Edexcel (B) Economics A-level

Theme 3: The Global Economy

3.4 Impact of Globalisation on Local and National Economies

3.4.1 The impact of multinational corporations (MNCs)

Notes

Impact of MNCs on the local economy:

MNCs are firms which have assets in multiple countries. Usually, they have a head office in their home country, and other offices or factories in other countries. Due to their large size, MNCs generally have a great deal of power in the market.

Although sometimes this power can be abused, many MNCs have a positive impact on the citizens and economy of the country they operate in.

Local labour, wages, working conditions and job creation

By investing in the host country, the firm creates employment for local citizens. For example, a clothing company which sets up a factory in another country creates jobs for local people. The firm might need buildings, which have to be built, and equipment, which needs to be made and subsequently operated. The products themselves will need to be made. All of these require a workforce.

There are ethical issues which need to be considered. The working conditions might be poor or hazardous. Recent stories about the horrors of sweatshops and garment factories shocked the world, such as when a garment factory burnt down in Bangladesh in 2013. Despite the hard and incredibly dangerous working conditions, these factories provide a huge step up from the village, especially for women to gain financial independence from the restraints of a patriarchal society. Therefore, some people may argue that perhaps it is not unethical to have these factories. However, workers are exploited and the environment is damaged, since the firms which use these factories aim to maximise their profits and not worker welfare.

Moreover, whilst MNCs might operate in both developing and developed countries, the bulk of FDI goes back to the home country, which is usually a developed economy.

Local firms

The establishment of an MNC in a local area might create more business for smaller, local firms, which might be involved in supplying or servicing the MNC. For example, a local firm might be able to provide cotton for a clothes company.

If more people are able to find employment in the local area, they are likely to increase their expenditure, since their incomes might have increased. This is likely to be spent on local firms, which stimulates the local economy and creates more jobs through the multiplier effect.

○ The local community and environment

Workers might be able to increase their skillset and take advantage of new training opportunities in new industries which have been introduced by the MNC. However, the MNC might only offer basic, repetitive tasks, rather than more advanced work, which could limit the productivity and skills of the local workforce.

The MNC might have a strong corporate social responsibility (CSR). The firm makes sure their actions are good for society. This goes beyond what is expected of the firm, and it could result in a positive effect on the environment, on communities and on employees. In order to be more socially responsible, a firm might behave more ethically, perhaps by refusing to use cheap, exploited labour. It might involve investment in a community or donation to a charity, for example. The firm could also focus on reducing its carbon footprint, which will benefit society as a whole.

There is the potential for local firms to lose business to the MNC, if they cannot achieve the same economies of scale or compete on the same price level as the MNC. Rather than creating jobs, there could be a loss of jobs in the local area.

Some industries, especially those involving oil or mining, might damage the local environment through heavy pollution and scarring of the landscape.

Impact of MNCs on the national economy:

○ Economic growth

A positive multiplier effect on the national economy results from increased employment and spending in the local economy. Overall economic growth increases. Moreover, the government earns more tax revenues, since people are spending more and earning more. This might encourage the government to spend more, which further increases economic growth and stimulates the economy.

○ FDI flows

FDI is the flow of capital from one country to another, in order to gain a lasting interest in an enterprise in the foreign country.

If one MNC sets up in a country, others might see a potential for business there and also set up in that country. This could create an expanding business environment. FDI flows might increase as a result, which could lead to higher rates of economic growth.

○ Balance of payments

By exporting production to other countries, the country can improve its balance of payments.

- **Technology and skills transfer**

Firms might bring a new industry or skill to a local community, as well as the opportunity for local citizens to acquire and develop their skills. This could help develop the economy in the long term and help develop human capital. Adequate human capital ensures the economy can be productive and produce goods and services of a high quality. It helps generate employment and raise standards of living.

- **Business culture**

MNCs might repatriate their profits to their home country, which means that the host country receives little or no financial benefit from the MNC operating there. The MNC might have poor CSR, or simply want to expand their sales, so the give little attention to developing the skills of the local workforce or supporting the local community. Once a country becomes too expensive to operate in, the MNC might move their premises elsewhere. For example, wages in China are rising rapidly. This means that production of manufactured goods has become expensive there. Therefore, many global companies have either moved their production back to their home country, or to another country with cheaper labour, such as Bangladesh. This means that workers in countries such as China have been left unemployed. This could weaken the economy. This is a ‘race to the bottom’, where firms aim to cut their production costs in order to compete with other firms.