

Transnational Corporations (TNC's)

Who are they and what do they do?

These are **large businesses such as Ford Motors or Tesco with production/services in multiple countries around the world, competing in global markets.** They build bridges between countries, and are the major driving force behind the development of industry, services and trade. They account for **25% of the world's global economic activity employing 1% of the world's population.** They are effective at spreading global wealth, however could do it more fairly currently. TNC agrees with the governments (most of which just what FDI) taxes and subsidies to be removed.

How do they go global?

1. **Horizontal Integration** – this is where the **TNC moves up a ladder buying bigger companies.** An example of this is when Ford moved into the mass market and therefore bought Jaguar, Land Rover and Volvo.
2. **Vertical Integration** – When the **TNC owns each part of the sale of the production process.** An example is that they will own the market research to the sales at retailers. This insures domination, profitability and control.
3. **Faster and cheaper transport** e.g. containerisation as a result of globalisation
4. **Diversifying products** to fit into another economy or region e.g. Apple makes iPhone specific for each country.
5. Economies of Scale – this is when a TNC moves where it manufactures in order to maximise their profits
6. Assembly industries – most TNCs rely on assembly industries to make their products and rely on a chain of suppliers. They can sometimes further outsource to another sub-contractor to make a certain element of the product even cheaper.

TNCs benefits and costs

TNCs have many positive and negative effects on the country, region, people or land. Some of the key ones are shown below:

Positives	Negatives
<ul style="list-style-type: none"> - They can help to raise living standards. This can be done in two ways i) by employing people and giving them a standard wage they can afford things they once couldn't when for example they worked as a farmer. ii) By investing in a country (FDI) and therefore building infrastructure such as houses, schools and hospitals. - The transfer of technology can give developing countries the knowledge they wouldn't otherwise have. - Can give political stability to a country. - They can also help to raise environmental awareness of a particular issue. Many have green credentials which are publicly advertised. 	<ul style="list-style-type: none"> - Some avoid paying full tax in countries which they operate in. This makes it difficult for the government to raise funds - There is a growing wealth divide as TNCs are selecting certain areas to move into. This means that they are creating areas of 'haves' and areas of 'have nots' - Major environmental degradation is caused by TNCs, for example Coca Cola in India. The Mehdiaganj plant are at the centre of protests, as they are accused of extracting too much groundwater and releasing pollutants above limits set by the government.

CASE STUDY - Tesco:

Tesco is a major UK-based retailer, and used to be found within the UK only. However it has rapidly expanded and become the world's third largest retailer behind Walmart and Carrefour. It currently employs around **500,000 people** and operates in more than 14 countries around the world. It has **6300 stores with £65 billion in sales in 2012.**

Why has it been so successful?

Globalisation has enabled Tesco to become such a successful global retailer. It has undergone diversification in which it adopts the 'local' name within a country. Examples of this are **Tesco Lotus in Thailand and Tesco Kipa in Turkey.** They also now stock a wide range items from food, low cost jeans (£3) and electrical goods. Furthermore the use of the internet (a factor which has accelerated globalisation) means that people can order there shopping and other products from the comfort of their own homes. It has also concentrated on worldwide expansion within certain areas:

- **Europe** - it is very close to the UK were it began and therefore consumers taste's are similar
- **Asia** - The demand in these regions are growing, and there is little competition with a small amount of retailers of the same size. Now 60% of Tesco's profits come from Asia.

It has maximised its **profits to £2.7 billion in 2006** by outsourcing some parts of its company to other countries. Around **6000 people work at the Hindustan Service Centre (HSC) in Bangalore, India** which opened in 2004. Here they carry out data processing, stock ordering and accounting. They have done this because:

- wages for **data processing** are **cheaper in India by around 25%**
- There are many **English speaking, educated graduates**
- **HSC can communicate** with all Tesco stores quickly and easily all around the world

Are Tesco exploring people in Asia, or helping spread wealth?

Many people say that the wages are very low for the work and hours that they do, however these are relative to the living costs within these countries. **Wages are £8.75 for a 54-hour, six-day week.**

Does Tesco harm the environment?

Although it is a large greenhouse gas emitter due to the many lorries and ships it uses to transport goods, it has pledged to **reduce packaging** on its own brand products in order to help combat this.

Does it dilute local cultures with western taste's?

The company claims not, and says that it diversifies in each country. For example in **Thailand it sells live fish** and **dried jellyfish in China.**





CASE STUDY - Apple:

Apple is a huge TNC that operates in many countries around the world. Its headquarters are based in Cupertino, California. This is where much of the programming is done. Many of its shops are also located in developed countries in much of Western Europe, USA and recently China. The sales are centred at its sales headquarters though in Cork, Ireland.

Manufacturing Location and why?

Manufacturing is completed mainly in developing countries such as China (Foxconn and Pegatron), with no Apple hardware being made in the USA.

This is the case for several reasons which are:

- Wages are lower
- Land is cheaper to buy, and therefore is relatively cheap to set up a factory. They can also sub-contract a factory meaning a new one doesn't have to be built.
- They have direct to global markets
- Trade restrictions can be easily avoided

Criticisms:

The factory in which Apple employs to manufacture its products has been under close attention in recent years. The conditions within have been questioned by many. **14 people died in 2010 after committing suicide**, due to the conditions they were forced to work in. As a result Foxconn installed nets to prevent people throwing themselves off high points of the building. Some employees reported working over **36 hours without** being allowed to **have a break**, and regularly **work around 60 hours per week**. The wages are also low at **\$100 per month**, with much spent on living costs. In addition some workers sued Apple after they were **reportedly poisoned** by a **chemical used to clean LCD screen**.

Why have Apple become important on a global scale?

- Employs over **18,000 people directly** and over **1 million** involved in making, **supplying** and **selling the products**.
- In 2014 Apple sold **74.5 million iPhones** and **£11.8 billion in quarterly profits**, with **net cash reserves being £93 billion**.
- Has highly skilled workers in the quaternary sector e.g. computer scientists
- A fluid, simple to use, detailed websites allows them to reach all corners of the planet.

