

TRANSNATIONAL CORPORATIONS

Transnational corporations (TNCs) are very large global companies. They have an administrative headquarters (HQ), a Research and Development establishment (R & D) and production centres in one country and at least one, but often many more, branches and/or production centres overseas. Over the past 30 years major technological advances in transport (containerisation, bulk carriers and air freight), along with developments in computerisation and communications (satellites and internet), have brought about the globalisation of the world's economy and the resultant growth in size and number of such TNCs.

Approximately 90% of TNCs are based in MEDCs, especially the USA, France, Germany, the UK and Japan (Figures 1 and 2).

Overseas branches are in LEDCs because:

- production costs are usually less than in MEDCs, with lower wages, cheaper land and lower transport costs
- governments of LEDCs want to host TNCs as they often encourage further economic development (multiplier effect), and so they offer financial incentives such as low rates and taxes etc.
- LEDCs often have fewer environmental restrictions which reduces production costs.

TNCs also have branches in other MEDCs, often choosing areas with:

- a suitable workforce (e.g. car companies usually choose places with a history of engineering);
- cheap land – often in declining industrial areas;
- well-developed transport facilities to market areas;
- high unemployment, providing a good available labour supply;
- past economic problems so that the government is prepared to offer financial help, e.g. grants and lower rates and taxes.

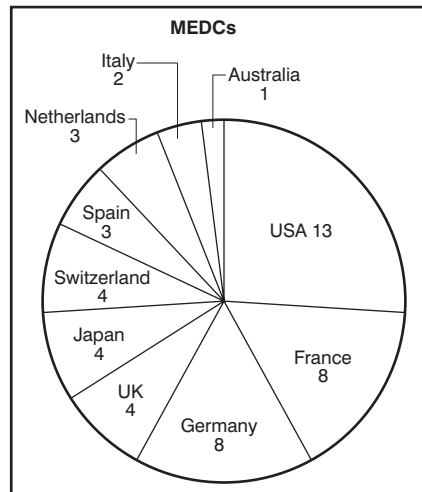
By building branches in other MEDCs firms can also:

- establish operations within trade barriers, thus avoiding quotas and import duties, e.g. the EU countries set up quota restrictions on the import of Japanese vehicles to

Figure 1: Top 20 non-financial TNCs in 2002, ranked by foreign assets

	2002	Country	Product
1	General Electric	USA	Aero-engines, engineering
2	Vodafone	UK	Telecommunications
3	Ford	USA	Vehicles
4	British Petroleum	UK	Oil-based activities
5	General Motors	USA	Vehicles
6	Shell	Netherlands / UK	Oil-based activities
7	Toyota	Japan	Vehicles
8	Total, Fina, Elf	France	Oil-based activities
9	France Telecom	France	Telecommunications
10	Exxon	USA	Oil-based activities
11	Volkswagen	Germany	Vehicles
12	E.ON	Germany	Electricity, gas and water
13	RWE	Germany	Electricity, gas and water
14	Vivendi Universal	France	Media
15	Chevron, Texaco Corporation	USA	Oil-based activities
16	Hutchison Whampoa	Hong Kong	Diversified
17	Siemens	Germany	Electrical and electronics
18	Electricité de France	France	Electricity, gas and water
19	Fiat Spa	Italy	Vehicles
20	Honda	Japan	Vehicles

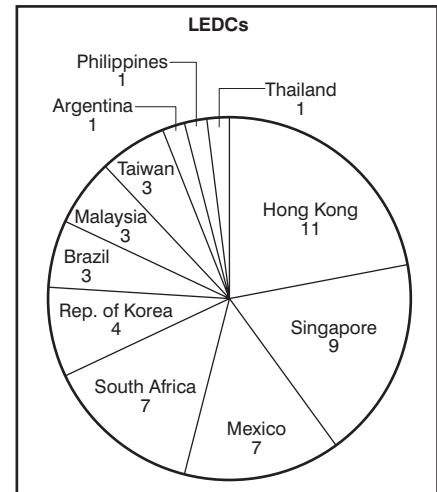
Figure 2(a): Countries of origin of TNCs in Developed World (MEDCs)



protect their own car industries' sales. Japanese companies have built factories within the EU, e.g. in the UK Toyota located at Derby (see case study), Honda at Swindon and Nissan at Sunderland. These cars are considered as 'manufactured in Europe' and so are not limited by quota restrictions

- focus on the tastes of local people, known as 'host market' production, and be more 'visible' to the area's consumers, increasing sales. To gain a higher share in the US domestic luxury car market, Toyota

Figure 2(b): Countries of origin of TNCs in Developing World (LEDCs)



introduced a separate brand called Lexus in 1989. This has now become the number-one-selling luxury car brand in the US, and Toyota introduced it in Japan in 2005.

Recently, firms in newly industrialised countries (NICs), especially in the 'tiger economies' of Eastern Asia, which produce machinery, electronics and cars, have become TNCs. As wage costs have risen in their home countries they have extended into neighbouring LEDCs with cheaper labour, e.g.

Figure 3: Industries by type in top 50 non-financial TNCs, ranked by foreign assets

	MEDCs	LEDCs
Motor vehicles	9	1
Electrical and electronic equipment	7	7
Petroleum linked activities	7	2
Electricity, gas and water services	6	1
Media	3	1
Telecommunications	3	3
Diversified Industries	2	7
Paper, chemicals, construction materials	2	4
Transport and trade	2	5
Food and beverages	1	7
Metal products and mining	1	5
Pharmaceuticals	4	
Retail	3	
Hotels and real estate		4
Rubber and plastics		3

Notes: The No 1 TNC has foreign assets of \$230,000 million and No 50 has \$21,000 million.

In the LEDCs list of TNCs the No 1 has foreign assets of \$48,000 million and No 50 has \$623 million.

No 1 on the LEDC list is equal in value to No 16 on the MEDC list

Korean companies to China, and to market areas such as EU countries.

TNCs are very dominant in the current global economy and are found in all sectors (Figure 3). They:

- grow, process and distribute most of the world's food products;
- harvest most of the world's timber and make most of its paper;
- mine, refine and distribute most of the world's oil-based fuels;
- extract most of the world's minerals;
- build most of the world's oil, gas, coal, HEP and nuclear power stations;
- produce most of the world's cars, aeroplanes, chemicals, medicines, computers and home electronics etc.;
- supply many services linked with banking and finance, transport and tourism, etc.

They also:

- directly employ around 45 million people and provide jobs indirectly for millions more workers;
- currently control over 75% of world trade, 40% of which involves the movement of goods between units of the same corporation in different countries.

Issues linked with the growth and success of TNCs

Most TNCs are very wealthy organisations:

- the combined annual incomes of Ford and General Motors are greater than the GDP of the whole of sub-Saharan Africa;
- the 10 largest TNCs have a total income greater than 100 of the

world's poorer economies;

- in 2002, Nestlé recorded profits greater than Ghana's GDP that year;
- In 2003, Unilever's profits were a third larger than Mozambique's GDP.

There have been many accusations of human rights violations in LEDCs where TNCs are known to operate. Also, hundreds of millions of farmers and workers, many women, earn only one or two dollars per day.

There have also been many cases of severe environmental degradation as a result of the activities of TNCs. It has been said that TNCs should apply the laws that exist in their own countries when operating in LEDCs, but this is rarely the case. A 'polluter pays' system should be operated. However, TNCs are not always completely to blame for environmental problems, as often LEDCs have a legislative system in place but do not enforce it strongly enough.

TNCs have also altered their methods of operation, due to unfavourable media attention and worldwide bad publicity. They have introduced ideas such as:

- community investment programmes which improve the quality of life for local people by improving infrastructure, e.g. financing electricity supply for local towns, building roads, etc. and paying for university and secondary school places, etc. for local people;
- training their staff in environmental awareness and carrying out environmental impact

assessment studies on possible future sites;

- reclaiming degraded land by remediation schemes, e.g. planting new trees to replace those damaged by exploration;
- schemes to increase the volume of gas utilised and reduce gas-flaring which leads to air pollution.
- organising stakeholder workshops and generally working and planning for the future using sustainable development guidelines.

Case studies

The Royal Dutch/Shell Group of companies: ('Shell')

This is a European-based TNC involved in oil and gas production. It is jointly owned by the UK and Netherlands. Shell operates in more than 140 countries and employs more than 112,000 people worldwide. In 2004, Shell produced 3% of the world's oil and 3.5 % of the world's natural gas, similar to other major world oil companies and achieved its highest net income ever, a sum of \$18.2 billion! It holds third place in the 'oil world' after Exxon and BP in terms of revenue.

Shell has five core businesses:

- Exploration and Production: in operation for over 100 years and now found in 34 countries.
- Oil Products: producing and distributing a wide range of products, e.g. petroleum, aviation fuel, bitumen (for road construction) and raw materials for the chemicals industry. Shell has an interest in 55 oil refineries.
- Downstream Gas and Power: serving over 20 million customers per day from its 46,000 service stations in more than 90 countries. Shell aviation refuels a plane every 4 seconds.
- Chemicals: producing petrochemical building blocks which are sold worldwide and made into a wide range of goods, e.g. detergents, mobile phones, medicines and toys.
- Renewables: although committed to the production of energy-efficient and low pollutant oil-based fuels, Shell is also closely involved with renewable resources such as solar and wind power installations.

A brief study of Shell's work in Nigeria is a useful study of some of the issues involving the operations of a TNC in a LEDC.

Figure 4: effects of TNCS on host countries

Benefits

- Employment: jobs are created for locals both at the TNC and in associated building, transport and service industries
- Improved technology: new technology, expertise and management skills are introduced such as quality management systems and 'just in time' production; technical skills of workers may be upgraded
- Infrastructure development: is often required by the TNCs, and locals benefit from, e.g. new roads, airports, improved power and water supply
- Financial support: TNCs have to pay taxes like other companies, even if these are reduced, to governments and local authorities
- Inward investment: the local economy is improved without using the local taxpayers' money
- Exports are increased which help the balance-of-payments situation creating more 'buying power' for the host country
- Multiplier effect: the local economy can be boosted by, e.g. growth of components suppliers; increased personal income generates more 'buying power' for consumer goods which can lead to the growth and development of service industries
- Economic base widened: TNCs often help LEDCs climb the ladder of economic development
- Social improvements: TNCS often agree to contribute to the local economy by improving local services such as health and education
- Reduction in racism and nationalism as people of different nations work together and become more aware and tolerant of each other's lifestyles and customs.

Drawbacks

- Labour force: in LEDCs the local labour force is often exploited with long working hours and low rates of pay. Young children are often employed and membership of unions is not allowed. Skilled and managerial positions are often filled by people from the origin country
- Foreign decision-makers: TNCs are often more concerned about profits than workers and overseas branches are often closed first in times of financial crisis
- Profits mainly go back to the country of origin rather than being used to improve the local area
- Grants given to TNCs: sometimes the money would be better spent directly, e.g. on local housing, diet, sanitation etc. than on indirect development
- Health and safety issues: often receive insufficient attention, resulting in a range of problems, e.g. at Bhopal in India in 1984. This was the worst industrial disaster in the world when a gas leak from a pesticide plant in the heart of the city killed many thousands of people outright and injured around half a million people
- Environmental laws – often less restrictive in LEDCs and, if present, are often relaxed to attract companies, resulting in air, water and land pollution, loss of wildlife habitats, loss of agricultural land etc.
- Development of large energy schemes, needed by the TNCs, can create large national debts for LEDC governments which they often find difficult to repay
- Competition with local industries can occur, either in terms of employment or the products created
- Increased urbanisation: many TNCs in LEDCs are in large cities causing further problems of overcrowding.

Shell in Nigeria

Nigeria, Africa's leading oil producer, is one of the world's top ten producers and also has vast natural gas reserves. As a poor LEDC (with a GDP of \$1000, 60% of its population living below the poverty line, a birth rate of 40/1,000 and life expectancy of 47 years), oil is very important to the country's economy, accounting for 20% of its GDP and 95% of its export earnings.

Shell has been very important in Nigeria, operating in the main oil region, the Niger delta area, for over 60 years, and currently produces nearly half the country's oil output. It also works 8 natural gas stations and has built over 6,000 km of pipelines and flow-lines. It employs 5,000 people, 95% of whom are Nigerian and 66% from the local delta area. Another 20,000 people are indirectly employed by companies providing services and supplies.

The development of the oil industry has, however, produced many problems in the country. For many years Nigeria suffered from political

instability with many changes of governments, corruption, dictatorships and military rule. Nigeria had an oil-based economy giving the large oil TNCs considerable power and influence in such an unstable country. Oil production took place at considerable expense to the lifestyle of the people and the local environment in the oil areas. The oil companies and government benefited financially but the local people saw few financial rewards for the disruption to their lives. There was considerable unrest and tension between the TNCs and local tribes such as the Ogoni people of the delta area who protested, sometimes violently, about environmental issues and lack of government support.

Environmental effects have included:

- oil spills (over 4,000 since 1960, which contaminated food supplies and destroy natural habitats);
- gas flaring, i.e. burning gas which cannot be collected, resulting in air pollution. The new government has set a deadline of 2008 to eliminate this practice;
- deforestation, clearing land to produce oil and gas which greatly

reduced local forests used to supply foodstuffs and fuels.

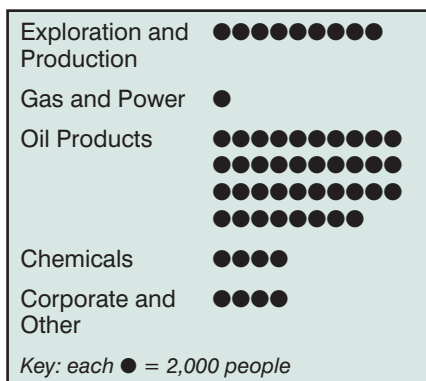
It is only in the last few years that a new civilian government has tried to improve the situation, e.g. by increasing payment to the local people from 3 to 13% of the oil revenues, and putting more restrictions on the operations of the oil companies.

Toyota

The Toyota Motor Co Ltd was first established in Japan in 1937. In 1959, its first overseas plant was opened in Brazil. By 2004 the company:

- was the third largest manufacturer of automobiles in the world and by far the largest in Japan, producing one vehicle every 6 seconds!
- had 12 plants and 11 subsidiary companies in Japan and 51 manufacturing companies in 26 countries from the USA to India;
- employed just over one quarter of a million people worldwide;
- sold nearly 6.72 million vehicles, from mini-vehicles to large trucks, in over 140 countries (Figure 6).

Figure 5: Shell: employment by sector



The automotive business makes up over 90% of the company's total sales, the remaining 10% of its operations includes telecommunications, prefabricated housing (including earthquake resistant designs) and leisure boats. Toyota, like many other TNCs, has realised the importance of creating a good public image and using environmentally-friendly practices and is famous for its Toyota Production System, with a main goal of eliminating waste. This has enabled Toyota to reduce pollution and production costs. Toyota's two factories in the USA have achieved 'zero landfill status', as Toyota sells or gives away all waste products to companies that recycle the waste.

Toyota in Europe

When Toyota decided to set up a plant for its expanding market in Europe to avoid tariffs and quotas, it chose the UK because of its:

- excellent skilled and flexible workforce;
- strong tradition of engineering and vehicle manufacturing and favourable working practices;
- large domestic market for Toyota cars;
- reliable industrial transport links to customers and the 230 British and European supply partners;
- ease of integration and communication, as English is very much the second language in Japan;
- first class environment in which to live and work;
- supportive positive attitude to inward investment from the government.

Within the UK two sites were chosen, both offering good transportation links to all parts of the UK and Europe:

- Burnaston, a 600 acre site, flat and easy to develop, 7 miles from Derby, with its long tradition of car manufacturing;

- Deeside, 7 miles from Chester on a well-prepared industrial park.

The local authorities in both locations showed great enthusiasm and willingness to assist Toyota, providing an effective infrastructure, i.e. electricity, gas, water, telephones, and also business and personnel support services, to help the company and its workers to integrate into the local communities.

The first of its cars in the UK was produced in 1992 and Toyota is now the UK's fourth largest exporter of fully built cars. Around 20% of TMUK's production is for the home market, 75% is exported to Europe and 5% to the rest of the world. In 2002 Toyota exports made a very useful £500 million net contribution to the UK's balance of payments. In 2003, TMUK became Toyota's first European factory to export vehicles to Japan.

Conclusion

It can be seen from the above account that TNCs are a very important and powerful force in the global economy. They have many advantages and some disadvantages to both the countries of origin and their host countries. For

many years they have grown rapidly with little control on their activities and operations, especially in LEDCs. Increased control on a global scale is necessary and if effective TNCs will continue to be a major feature of the global economy for the foreseeable future.

Suggested websites

General:

<http://unctc.unctad.org/html/index.html>

UNCTAD (trade and development) site that covers TNCs

<http://www.globalpolicy.org/soecon/tncs/tables.htm>
data tables on TNCs

<http://www.globalpolicy.org/soecon/tncs/2005/01/powerhungry.pdf>

ActionAid document on regulation of food companies

Case studies:

Shell:

www.shell.com/

Toyota:

www.toyota.com/

Figure 6(a): Toyota overseas and domestic vehicle production figures (Nos of vehicles in thousands)

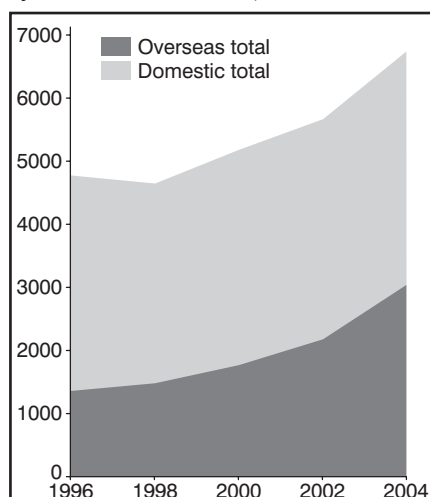
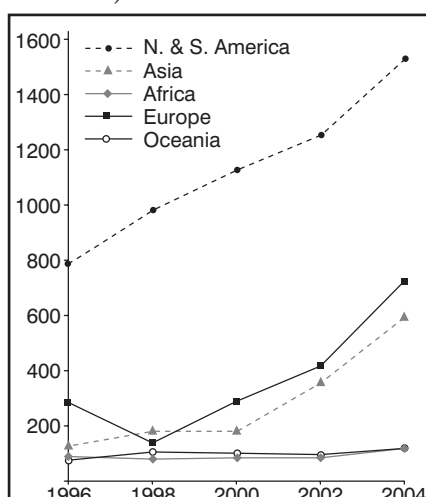


Figure 6(b): Toyota vehicle production by world region (Nos of vehicles in thousands)



FOCUS QUESTIONS

1. Study the data given in Figures 2 and 3. Compare the TNCs that are found in MEDCs and LEDCs, and give reasons for any differences that you notice.

2. Imagine that you were working for a TNC producing cars and were asked to do a feasibility study to evaluate whether location X in country Y would be a suitable choice for setting up a new production centre. Discuss the factors that you would consider when making your decision.