The impact of transnational corporations on less economically developed countries...

Business, Company

A transnational (TNC) corporation is simply a large business organisation which operates and has ownership of assets in more than one country. Most TNCs operate in just a few countries, are involved in manufacturing and services and have their head offices in more developed countries. TNCs are responsible for employing over 40 million people worldwide, indirectly influence an even greater number, and to control over 75 per cent of world trade.

At first, many branches of TNCs were located in economically less developed countries, but there has been an increasing global shift to the affluent markets of Europe, North America and Japan. The reason why TNCs originally decided to locate in less developed countries was due to the existence of valuable resources, but the most important reason was the level of incentives offered by the home government.

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If a TNC decides to settle in an LEDC, there will be huge benefits. Many new jobs will be created, which will be filled by local labour. The jobs will probably be better paid than other jobs supplied by industry which developed within the country. On the other hand, the wages will be much lower than the wages given for the same job in an MEDC. This is another reason why TNCs choose to create branches in LEDCs.

The jobs supplied by the TNC will probably require some basic skills, especially if it involves the manufacture of a good. Theeducationwill be supplied by the TNC, and will probably be of a fairly high standard if they want the branch to be very productive. The employees will benefit from these skills, because they would be able to use them in other aspects of their lives.

The TNC will supply the expensive machinery used in manufacturing for the employees, which may also introduce new technologies as well. This will enable the country to progress and allow companies to use the newtechnologyto develop. Because worker wages is increasing, demand for consumer goods will increase as well, another reason why new companies will be tempted to develop.

Mineral wealth and new energy resources will develop,

Because there is more trade in the country, there will be more reason for roads to be built, as well as railways and airports. The TNC may help fund the development of these because it will improve the importing and exporting ability of that country. The government will probably supplymoneyfor the transport links as well, due to the increasing amount of money coming into the country.

The increased amount of money made by the country can also be used for many other things. Healthcontrol could be introduced, which means workers will be given improved working conditions and health plans. This could also help to improve output further because workers will be in a betterenvironmentand mood to work. Money can also be used for environmental control, which could include developing ways of minimizing the amount ofpollutioncertain industries create and even developing new production methods.

Although the advantages to the country are numerous, there is a negative side which includes many disadvantages.

Although the new TNC will supply many jobs, the cost of investment will be high.

The new TNC will know that wages in the target country are very poor and so they will not have to pay workers as nearly as much as they pay employees in MEDCs. This is quite unfair, because the TNC is taking advantage of the people in the LEDC. Furthermore, employees will be made to work very long hours with little or no breaks.

The TNC will most likely choose not to employ local highly skilled workers, because they will expect higher salaries and better working conditions. This will mean that low skilled people will be given jobs, but higher skilled workers will remain unemployed.

As previously mentioned, the TNC will most probably enjoy large profits if they set up branches in LEDCs. The problem is most of this money will not stay within the country because the main branch of the TNC will be situated in an MEDC. This means money will not stay in the LEDC; there will be an outflow of wealth.

If money is going abroad, the GNP of the TNC will increase rapidly. The GNP of the LEDC used will increase as well, but at a slower rate. This means that development speed of the MEDC will far exceed that of the LEDC. This defeats one of the main reasons why TNCs setup branches overseas; they want the country to catch up with the growth rate of other countries.

Technological advancements in the LEDC can eventually cause problems. Mechanisation will mean that fewer workers are needed because robots can do the jobs that the workers once did. The only workers needed will those used to maintain the machinery, which means the work force will be decreased substantially.

The raw materials which are located in the LEDC will most probably be exported instead of manufactured locally. If the country is using as lot of energy to develop, then this can cause a national debt. Therefore, the rate of development will be stunted and the country will have been taken advantage of. This could cause upset within the workforce, creating strikes.

This can cause further problems because the firm is not located within the country. They could choose to pull out when ether they like, meaning many jobs would be lost. This would not be a great loss to the TNC though, as they have many other branches they can rely on.

The money created by these TNCs would probably be better off spent on improving housing, diet and sanitation than roads and airports for trade. The problem is that the TNC would not benefit as much from these improvements so it does not concern them.

The development of new firms can damage the environment because land must cleared for factories to be built. This could destroy the natural homes of species of animals, which is very difficult to correct. Because the target country will not be aware of the amount of pollution produced by industry, the laws on pollution control will not be as tight as the country where the firm is located. This could cause health problems, especially if a lot of waste is produced and dumped into the local water supply, for example.

It is clear that there are many advantages and disadvantages in terms of TNCs creating branches in other countries. The real problem is that the disadvantages mostly affect the target country, not the TNC. So until LEDCs are aware of the problems caused by firms settling in their country, the chance of the growth of TNCs slowing down is very small. This could cause the gap between the levels of development in LEDCs and MEDCs to become even wider in the future.