chicken, pork, egg, milk, coffee and potatoes. However, pork is not accepted by the people, who are religious Islam; they are anti-pork due to the religious. Hence, if McDonald wishes to franchise their business to those Middle East countries or Islamic countries, they could not sell pork

meal and get any pork supplier at there. It is the same case in India, Hindu state that cow are a gift of the gods to human race. Hence, for Hindus do not eat the meat of the sacred cow. McDonald's is the world's largest user of beef. Therefore, all foods are strictly segregated into vegetarian and nonvegetarian lines to conform with preferences in a country where many Hindus are vegetarian. McDonald's has had to customize its offerings to the tastes and preferences of a Hindu culture that venerates the cow, will not eat beef, and has a large vegetarian population. Cultural factor will affect McDonald to operate their business in a new place such as Islamic country and India.

Next, the other barriers that TNCs might face also include customer preferences. Customer preferences are refers to the consumer's buying habits, product usage and so on. Nowadays, the living standards and income of peoples have been increase and they tend to enjoy their life. As income increase, so the purchasing power has been increase as well. China would be the best example; China's luxury car market is mainly controlled by Audi and Mercedes-Benz. Previously, Toyota will be the first choice for the China as this is more affordable for them. China does have their own automobiles produced such as BYD, Chery, Hafei, Roewe and so on. As the income and lifestyle have been improve, many of the Chinese tend to purchase high quality and foreign car as this is the status recognition for them. Hence, in this case it is a barriers for Toyota as they have the own manufacturing in China. Customer preferences change has cause negative effect to Toyota as it will affect their profits. Customer preferences would change anytime and TNCs could not estimate about it, hence before they want to set up new

business in a country they need to encounter this problem and think of solutions.

Fact to Support TNCs Move As “Footloose”

After analyzing the factors to drive TNCs operate freely and globally, it shows that Transnational Corporation can move “footloose” within the global economy. However, it is not all the TNCs able to move freely, some of the industry might be difficult to move. According to Ha-joon Chang, who is a South Korean economist in Economics and Politics faculty at the University of Cambridge (UK), he notes that there are some industries such as cloth, shoes, foods and garments where the “sunk” costs are low and firms can be easily footloose, while for the high elements of sunk cost such as chemicals, pharmaceuticals are more difficult to move. Overall, majority of TNCs are moving as “footloose” in the global economic, and this is supported by Dicken (1998), he outlined that “TNCs are becoming “global corporations”, “stateless”, “placeless” and “locally embedded”.

Many authors suggest that the ideas of transnational manufacturing investments are footloose and not tied to particular locations and regions. For example, TNCs located in the Republic of Ireland also show signs of being highly “footloose”. Ireland is a country which their manufacturing industry is heavily dependent on foreign TNCs. The importance of TNCs for the Irish economy is now reflected in the fact that in the manufacturing sector, foreign plants accounted for 47 percent of employment, 77 percent of net output produced and 83 percent of total exports in Ireland in 1995 (Central Statistics Office, 1997).

Ikea's Successful Footloose Manufacturing Network (Ferdowsi, 2009)

With a network of 1300 suppliers in 53 countries, IKEA which is a Swedish furniture company with €14.8 billion sales in 2005 and growing at 15% annually and like to find the right manufacturer for its 9500 products. Ikea usually look for new suppliers with its own 46 trading offices in 32 countries. Major are in Europe, but IKEA want to add suppliers from other regions, especially Asia. In 2005, China, with 18% of all its purchases tops the list, followed by Poland (12%), Sweden (9%), Italy (7%), and Germany (6%). IKEA's suppliers are an integral part of this unique and intelligence system. IKEA design their products with standards modules and procures similar pieces used in different product from the same suppliers. It is a brilliant use of footloose manufacturing. IKEA simplifies what it needs from factories, hence has many potential bidders and gets competitive prices, and does not reveal design of its new products to its widespread and leak-prone supply network.

Impact of TNCs to Move As “Footloose”

Besides benefits to TNCs itself, they actually also bring benefits to the country that they operate other than home country. TNCs and the Foreign Direct Investment (FDI) bring in able to improve employment rate, increase productivity, enhance skills transfer and technology transfer, increase volume of exports and also contribute to the long term economic development of the developing countries. The impact for the TNCs itself, they can earn more profits, increasing market share, becoming market leader and so on. While for the local labor, it will create employment

opportunities for them, improve their living standards, opportunities for them to learn new skills and knowledge. While for the host country, TNCs actually help to improve the economy conditions, reduce unemployment rate, enhance advancement of technology and attract FDI to invest in their country.

Furthermore, TNCs also improve conditions of the private sectors in the countries where they operate, a process which is very important to overall economic growth and economic health. They also bring benefits to the government as they invest money into an economy where it can supplement or free-up government revenues and development assistance funds. Many of the Government tend to welcoming for the TNCs to set up new business of manufacturing factory in their country because they can create more employment opportunities, improve the economy conditions and so on. According to Christian Aid (2001), “ TNCs bring benefits to the economies of developing countries and improve poor peoples living standard, invest money to build up infrastructure and facilities, provide employment opportunities, their investments can aids in local businesses and also boost up the local economic activities”.

As a conclusion, TNCs move as “ footloose” has brought a lot of advantages to the community. In this “ free trade” century, many firms tend to expand further in order to gain more profits as well as looking for the opportunities to growth. Although footloose may not suitable to some of the industry, however TNCs tend to move forward and further hence they will try to reduce threats to restrict them to expand globally. In the future, there will be more competitive in the global economics due to the growth of TNCs.

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