Advantages and disadvantages of transnational corporation economics essay

Transnational Corporation (TNC) referred as a large firm with plants or other direct investment that has the power to co-ordinate and control stages in operations of production chain in more than one country, even it does not own them. Transnational Corporation (TNC) provide technology, finance capital, and marketing skills to create a profitable market and imposed regulations that have given them a larger share of profits, jobs, and markets. Followed by the expansion of globalization, the Transnational Corporation (TNC) has evolved into an influential mechanism of progress where the 51 out of 100 largest global economies by Gross Domestic Product (GDP) are from large corporations in the world economy (Dicken, 2007).

Transnational Corporation (TNC) have the responsibilities towards its employers, customers, governments, suppliers and communities as well as the shareholders. It created wealth, job opportunities and revenues by increasing the efficiency of capital flows. Transnational Corporation also contribute in reducing the levels of world's poverty in developing countries by improving their infrastructures, strengthen their human capital, encourage countries to cooperate and seek peaceful solutions for problems faced and also be able to influence over the others in terms of sharing knowledge, resources and responsibilities with the others (UNCTAD, 2002).

2. 0 Changes in the Firm Size Distribution

In many industries, the distribution of firm size is highly skewed to the right, as the smaller firms are more than the large ones. The characteristic of distribution is frequently used to describe firm size distribution is where the logarithm of the random variable is normally distributed. The distribution fit the empirical data fairly well as the evidence that firm growth was independent of firm size (Gibrat 1931).

Rhoades and Yeats (1974) analyzed the growth among the U. S. banks by deposits for the year 1960-1971 and found out that the largest banks grew more slowly than the whole banking system. In a study of the 100 largest international banks from 1969 to 1977 by assets, the growth rates of banks are roughly independent of size, but that growth rates exhibit positive serial correlation (Tschoegl, 1983).

The growth rates appear to be independent of size between the years of 1960s to 1970s, but related to size in the 1980s and 1990s. While between the years 2000 to 2005, the growth rates are higher for the largest banks, but less if compared to last two decades. It appears that in year 1960s and 1970s, they were relatively stationary periods, but in the 1980s and 1990s, it was a long transition period, no doubt due to the legal, regulatory, and technological changes of the period. And finally, in year 2000 to 2005, it appears to be the end as the size seems to be returning slowly to the numbers of the 1960s and 1970s (Gibrat 1931).

3. 0 Political Risk

Political risk can be briefly described as the probability action taken by stakeholders within the political system which affects the return on investment of TNCs in that particular country. Cooper (1971) examined that the interdependence way among industrial economies undermined the effectiveness of national policies and suggested that one rational response would be for states to coordinate economic policy-making. Over the past decades, researchers found out that the numerous determinants of foreign investment flows which include the economic and political factors were influencing the level of Foreign Direct Investment (FDI). Political risk is one of the risks found in emerging market economies and developing countries which increasing the foreign direct investment (FDI) and the growth of transnational corporations' (TNCs) activities across such as the European Union and the United States where FDI flows to developing countries have increased enormously since 1990.

Most of Transnational Corporation (TNC) has less interest to invest in the poorest countries of the world such as most of sub-Saharan Africa, partly due to high uncertainty regarding political risk in many of these countries. This is unfortunate as FDI inflows may be particularly benefit the developing economies, since foreign investors are likely to be introduce to new technologies, where it will also increase the competition within sectors of the economy as the local workers will get better-paid jobs. Hence, political risk analysis is of particular importance to developing countries, in order to shed new insights on how to measure and to deal effectively with political risk (Dicken, 2007).

4. 0 Economic and Environmental changes

According to Huber (1982) and Simonis (1989), the ecological modernization was the most sustainable development modes that comprised both a theory and a policy or political programme which could be implemented to achieve a less material and economical through the application of integrated and preventive resource and pollution-reduction strategies based on the view that comprehensive economic change which relate to changes in the wider economy such as rises in living standards or the general level of demand, rises or falls in interest rates and so on.

The important connection between economic and environmental problems can be clearly seen in the widespread social and economic impacts towards soil erosion, deforestation, and urban congestion, unmanaged chemical such as heavy metals, air pollutants, solid and liquid industrial. The Economic and environmental shown few signs of changes as everyone wants more clarity on its international oil and gas plans, its coal consumption, which the long-term strategic plans are with regards to climate and energy security (Long, 1990).

Some country efforts to secure long-term supplies of fossil fuels that seriously takes energy security into consideration and this ties is contributing to the expanding of its own renewable capacity and regulations, such as supporting low-emissions cars. This technologically-intensive production would not be a suitable option for lower income nations because the intensive technological basis has often resulted in the Intensification of uneven development rather than enhanced opportunities for the poor (Freeman, 1987).

For example, financial crisis that fallen upon Argentina in December 1994, the Mexican stock market was marked by the collapse free market economies as this situation happened during the launching of neoliberal model called NAFTA. President Bill Clinton saves the North American Free Trade Agreement (NAFTA) by challenging the corruption and lies on a total Mexican collapse through bailout orchestrated. On December 2001, the second crisis involved people in disaster, where the nation's bank accounts has been emptied and the poor people were robbed to pay the rich (Salomon Partnoy, 2002).

5. 0 Changes in the Job Market

Tzannatos (1998), found that the labor markets in developing countries are transformed quickly in the sense of gender differentials in the job employment and the pay are much lesser than the actual amount of pay they did received in the industrialized countries. Today, nearly 50 percent of women around the world are in the labor force, and those works were performed by females but they were not paid following to the traditional division of labor because women's work is valued less than men's. However, women's earnings are around two-thirds of men's and women are usually paid less than men while doing the comparable work. In Britain, the first country which started being phased out more than two centuries ago was the first censuses that proven 30 percent of women were economically active in the mid-19th century.

The analysis found out that the significant scope for further improvement in women's labor market outcomes in developing countries which can lead to the output gains and a reduction in poverty among the poor people which make a general improvement in women's welfare. Aziz and Dunaway (2007), analyzed that the China is focusing on capital-intensive and resource-intensive which growth has actually led to a slower rate of employment growth rate. The capital has fallen into the comparison of wages among the plentiful supply of China labor which result in making more sense to develop resource-intensive sectors and methods besides using the service or knowledge-based approaches. This means that China will grow slowly in employment for every point of Gross Domestic Product (GDP) that growth than in most countries.

An example of the creation of job opportunity would be Coca-Cola Company that decided to invest a new bottling plant in Malaysia which consist a huge amount of $301 million investment. It has been stated that this investment will able to create 600 to 800 new jobs opportunities from the new bottling plant with 8, 000 jobs that connect with local suppliers (Agence France-Presse, 2010).

6. 0 Changes by Technology

According to Bianchi, Carnoy, and Castells (1988), the importance of introducing new technology, which include both hardware, software and the quality control to create minimal technology transfer and lesser productivity linkages to other firms as it appears to imply a changing structure of the demand for skills due to the combination of the growth of higher technology production as the economies expand. These will be advantages to the foreign firms as more opportunities have been created in the particular firm.

By developing new technology into the particular country, it is providing great opportunities to the countries’ economic growth as there will be a change in the level of technology advance by improving the information flows and increase the speed to integrate national economies into global economy, so that countries will be able to get a stronger position in the world market which enable them to access more advanced technology as increasing their competencies in getting more accurate information (T. Koizumi and Kopecky, 1980).

A study that did on an employment effects in the Asian developing countries has made a conclusion on the introducing advance technology into the particular country will caused new technical change and make only a very small percentage in contributing to the reduction of the unemployment in the third world societies. As the new micro-technology is becoming automated in developing countries, it has caused an increased in the unemployment rates where the jobs employment in the micro-electronics was being displaced by the micro-electronics because they are not able to control the percentage of job loss due to developing new machinery into the particular organization (Ernst, 1986).

For example, the Bhopal disasters happened in 2-3 December 1984, which is caused by American MNCs’ subsidiary, produced pesticides by using sophisticate technology that being brought to India. The mixture of poisonous gases has flooded into the city of Bhopal and thousands were died immediately from the effects of the exploration in the atmosphere. This incident has caused 200, 000 and 450, 000 local people exposed to the toxic fumes and roughly 60, 000 people were seriously affected with impaired lung functions and severe gastrointestinal damage while around 20, 000 people have been permanently injured. Bhopal residents had suffered the long-term respiratory and fertility problems and up to 10, 000 people have lost their life in the tragedy (Eckerman, 2005).

7. 0 Conclusion

In conclusion, Transnational Corporation (TNC) has bring changes into the global economy in terms of firm size distribution, political risks, new technology, job employment, economic and environmental changes and so on. There are both advantages and disadvantages of Transnational Corporation (TNC) to take part in the countries as countries will not growth without TNC's business but, it might not be a good decision if one's country is too dependent on TNC as TNC might bring disaster to the developing countries, even the whole country can be collapse in a short time. Countries should learn the business techniques before they can really handle the global market activities.