TRANSNATIONAL ENTERPRISE – CENTRAL ELEMENT GLOBAL ECONOMIC GROWTH

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ABSTRACT

The corporations which operate internationally and provide its product, facilities and services to the population of more than one country are known as multinational corporations. Legally, they are required to situate their headquarters in one country and operate their global business only from there the objective of this essay is to analyse and assess the constructive and destructive impacts of considering multinational corporations the main driver of globalisation. The essay will evaluate what the effects of multinational corporations over an economy of developing and developed countries, job creation and the negative impacts such as tax evasion and exploitation of local firms through stiff competition.

Keywords: FDI, Multinational Corporations, Globalisation, Economy.

INTRODUCTION

There are different opinions of every person considering the MNC’s suggesting whether they are good for a country or not. On one hand they bring huge investment into a country also known as foreign direct investment. This foreign capital inflow helps to strengthen our home currency and our economy. When a MNC constructs/establishes a new industry or expands an existing production factory in a foreign nation, it is known as a Greenfield investment. Companies establishing factories such as Nike established a production factory in Indonesia are examples of Greenfield investment. Greenfield FDI is attracted by many south Asian countries and income generated from these industries is a large part of their economy (Chen & Scott, 2020). The most rapid growth by this investment visible in China. (Kokminglee, 2010) Investment of foreign capital also creates jobs for a country. A labour-intensive nations desperately needs jobs and furthermore this investment helps to reduce the poverty and unemployment levels (Pettinger, 2019).The increase in employment opportunities for labour intensive countries is high with MNCs setting up industries .One such example can be seen with nestle which is the world's largest beverage company and has 2000 brands worldwide which vary from global to local brands. (Nestle, 2020). It is currently operating in 191 countries and has employed 291,000 people globally (Nestlé Global, 2019).

While there are many positive impacts of MNC over an economy, on the other hand, there are also a few destructive factors which aren’t favorable for the nation. MNCs tend to exploit the workforce by paying them low wages than their standards. They often look for cheap labour and save large amount of money which will add to their profits. However, the profit from production is not shared with their employees (Ferdausy & Rahman, 2009). The expectations of the big firms to treat workers equally are high, but, for example, Walmart, one of the biggest wholesale sellers in the US, pays around 150k anually to the manager while the store employees who work hourly just receive around 15$ an hour. The existence of income disparity is real and these employees do not receive a fair pay for their efforts (Bhattarai, 2019).

Many companies indulge in tax evasion. They participate by setting up their factories in countries which charge them lower taxes.

This helps them to produce at lower cost and saves them from paying higher taxes in their domestic country. The leak of the Panama scandal of 2016 was a big shock and an example of tax evasion by big companies around the globe. The papers were about a Panamanian law form which had around 215000 offshore entities and more than 40000 clients revealed how they had been evading from paying tax by using their offshore entities (Perryer, 2018).

The large size of the firm is positive for a country in many ways but for the local firms it’s a big problem as it they find it hard to survive in the market dominated by MNCs. Big Companies have a huge role in disappearance of local firms. Companies like amazon which have expanded themselves from sellers of grocery items, books to electrical appliances and have also created their own online platforms for music and cinema give a huge competition to local booksellers, retailers etc. these local shops cannot compete with the big firms as they lack the capital, ideas and the ability to update themselves (Brumley, 2019). Another method of saving cost by multinational corporations is by outsourcing of work. These companies outsource work to countries which provide cheap labour. This is a main source of job loss in developed countries (Pettinger, 2019). Outsourcing has led to loss of jobs in developed countries such as USA, which has estimated its outsourced jobs at 3.3 million.

While the MNCs induces foreign capital into a country’s economy, generates employment, constantly upgrades it’s products by investing in Research and Development and help in reducing pollution through this upgradation, there are also certain widespread examples of their negative impacts. Destructive impacts such as labour exploitation, tax evasion, being reckless about local firms and outsourcing of essential jobs are the reasons why MNCs are not always suitable for a country. Many nations are driven by the idea that MNCs will help their economy to recover but this is not always true. Hence, Nations must exercise caution while dealing with multinational corporations.

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