

International Political Economy (SOCS-SHU 222)

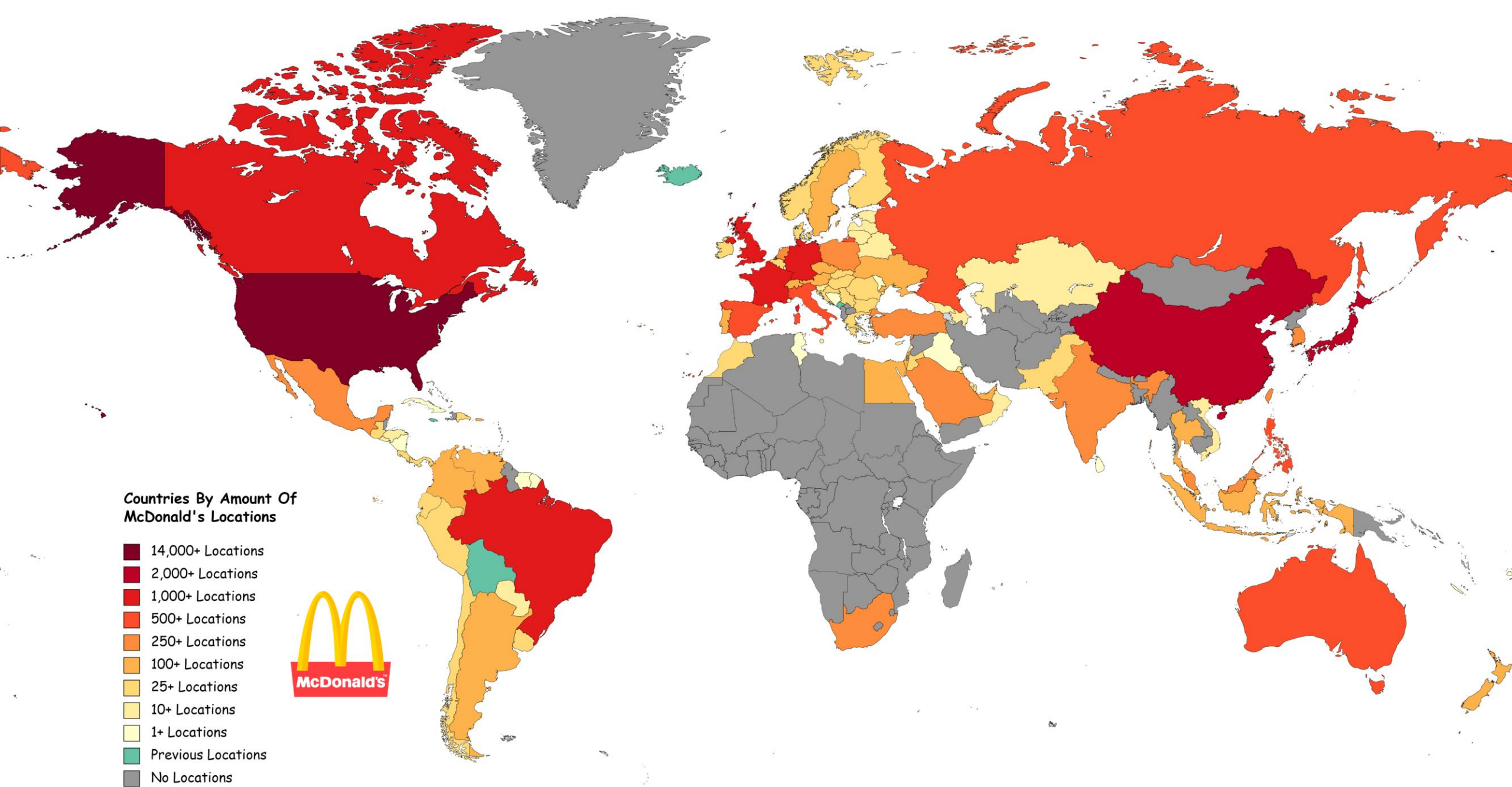
MULTINATIONAL CORPORATIONS

IN THE GLOBAL ECONOMY

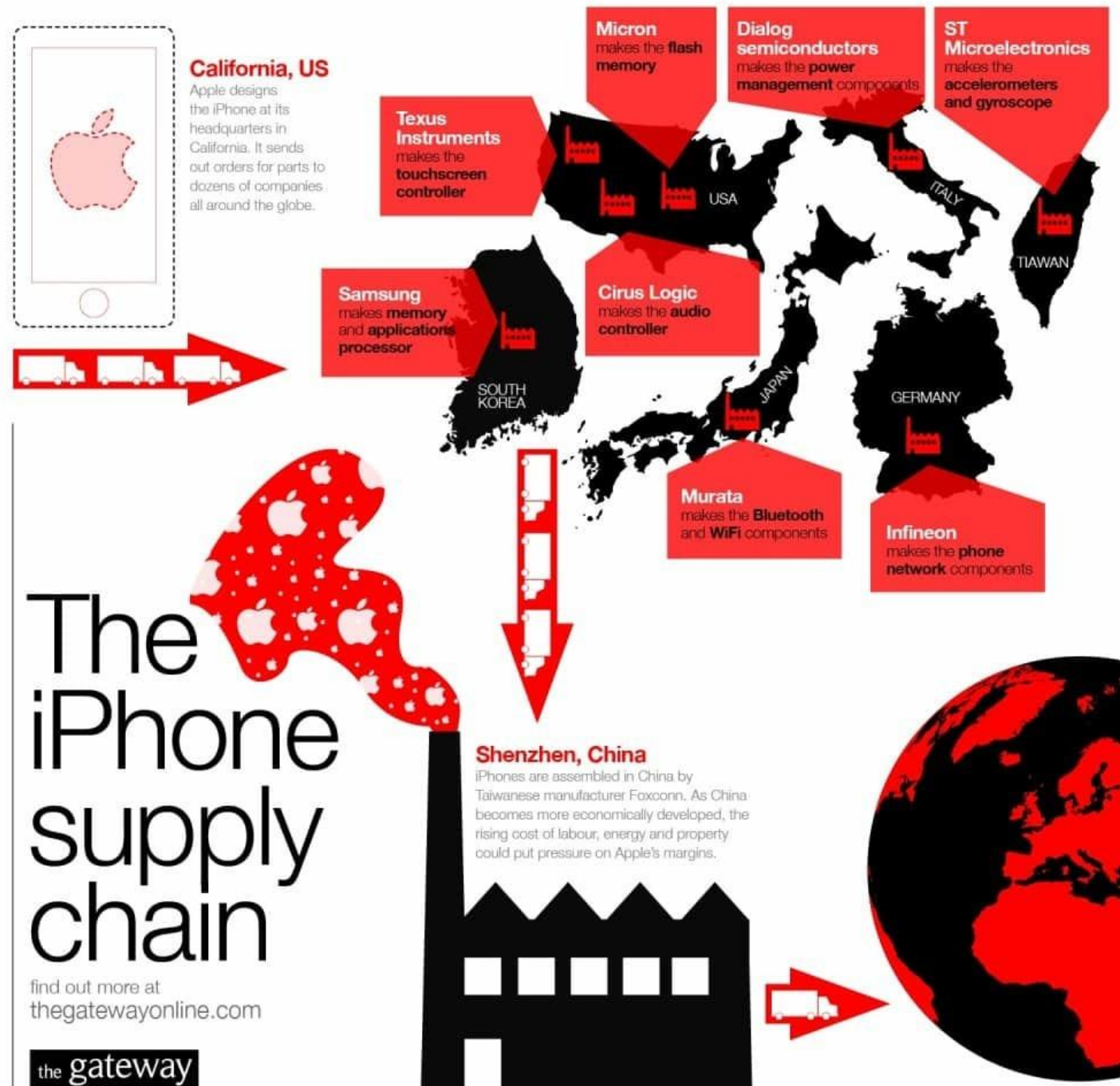
Instructor: JING QIAN













SHANGHAI GIGAFACTORY



Tesla Logo

Tesla Factories: A Scale Comparison

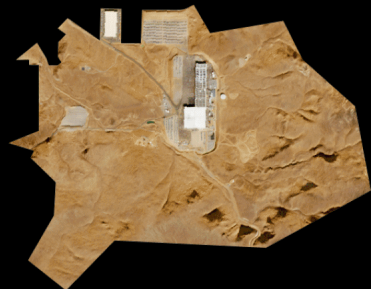
JANUARY 2024 UPDATE



Giga Mexico | Monterrey, Mexico
4,200 AC 1,700 HA
Under Construction



Giga Texas | Austin, Texas
3,630 AC 1,469 HA
Model Y: 250,000/yr, Cybertruck: 125,000/yr



Giga Nevada | Sparks, Nevada
3,470 AC 1,404 HA
Tesla Semi: Pilot Production, Powerwall, Battery Packs/Motors for Model 3/Y



Lithium Refinery | Corpus Christi, Texas
1,616 AC 654 HA
Under Construction



Giga Berlin | Grünheide, Germany
1,108 AC 448 HA
Model Y: 375,000/yr



Giga Shanghai | Shanghai, China
523 AC 212 HA
Model 3/Y: 950,000/yr



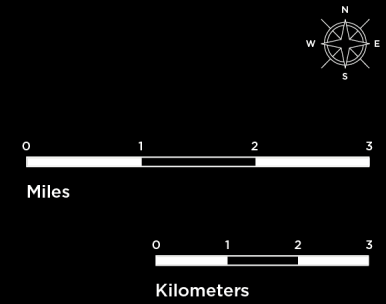
Fremont Factory | Fremont, California
290 AC 117 HA
Model 3/Y: 550,000/yr, Model S/X: 100,000/yr



Giga New York | Buffalo, New York
105 AC 42 HA
Solar Roof, Superchargers



Megafactory | Lathrop, California
50 AC 20 HA
Megapack: 40 GWh/yr



Multinational Corporations

In the Global Economy

READING ASSIGNMENT:

Oatley Chapter 8

MNC Definition

- Multinational Corporation:
 - a single corporate structure that controls & manages production establishments in at least 2 countries

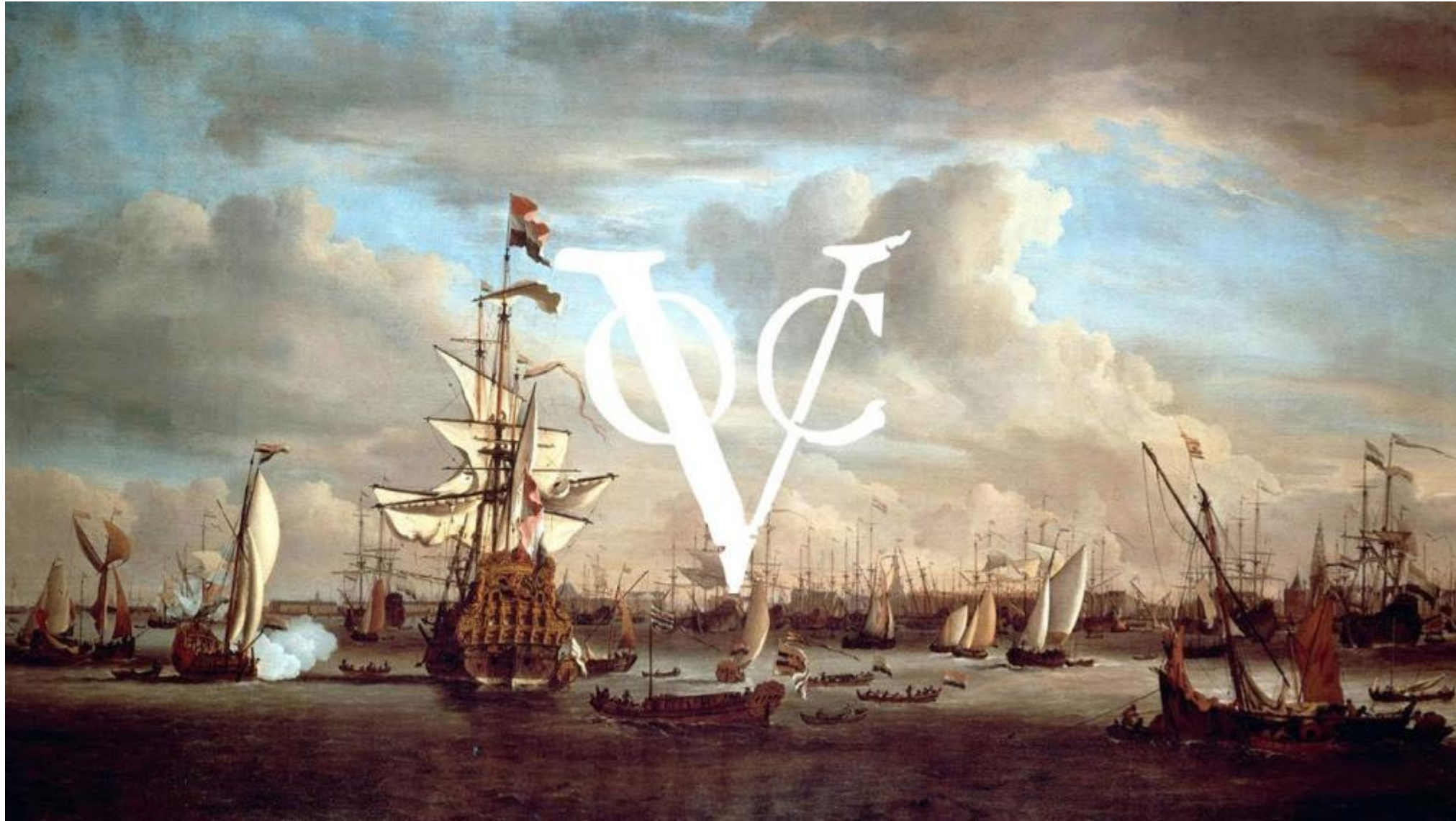
Vc



VOC



The First MNC: Dutch East India Company





MNC Definition

- Multinational Corporation:
 - a single corporate structure that controls & manages production establishments in at least 2 countries
- *Colonial origins*
- British companies dominated,
- 1st US MNC: 1867

First American MNC: I.M. Singer & Co



- First established in 1851 as I.M. Singer & Co.
- Renamed Singer Manufacturing Company in 1865
- First large factory in Elizabeth, NJ (1863)
- First FOREIGN factory in Glasgow, UK (1867)



MNC Definition

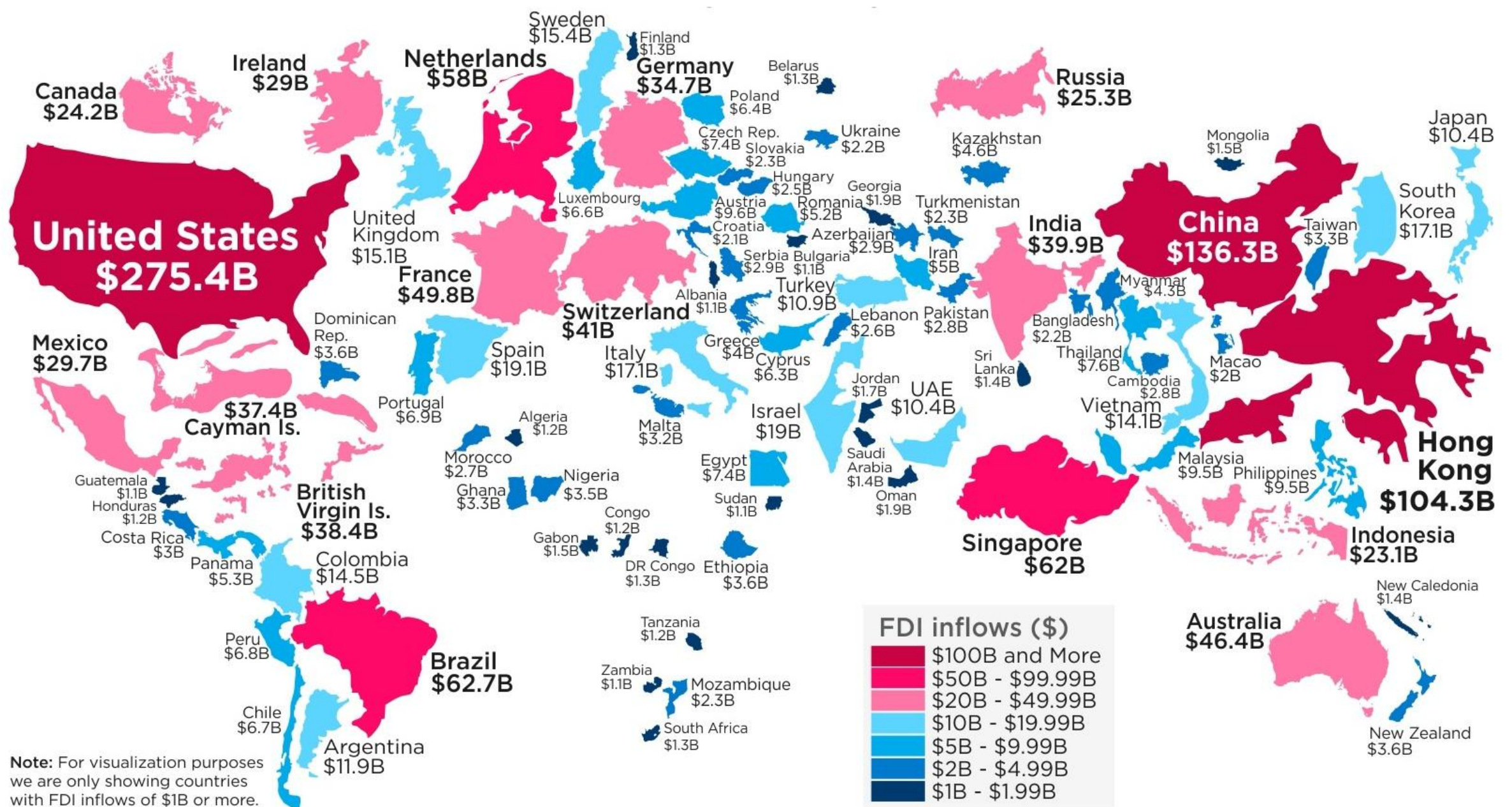
- Multinational Corporation:
 - a single corporate structure that controls & manages production establishments in at least 2 countries
- *Colonial origins*
- British companies dominated,
- 1st US MNC: 1867
- US overtook the UK in the 1920s as the largest source of “FDI”
- Since the 1960s US dominance has diminished
 - Europe, Japan, now rest of Asia & Latin America
- MNCs are not new, but the rate of expansion is.

Foreign Direct Investment (FDI)

- Involves a firm based in one country building a new plant or factory, or purchasing an existing one, in a separate country
- Distinct from “*Portfolio*” investment – *passive* holdings of securities – e.g., foreign stocks or bonds.
 - *Do not entail active management.* (Typically, this means the investor holds *less than 10%* of the total shares or less than the amount needed to hold the majority vote.)

Where Does FDI Go?

- Advanced industrial countries!
 - Historically, the most important providers AND *recipients* of FDI
- But growing amounts going to the developing world
 - In Asia?
- China
- In Latin America?:
 - Brazil, Argentina, Chile, & Mexico
- Per capita? As a % of GDP?



Note: For visualization purposes we are only showing countries with FDI inflows of \$1B or more.

How to read this map: Countries appear bigger as their FDI inflow is higher. e.g. United States. Conversely, countries that have a lower FDI inflows appear smaller e.g. Sudan.

Article & Sources:

<https://howmuch.net/articles/countries-receiving-most-investment-from-abroad>
United Nations, World Investment Report 2018 - <https://unctad.org>

Group Case Study: Expanding as an MNC



Your Role: Imagine you are the CEO or a consultant for the company in its earlier years, deciding how to expand internationally.

Your Task:

- You want to expand to **China** (or another foreign market).
- Why do you decide to **engage in FDI** and become an MNC?
- What specific advantages make international expansion attractive?
- What **challenges and risks** do you anticipate?
- What **expansion strategy** should you choose?



Discussion Prompts:

- Why is **China (or your chosen market)** attractive for expansion?
- What risks or barriers could your company face?
- Should you expand through **horizontal or vertical integration**? Why?



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Why Use FDI?

- Locational Advantages
- Market Imperfections

Locational Advantages

- Large reserve of natural resources
- Access a large local market
 - market-oriented investments
 - “jump over” trade-barriers!
- Enhance efficiency:
 - lower cost of the factors of production
 - match the factor intensity of a production stage to the factor abundance of particular countries (...huh?)
- ***Go where you get the most for your money***
- ***Design*** the Honda Accord in capital-abundant Japan, ***Assemble*** the car in labor-abundant Mexico

Market Imperfections

- A market imperfection arises when the ***price*** mechanism fails to promote a welfare-improving transaction
- (Recall $MRS_a = MRT_a = MRS_b = MRT_b$ – everything summarized by the PRICE!)
- Horizontal integration
- Vertical integration

Horizontal Integration

- How much is the Coca Cola formula worth? How about the inner workings of Windows? Or the details of management at a firm like Kia?
- Intangible asset:
 - The value is derived from knowledge or from a set of skills/routines possessed by a firm's workforce
- “know-how”
- It is difficult to sell or license intangible assets
- Paradox of information:
 - The value of the information for the purchaser is not known until she has the information... but then she has acquired it without cost
- The owner of the information is unwilling to share info, the purchaser unwilling to buy
- Rather than sell the information, the firm can simply set up shop in a new location

Vertical Integration

- Specific assets – dedicated to a particular long-term economic relationship
- Difficult to enforce long-term contracts
- One party in the long-term relationship can take advantage of the specific nature of the asset to extract a larger share of the value from the transaction
- Vertical integration eliminates this problem arising from specific assets

Group Case Study: Regulating MNCs



Your Role: Imagine you are **policymakers in China**, evaluating how to regulate foreign MNCs operating in the country.

Your Task:

- Assess the impact of **this company's expansion** in China.
- What are the **benefits** of allowing it to operate?
- What **risks or challenges** does its presence pose?
- Should the government **regulate, incentivize, or restrict** the MNC?



Discussion Prompts:

- How does the MNC affect the **domestic economy, jobs, and competition**?
- What are the **potential**?
- Should the government impose **restrictions, incentives, or conditions** on its operations?



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MNCs on Host Countries

Benefits

- Transfer savings from one country to another
- Technology and managerial expertise – positive externalities
- Local producers can gain access to marketing networks

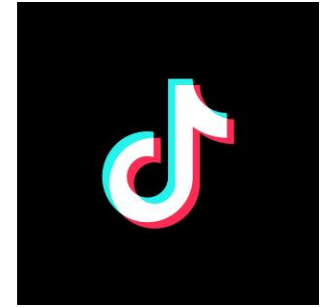
Prices

- Borrow on the host country's capital market
- Earn rents on their products and repatriate most earnings
- Charge host-country affiliates licensing fees or royalties
- Drive established host-country firms out of business
- Foreign control of revenues can pose serious obstacles to government policy

Looking Ahead: Challenges of Digital Firms

How are digital firms similar/different from traditional MNCs?

- Locational advantage?
- Market imperfections?
- ...



Thank You!



Take-away

- MNC: a firm that controls & manages production establishments (plants/facilities) in at least 2 countries
- FDI is distinct from portfolio investment
- Why use FDI?
 - Locational Advantages
 - Market Imperfections
- Horizontal integration
 - Paradox of information
- Vertical integration
 - Specific assets