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History – Geography

“Evaluate the role of TNCs in economical globalisation post 1945.”

Before World War II, industries were working on a local level, heavily protected by the governments of the states where they were situated. Global exchanges were quite rare caused by the high tariffs and other means of economical dissuasion, and each nation's market was required to be self-sufficient, no matter the quality. But after the 2nd World War, few nation states decided to change this situation and introduce a new model of economy at the Breton Woods conference in 1945, lead by the USA: free-market non-protectionist world economy. The World Bank, International Monetary Fund and World Trade Organization are established to aid and give loans to countries ready to follow this new economical model. This is when the phenomenon of globalisation that appears. Around 1960's big companies from Europe and America are faced with increasing wage rates and lowering demand on their goods. In order to maintain their income, they shift their production from their “mother state” to less developed countries, called “Less Economically Developed Countries” (or LEDCs in short), where wage rates were significantly lower than in their original countries. This tactic sees a boom in 1973, exactly when the first oil crisis strikes the Northern economies. Globalisation digs in further when multiple countries decide to open up their markets to the global market, so that Transnational Companies are able to settle down.

Transnational Corporations such as Exxon Mobil, General Motors, British Petroleum, Toyota or Allianz are some of the largest companies in the world, while basing most of their production outside of their home country. In order to cut on wages and other production costs, many TNCs out-sourced their production to LEDCs, such as South Korea, Taiwan and Singapore. This out-sourcing of production caused an increase of unemployment in their home countries, but for these LEDCs it was a tremendous occasion: rise in employment, increase of incoming funds and general stimulation of economy are the most obvious advantages. By shifting their production to these countries, TNCs collaborate in a knowledge transfer to countries currently aimed by them. Shortly after the arrival of TNCs, the economy of the targeted LEDCs faced a “snowball effect”: new jobs caused the populations to get richer, giving an increased demand for services, as well as giving the governments the ability to collect more taxes, which lead to an improvement of their infrastructure. Shortly after, the knowledge transfer yielded it's fruits: education was improved and these LEDCs could start creating industries of their own. But that cycle has a relatively short lifespan: as the economy and industry in LEDCs where TNCs are currently present improves, and the workers quality of life improves, wages start to progressively rise. And as TNCs follow the rule of the “race to the bottom”, they will just move on to another LEDCs where the wages are lower than the ones in the countries currently experiencing a boom. In the end, TNCs leave behind Newly Industrialised Countries (NICs), where developments in industry and economy enabled the apparition of their own TNCs. Yet this cycle may be powered by TNCs, it might be considered that it is overseen and allowed to work by nation states. By applications of multiple laws that open up the market of their countries, they allow an easier entry for the TNCs. Such countries as India, Russia who arose from the collapse of the USSR or China were the most important openings for TNCs at the time: access to massive and cheap work-force, with entry made especially easy by the governments of these states were more than tempting. After opening up their markets, these countries experienced an enormous growth, allowing China rise to a state where they can even challenge current economical superpowers.

As said before, the prime example of TNCs provoking a rapid development of a country is China. By reforming China's economy in 1978, Deng Xiaoping managed to raise the Chinese GDP from 216,462 millions US dollars in 1978 to 8,220,863 millions US dollars in 2012, multiplying the GDP by almost 38. After opening up their market, China was faced with enormous Foreign Direct Investments, each year receiving $50 billion, and even seeing it rise to $63 billion around 2006. This boom in economy led as well to a rise in Chinese exports: from $266 billion in 2001 to $969 billion in 2006. The improvements in the economy translated into the development of Chinese education and health care: 2.3% of Chinese GDP goes towards education and 2.1% of it is spent on health. The effects of these investments are noticeable: literacy stands at 84%, infant mortality rate is on 32 per 1000 and under-5 mortality rate stands on 40 per 1000. Now China is a major economical superpower, holding 1/3 of world's population, changing the cost of living of everyone in the world and having it's TNCs present in over 172 countries all over the world.

In the end one can argue who plays a more important role in the economical globalisation: TNCs or nation states. While the first can act as the engine of the globalisation, the latter is the one that lets it happen. But in fact both are so interlinked that there is no clear advantage of who impacts the globalisation more: TNCs with their impact on the economy or nation states that let it happen.