

Advantages and disadvantages of transnational corporations



Transnational Corporation (TNC) can be known as Multinational Corporation (MNC) which is a corporation/ enterprise that have power to control operations such as productions and deliver services in more than one country at a time even does not own it (Peter Dicken, 2007). ITNC have many offices and factories in many different developing countries while their headquarters will be located in developed countries. It is geographical flexible and ability to take advantage by locate its factories in different countries in the factors of productions. Besides that, TNC will bring in foreign direct investment (FDI), has a great influence in local economy and global economy as it can provide work opportunity, increase productivity, enhance in exportation and generates economic development in less developed countries or developing countries as well. an example of TNC is Sony. Global economy means an integrated world economy with free movement of goods, services and capital across countries. While ' footloose' means companies free to do everything, free to explore to everywhere without any restrictions and even enter or exit market as they like.

ADVANTAGES/ STRENGTHS OF TNC TOWARD HOST COUNTRIES

Based on the research found by Economist Newspaper Group, Incorporate, TNCs are big, rich and have a larger budget than nation's GDP. Hence, it has power influence on global economy by enrich a country economy. It can be shown by the example of how the ownership of American manufacturing plants affects their chances of closing.

2. 1 Economic impact

According to the research found by Andrew Bernard of Dartmouth College's Tuck School of Business and Bradford Jensen of the Institute for International Economics, they found that between 1987 and 1997 American factories owned by multinationals not only less likely to close down but last longer than local firms. It because TNC richer, larger size and have greater production which assist them achieve greater economic of scale and much more efficient in access cheaper finance. Possess with these strengths, exporters are able to survive within global economy compare to factories which only produce for domestic market, while multinational firms are able to stand apart from their competitors from low wage countries.

2. 2 Increase employment rate

The benefits of multinational provided are much more than local firms. As a multinational firm enters into a developing country or low wage country, it can provide job opportunities to local workers. For example, Nike enters into low wage countries such as Malaysia, Singapore and Indonesia in order to seek low labor cost which indirect increase the employment rate of the countries. In addition, the multinational firm's labors are better beneficial than local firms' labors with higher paid and compensation from losing jobs. This may create workers' loyalty toward company and contribute more to the firm.

2. 3 Technology contribution

TNC play an important role in developing countries in terms of technology contribution. For example, development of deep-water oil extraction may require mature technical skills and capabilities. For those in West Asia tend <https://assignbuster.com/advantages-and-disadvantages-of-transnational-corporations/>

to remain State-owned oil companies in hand may require high technology and skillful technical from TNC which are not locally available like knowledge of long-distance horizontal drilling expertise used to exploit huge oil. Not only that, for certain countries which with sufficient expertise sometimes may cooperate with TNC in the development of oilfield like Kuwait. By relying on TNC's advance technology and managerial expertise, it can assist them expand globally.

2. 4 Enhancement of export

One of the advantages that TNC provided is enhancement of export. This could be seen through mineral industry that TNC helped to boost its exportation by expand it production facilities, value added to minerals and use of transfer pricing within global market. According to the world investment report, involvement of TNC in trading has led the exportation of country increase especially in the field of mineral industry and resulted mineral become main export sources in most of the developing countries such as in Chile, percentage of the exportation of copper in total exports goods rose from 38% to 61% in the period of 2003- 2006.

Another industry that has been affected by the Involvement of TNC in trading is oil and gas field. Participant of TNC helps increase production and exportation of some countries like Argentina, Indonesia, Ecuador and etc. In Ecuador, TNC help increase their exportation of crude oil by adding transport capacity for 400. 000 barrels per day (ECLAC, 2004).

2. 5 Generation revenue to developing countries

Participant of TNC in trading not only increase the exportation of countries but also help to generate revenue. Firms from developing countries may gain a lot from TNC in terms of learn their experience in export market which skill may not found available in local and skills in add value to the raw material before export. Increasing revenue from exportation of countries may help them have the ability to import inputs they needed from foreign countries and the foreign countries may also generate revenue from it.

2. 6 Generation of government revenue

A tax system has been designed by government in order to generate revenue from companies by encourage firms finance their investment through intra-company loan. Through this way, government can generate revenue from firms when firms make installment for the loan in which the repayment may reduce firms' revenue for several years (sources from UNRISD, 2005). As mention in the case of Peru (sources: World Investment Report 2007), the net profit has rose from \$4billion to \$67 billion between 2002 and 2006 due to the growth of exportation. At the same time, tax income the firm paid has been increase as well from \$2 billion to \$27 billion and it may increase government revenue.

2. 7 infrastructure development

Involvement of TNC may increase the infrastructure development in the countries due to the activities of TNC may require public utilities such as water supply, electricity supply, transportation infrastructures like road, railway, and airports for them transfer and export the goods. As an example, involvement of TNC in the development of Lake Victoria Goldfields in United <https://assignbuster.com/advantages-and-disadvantages-of-transnational-corporations/>

Republic of Tanzania contributed to development of infrastructure like roads, hotels and airport facilities which affected to an increase in tourism in the countries. Following by this may increase income of people in local country, increase economic growth and government revenue as well.

2. 8 Environmental impact

Government has been worked hard to minimize negative impact on environment which resulting by firms' activities especially extractive activities. Types of mineral extracted, technology the firm used to extract and scale of extraction may impose an impact on environment. According to the World Investment Report 2007, it stated that domestic firms were unable to minimize the impact on environment when undertake extractive activities due to they were lack of standard environmentally management, advance technology and resources as TNC possess. With the involvement of TNC in metal mining industry may help to reduce the impact on environment with their environment-friendly production technique, advance technique extraction, and standard environmentally management ability.

DISADVANTAGES OF TNC

Participant of TNC in trading not only provide advantages but disadvantages as well.

3. 1 Labour exploitation

One of the disadvantage that TNC involve in trading include exploiting cheap labour . Most of the TNC decided to move production into low wage countries or developing countries intend to exploit cheap labour as well as Nike. In

order to enter low wage countries, Nike makes agreement with local producers like India and Vietnam to manufacture their products because of the low labour cost and low production cost.. Through the low paid to labour force with few dollars a day and this may reduce their production cost as well, the firm can generate high profit and have a large budget to promote their brand.

3. 2 Removal of capital

TNC can bring jobs, technology and inject capital to low wage countries easily as well as it could be leave easily. All capital of TNC does not stay in host country for a long time but it can be removed anytime by TNC. This can be seen through the example of Sony Corporation left West Java, Indonesia due to the poor business climate. When there is an opportunity for TNC injects capital in this low wage country, it could allocate their factory and office in this country as they like at any time. On the contrary, Sony could remove all their capital away from this country when they faced unfavorable climate like making lose.

3. 3 Economic recession

Emergence of TNC could increase economic growth or contrary. As mention above, involvement of high technology and skillful technical from TNC which are not locally available like knowledge of long-distance horizontal drilling expertise may assist in extend exportation and increase economic growth. On the other hand, when TNC taking all their capital injected to the countries away may result economic recession as well due to most of the local workers

lost their income and has no expend ability. Hence, they may reduce their expenses and save all their money. Finally, it resulted economic recession.

3. 4 Outflow of wealth

Outflow of wealth is another disadvantage of involving TNC in trading. Most of the TNC allocate their manufacturing plant is low weight countries like Indonesia, Vietnam and Cambodia because of the low wage of local labour and cheaper land to set up factories. Hence, the production cost may reduce and much more profit the firm can generate. Most of the profits generated are returned to shareholders and most of them will export it to their home country and will not stay in the host countries. Hence, the developing countries are not get wealth even there have participant of TNC in trading.

3. 5 Outside decision making

Even there have participant of TNC in developing countries, but there is no authority for the countries to make any decision and the decisions are made by headquarter of the TNC. In addition, all decision will be made based on the benefit on their home country not the host countries itself. If they found they dislike the economic condition they will leave the countries and take all the capital they injected away while the profit they generated will not stay long within host countries also but will be exported to their home countries as well.

3. 6 Widening gap between developed and developing countries

Due to most of the profit generated within developing countries may not stay for a long and will be exported to their home countries for development.
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Most of the TNC allocate their factories in developing countries because of the low wage of labour force and cheaper land for set up factories which may help to reduce production cost and generate higher profit. The profit they gain will be exported to their home country for development purpose. The more profit they gain the more development they can conduct toward their home country and it may widen the gap between developed and developing countries. For example, Nike makes agreement with local producers who from developing countries like India and Vietnam to manufacture their products because of the low labour cost and low production cost. The profit generated will not be used for investment in developing countries but export to their home country for development like innovate high technology products, foster more skillful technical and so on. This outflow of wealth is widening the gap between developed and developing countries.

WHY DRIVE TO MNC/ TNC

As we know that TNC is a type of profit-generated organization and powerful in dominant of global economic. Why firms transnationalize? There are some driving forces affecting firms' transnationalize but the most consequence is generating profits.

4. 1 Avoid trade barriers

One of the reasons for the growth of TNC is avoid trade barrier by different governments such as quota restriction on import goods, taxes, government's policies and so on. Due to TNCs are able to coordinate and control operations of activities in different countries, hence, they allocate some of their offices and factories in developing countries and take this advantage to distribute
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their production around the countries. Through this way, TNCs are able to control terms to be traded, product distribution and avoid trade barriers which set by governments.

4. 2 Cost advantage

Requirement of low wage labour cost would be another factor affect firms to transnationalise. Firms intend to seek for low wage labour cost in order to decrease their production cost and generate higher profit. Their ability in allocate factories and offices in different countries especially in low wage countries may help them achieve this objective. For example, Nike makes agreement with local producers who from developing countries like India and Vietnam to manufacture their products because of the low labour cost and low production cost. The profit generated will not be used for investment in developing countries but export to their home country for development.

On the other hand, increasing international transportation cost as an indicator induce firm intend to transnationalise in low wage countrie because it may help to meet cost advantage in terms of transportation and distribution cost as well. Their geographical flexibility and ability shift the production in different countries especially developing countries provide an opportunity for them to take advantage to reduce transportation fees and distribution cost.

Another cost advantage induce transnationlise is the cheaper land for set up factories and office in developing countries compare to developed countries. Even they have office in developing countries, but the authority of decision

making is outside the countries and profit generated is on the shareholders' hands.

4. 4 Secure supplies of raw materials

Supply of raw material would be another factor affect firm transnationalise in some countries. Even TNC is an organization which has power influence on global economy, huge financial resources, possess high technology and capabilities that not available in developing countries but it has weakness like lack of raw material supply such as mineral, gold and so on. In order to secure supplies of raw material to their home countries, TNC make agreements with the supply countries that they will inject capital in their countries as an exchange transaction and it may benefit both side.

FACTOR AFFECT TNC FOOTLOSE WITHIN GLOBAL ECONOMY

5. 1Huge financial

There have some factor agree that TNCs are footlose within global economy. One of the factors would be their huge financial. Available of huge financial for TNC to develop more high technology product that not available in other countries and flexibility in allocate their resources and factories in different countries. Possess with the strong financial, TNCs have the choice to enter any countries they favor and exit as well. Most of the developing countries may need TNC inject their capital into their countries where lack of the huge financial for developing and explore. For example, Coca Cola is one of the manufacturer soft drink in the world and it has a strong financial ability. There have many developing countries encourage Coca cola inject

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capital and allocate their factories in their country which may help to increase their employment rate and economic condition. In order to attract TNC enter into their country, India's government offer incentives to Coca Cola to boost them enter into their country. According to this case, TNCs have a strong bargaining power with government and flexible in allocate their factories in worldwide due to they have a strong financial support.

5. 2 Access to IT

There are many countries lack of skillful technical and up to date machinery so they encourage TNCs enters into their countries. TNC has the ability to access IT which not all the countries can access because they rich with skillful technical and engineering who are able to monitor the skillful technique in operate high technology machine. Most of the TNCs are rich and possess a huge financial ability hence they can invest more in generate high production machinery and provide skillful technical training to employees. For example, knowledge of long-distance horizontal drilling expertise of TNC is useful for exploit huge oil. For those in West Asia tend to remain State-owned oil companies in hand may require this technology so they are welcome TNC enter into their country. In the aspect of TNC, they have the choice to choose countries they favor due to they have high technology machine and skillful technical which not available in other.

5. 3 Brand name

TNSc can be view as footloose within global economy because of their brand name. In current market, most of the consumers will buy one product because of the brand name. They believe that all branded product can <https://assignbuster.com/advantages-and-disadvantages-of-transnational-corporations/>

guarantee them the quality of products. For example, Microsoft is one of the TNCs. Consumers famous with its brand name because of their excellent operating system and web browser. Posses with the famous brand name, Microsoft can be view as footloose within global economy. It has the ability to enter and exit one country at any time.

FACTOR AFFECT TNC NOT FOOTLOOSE WITHIN GLOBAL ECONOMY

There only one and the most important factor that against TNCs footloose within global economy which is government regulations. Even though TNCs possess a lot of strengths and bring in a lot positive impacts, but there still arise of government regulations restrict it. The negative impacts as mention above after Involvement of TNCs in trading induce government set some rules to restrict it from enter into their countries to exploit profits. Most of the TNCs are rich, own a strong financial ability, geographical flexibility and available with high technology machine which assist them have the ability to enter or exit countries at any time to exploit benefits. For example, even though Microsoft is famous with their brand name and technology which may enable them enter into countries easily but government come out some regulations to restrict it enter into countries because Microsoft abuse its monopoly power on the pc market by forcing computer makers to include its internet browser as a part of installation of windows software.