

# Impact of transnational corporations to host countries economics essay



In this assignment, the present author is going to debate the validity of the statement mentioned above. In this highly competitive business world, Transnational Corporations (TNCs) has increased dramatically all over the world to gain competitive advantage over its rivals. TNCs play an important role in the global economy because they have the power and ability to influence the vulnerable economy. However, while TNCs doing business abroad; it actually brings in some negative and positive impacts to the host country where the businesses are established. Hence, the objective of this assignment is to clarify whether TNCs provide more problems or benefits to the host countries in terms of economical, technological, environmental and social aspects.

Host countries' economic is one of the aspects that need to be concerned when TNCs doing business abroad. TNCs play an important role in developing host countries' economy. Initially, when TNCs are to apply Greenfield Foreign Direct Investment (FDI) in host countries, it will inject a sum of capital to the host country. This inflow of capital to the host country indeed aids the countries development such as infrastructure, especially when they are facing capital shortage issue. For example, in China, due to the joint ventures with TNCs and domestic firms, it has helped China in enhancing its infrastructure (Wang 2008, cited in Impact of TNC, 2008). While doing business there, TNCs would certainly create linkages with domestic suppliers. Hence, indirectly, TNCs lifted a boost for them in terms of sales, products quality and payment system and etc. For instance, as shown in figure 1, most of the domestic suppliers in Malaysia agree that, foreign hypermarket has benefited them in different area.

**Figure 1:**

Benefits of business relationship with foreign hypermarkets in Malaysia

Source: (Kaliappan S. R. et al, 2008)

Undoubtedly, TNCs has benefited host countries in such way, but it creates problem such as monopolies market, affect counties' BOP and transfer pricing. Accordingly, TNCs are supposed to increase the competition of the host market so that domestic firm will compete vigorously to obtain market share. However, some TNCs are too vigorous. They want to acquire the total market share of the particular industry. One of the potential example of monopolise market would be the TNCs in New Zealand. New Zealand has attracted massive TNCs to open business in its country. Due to the small and unsophisticated economy, most of TNCs has monopolised the market in several sector. As a result, the national share market is mainly dominated by foreign companies. Hence, it has an adverse effect to the local citizens as they faced a significant high price for the product that sell in the oligopoly market. (Marc T. Jones, 2000). Besides that, Figure 2 is the data that shows the percentage of telecommunication companies that gain control on the market of host countries.

Figure 2: TNC controls market share of Telecommunications in selected countries

Source: (Impact of TNC, 2008)

TNCs can provide a positive impact on balance-of-payment (BOP) of the host countries as well as negative. It creates a positive BOP to host countries

<https://assignbuster.com/impact-of-transnational-corporations-to-host-countries-economics-essay/>

when the overall export is greater than import which in turn increases the GDP of the countries. However, it has an adverse affect when TNCs imported materials from other countries to serve host countries. For example, JAMA (Japan Automobile Manufacturers Association) has almost the full control over import and export of U. S. automotive industry. As shown in figure 3, though JAMA has expanded its production to U. S, it still imports a numbers of cars from its home country. This shows that, U. S did not benefit anything, in fact, it loses it trade balance. Besides that, as shown in figure 4 JAMA exports cars from the U. S based plant. Yes, this has contributed to the U. S. economy as the GDP has increased. On the other hand, it harms the U. S exchange rates as JAMA remitted profits that earned in U. S back to its home country. This scene is not favourable because the decrease of circulating money of the local market will affect the currency exchange rates. When TNCs send profits back to its parent company, it's actually selling the local currency which resulting a degrading in the currency exchange rate of the local market.

Another issues that TNCs affect the host countries' economic is the transfer pricing. TNCs have an advantage of intra-firm trade to avoid taxes. According to Martin Feil (director of tax expert and electronic international trade service) says that, company uses transfer pricing to escape from paying tax in Australia ( Foreign Ownership Facts, n. d). In U. K., a study found out that 83% of 210 TNCs involved in transfer pricing (Peter Dicken, 2007). For example, Google as one of the large multinational companies are manipulating the transfer pricing to avoid taxes. Google's subsidiary company that based in U. K had avoided £450 million of corporate taxes with

the use of transfer pricing in 2009 (Simon Bowers, 2009). Hence, by manipulating the intra-firm strategy, TNCs will transfer its prices back to its home country or another subsidiary company if the taxes in host countries are higher. Hence, host countries will suffer from losing a fair payment of taxes or even suffer zero taxes profits from foreign corporation.

Figure 3: Import and Export of JAMA

Source: (JAMA, 2007)

Figure 3: U. S exports from Japanese firm based in U. S

Source: (JAMA, 2007)

Other than economical, technological is also one aspects that need to be considered. According to Hill, TNCs technology transfer has a positive impact on host countries (Hill Charles W. L, 2007, pg 245). Technology transfer establishes a rapid technology change in host countries and shaped the distribution of production and trade to a better development growth.

Technology transfer can be in terms of machinery and equipment, quality control, process and product design, management know-how and also research and development. Therefore, with the advance technologies, it can facilitate the product and labour productivity in that particular industry.

Besides that, when TNCs are to invest significantly on technology R&D in host countries, it will help to improve and innovate the existing technologies and also create new technologies. An example, Hutchison Port Holding and APM Terminals have help the developing countries around by improving the efficiency of cargo handling with their new equipment and processes in

container ports as well as the expertise that required. Other than that, between 1994 and 2000, the labour productivity has increased by nearly 6% annually in Latin America partly because the operations that TNCs brought in has been recognised (Impact On Tnc, 2008).

However, there are also negative impacts when TNCs contributed only a negligible involvement in strengthening local innovation system. TNCs would not transfer the major skills of innovating technology, in fact only the outcome of the technology. Besides that, TNCs usually do not reveal much of their technology to local suppliers. It will only share within the corporations. Though, it is required that there must have linkages between TNCs and local suppliers, foreign companies do not exactly educate and support the local firms. In these circumstances, host countries would not be able to master the whole invention idea of the technology. Consequently, it would always stay one step behind from the digital world. For example, a study of Caribbean countries, Trinidad and Tobago found out that, the foreign petrochemical company only provide a little technical and managerial technique to the local support firms. But, it work closely and form alliance with the foreign constructions and engineering firms that have technology expertise which they are lacking of (Mytelka L. K & Barclay L. A, n. d). As a result, with the short of skills and knowledge, these host countries could not catch up as fast with high-tech countries.

Furthermore, environmental aspect should also take into consideration. In order to contribute back to the society, TNCs started off with corporate social responsibilities. In this present era, natural stocks are depleting everywhere.

Hence, with the money and power that TNCs owned, it has the capabilities in <https://assignbuster.com/impact-of-transnational-corporations-to-host-countries-economics-essay/>

helping host countries on environmental issues. For example, Mitsubishi Corporation has held an environmental friendly project in Malaysia, a tree-planting ecotour in 2009. This project is to replant trees that have been demolished (Mitsubishi Corporation Environment, 2009). It is tremendously good that TNCs contribute back to the host countries. But, not all TNCs are responsible. Some TNCs tend to shift their environmental noxious and unsafe operation to countries that have less stringent environmental regulation. With this dreadful behaviour, host country will suffer from the polluted environment that TNCs created. However, the problem is not just the pollution that contaminated the countries but the health of the people too. For example, an incident happens in Indonesia, Buyat Pantai after the Newmount Mining Corporation, a U. S gold producer. This corporation has created big environmental issues at that area. It not only damage the whole village with no electricity, water or a road full with dirt, but it infected sickness that had never occurs in that area before (Sabaha Khan, 2009). Other than that, Shell Corporation has created serious environmental issues in Nigeria. Ever since Shell begins its business in Ogoniland in 1958, Ogoniland communities suffered from land and water being poisoned. This circumstance has devastated the Ogoniland economy and the health concerned of the people as they highly dependent on farming and fishing and water consuming (Shell in Nigeria, n. d). As a result, though resources can be renewed, it takes extensively long time to recover. Besides the depletion of natural stocks, environment of the countries are relatively important. The dreadful behaviour of TNCs causes a great harm to the host countries even though some responsible TNCs try to overcome.

Apart from that, social concern is also an aspect that needs to be measured. One of the great benefits that TNCs brought to host countries is reduced the poverty of the country. TNCs will certainly bring a significant employment for them especially while TNCs are investing in Greenfield FDI. Hence, this indirectly lifted up the communities living standards to a higher degree. For example, TNCs in Cambodia had employed more than 300, 000 women that mostly come from the rural place. These women that work for the corporations earn above average salary. Hence, about 60% of their salary will send back to their home villages. Therefore, indirectly, TNCs has contributed in raising the people living standards and also reduce the poverty that had been suffering (Joy Abbenice, n. d.). Besides that, one Japanese firm, Yazaki came to Samoa to become one of the vital employers that had contributed substantially in reducing poverty of Samoa. This shows that, TNCs are important for host countries especially in raising up the living standards.

Nevertheless, there is always good and bad. Some of the TNCs abuse the human right of the people in host countries. They do not bother to concern the local people but their profits. Though it claimed that TNCs created job opportunity, it might not all treated its labour well. TNCs tend to fully or over utilise the workers and pay a minimum wages. A big IT Taiwanese corporation, Foxconn has employed more than 200, 000 labours in Shenzhen. However, it does not treated its workers well. It pays less and demands the workers to work more than 12 hours a day including weekends (Kan Wan, 2007). Hence, these TNCs can be considered as sweatshop as they do not concern the people in their host countries. And also, a case of



big corporation Coca Cola has abuses the human right in terms of worker's right and discrimination. They were hundreds of Coca Cola workers in Colombia have been kidnapped and tortured by joining the protesting the company's labour practice. As the same case, in Turkey a truck driver and his families were beaten for protesting a layoff by polis that the company hired. In Mexico, a senior manager was fired by Coca Cola for being homosexual (Most Wanted, 2007). Hence, with these bad activities, TNCs would harm the social welfare of the people in host countries with the lacking of proper negotiations and adequate compensations. In this circumstance, the victims have to suffer from injustice as they are not able to fight with those powerful TNCs.

In a nutshell, based on the discussion above, it is obvious that on balance, the problems arise outweighed the benefits on host countries that brought by TNC. This is because, the main aim of TNCs are to gain profits. It might not bother the after effect on host countries. Additionally, problems that happen in host country A would occur in host country B. This is due to the different policy that host countries perform. But, problems remain problems. They stills exist even though these problems do not affect some others. Problems that come to pass usually affect the least developed countries. Thus, it brings up to a more widening gap between the poor and the rich. As a result, yes, it is true that TNCs have brought more problems than benefits on host countries but, problems that occur can always be overthrown and solved. Hence, even though problems occur, host countries do no stop TNCs in doing business nationally because anyhow, there are still certain benefits that TNCs brought to host countries. They are willing to attract a significant

FDI because both parties are depending on each other to gain mutual benefits.