

## **Why do companies go global and who are the winners and losers?**

In this essay I plan to investigate the reasons as to why companies are choosing to go global, while coming to a decision as to who the winners and losers are and why.

Globalisation has resulted in many businesses setting up or buying operations in other countries. When a foreign company invests in a country, perhaps through the process of building a factory or a shop, this is called inward investment. Companies that operate in several countries are called Trans-National Corporations (TNCs) (or Multi-National Corporations (MNCs)). But before we go any further in this investigation, I shall now explain what TNCs are; you perhaps haven't come across that term.

TNCs, are large companies which have offices or factories in several countries around the world and are therefore global because they operate across national boundaries. Examples of TNCs include Nike, Wal-Mart, Microsoft, BP, McDonalds which is among the largest TNC- with nearly 30,000 restaurants in 119 countries ([http://www.bbc.co.uk/schools/gcsebitesize/geography/globalisation/globalisation\\_rev3.shtml](http://www.bbc.co.uk/schools/gcsebitesize/geography/globalisation/globalisation_rev3.shtml)), and many many more. Most TNCs have their headquarters in MEDCs (More Economically Developed Countries) such as Nike which is based in Oregon in USA. The headquarters tend to be based in MEDCs for numerous reasons, and one being the fact that the work done there is often highly skilled and TNCs need to be in a country where a large majority of the people educated come out with a high skill level as that's where all the 'designing and administrative' work of the products is done. However, having said that, many TNCs are now choosing to locate branches in LEDCs (Low Economically Developed Countries) like Malawi and Bangladesh, where they build their factories and manufacture their goods...but the question now is why, because why cant all the manufacturing of the goods and building of the factories be done in MEDCs instead?

There are countless reasons as to why this is and they will now be discussed, but in order for us to even get to those 'countless reasons', it perhaps is useful to understand what the TNC's aims are, right?

The primary aim of any TNC is to make profit and that simply can be fulfilled by them using less money (cutting their costs), which is why LEDCs are attracting many TNCs. But how and why is that?

Firstly, its all down to the fact that there are variety of advantages associated with TNCs. For example, they give local people jobs when both their factories are built and the manufacturing of their products begin, they also improve roads and airports as their goods need to be transported fast and efficiently and lastly the money the workers earn *can* go into the local economy which then can help the country invest in big projects i.e. giving more people the access to safe and clean water, providing more homes with electricity etc. (There also are several disadvantages associated with TNCs, but I shan't explain them as it is irrelevant). So since LEDCs are looking for development, as they are in need it, they usually try to customize their economy and country to be favourable for TNCs, i.e. perhaps through foreign aid, and they also fix their Government policies to be favourable for TNCs too, such as infrastructure provision, port facilities etc. So if LEDCs are going to do things favourable for TNCs, TNCs are better off building their factories and manufacturing their goods there as they can easily get away with doing what ever they want- the LEDCs will just agree without a doubt whereas MEDCs would not because they aren't *desperately* looking for development therefore they wont really do many things in favourable for TNCs.

Secondly, for the benefit of cheap labour. The wages paid in LEDCs are much cheaper than those paid in MEDCs which is why many TNCs will relocate to LEDCs because then they wont have to spend a lot of money just on the wages of their workers as that then would ultimately reduce their profits.

Thirdly, down to the fact that LEDCs are located in areas rich in numerous raw materials (e.g. oil, cotton etc) that perhaps cannot be found in large quantities in some MEDCs, in which perhaps goes down to climate differences. Most LEDCs are located below the Brandt Line (a line which divides the world's richer and poorer countries), therefore in the

Southern Hemisphere, and it tends to be hot most of the time which is why goods like cotton for jumpers are best grown there instead of in MEDCs which are above the Brandt Line and therefore in the Northern Hemisphere where the temperatures rarely reach 40 degrees but always hover much below. So that is yet another reason why many TNCs are attracted to LEDCs because then they are closer to the raw materials (which when used to make their products can increase their standards of quality and in our very competitive society, all TNCs will strive to produce products of good quality) and won't have to spend money transporting the raw materials to them which ultimately would yet again reduce their profits because a lot of money would be spent just on the transportation of the materials.

Lastly, for the benefit of having less environmental or business regulations implied by the government.. In MEDCs, due to them being more developed (therefore producing more pollution through for example, burning immense amounts of fossil fuels) and up to date with human rights, there is only so much pollution you can produce and there is also a certain number of hours one can work for, which is one of the many reasons TNCs don't tend to locate there (in MEDCs) as it simply means one, workers cannot work over time which would decrease profit earned and two, you can't get away with producing a lot of pollution, perhaps through the burning of a lot of fossil fuels in the process of manufacturing goods, which yet again would ultimately decrease profit earned. So that is yet again another reason why LEDCs are attracting more TNCs because in LEDCs there are less or in some places even no government regulations related to pollution or number of hours one can work for, so therefore that would enable the TNCs to do what ever they want as they won't get punished for it.

So overall, as you quite clearly can see relocating to a LEDC is much more preferable from a TNC's point of view instead of them staying in a MEDC, as their cost of production is lowered, they get to operate in a place where they are treated well and welcomed, it eases the access to global markets and most importantly increases their profits.

Nevertheless, once a TNC has located in a country (most likely a LEDC), there is a possibility that, that country could increase its costs as that country too wants to make profit and move forward...so in situations like this, which tend to be very rare because all LEDCs will do whatever it takes to keep TNCs in their country as they need them and are provided with a number of benefits (like those said above), the TNC will most likely relocate to another country where things are cheaper. This is called being 'footloose' and it occurs because in our society today you cannot just depend on one thing or in this case one country as there are many countries out there in which things could be much cheaper, so therefore the TNC would rather relocate to those countries as it will benefit much more (earn more profits).

So now going back to the title of this essay, who exactly are the winners and losers as a result of companies/TNCs going global?

Well, the winners quite frankly are the TNCs, the governments of the LEDCs and in some sense us (people living in MEDCs) too. The reason as to why I say the TNCs is simply because regardless of the situation they are without a doubt able to make profit (which is their primary aim), it be big or small they can still make it as all the LEDCs will always do numerous things just in favour of them- TNCs can get their way quite easily! I also state we are winners down to the fact that we are able to access goods from different parts of the world without even having to be in that specific country. I guess this is partly due to globalisation and technology improvements but it is also due to the fact TNCs are relocating into different parts of the world i.e. Nigeria which is pretty rich in oil, and that is good because if TNCs relocate in those countries and therefore manufacture their products there, us who live many miles away like in the UK, can get those Nigerian goods transported to us such that we won't have to spend money going to Nigeria to get those goods, which would be quite expensive.

In addition, not only are TNCs and us the winners...the governments of those LEDCs the TNCs relocate in are too because as I said above, the money the workers earn *can* go into the local government which then can help the country invest in big projects e.g. giving more people the access to safe and clean water, providing more homes with electricity etc.

So if those are the winners, your question now probably is...who are the losers, right?

Well the losers are the workers in the LEDCs, and I guess the people living in the LEDCs too, and I say this for numerous reasons. Firstly, down to the fact that governments in

LEDCs do many things in favour of TNCs, such that they therefore will abide to what ever the TNCs ask for which in some cases can include the workers being forced to work over hours, which is not fair because although the TNCs will make some profit as more of their goods are being manufactured, the workers are basically working their 'socks off' for nothing because they get poorly paid as most of the profits earned go aboard- to the TNC's headquarters. And is that really fair...if the workers are getting poorly paid, how are they going to support both themselves and their children?

Secondly, a lot of minerals are exported. Since TNCs relocate to LEDCs for numerous reasons, one being for the benefit of being closer to raw materials, a lot of minerals will therefore will be extracted and that isn't good as it just reduces the wealth of the LEDC. I say this because a lot of money can be earned when you extract minerals like oil, gold and diamonds, but since LEDCs may not have the best equipment to enable them to do that, they as a result cant, but when they don't extract anything that doesn't harm the LEDC at all as nothing is being extracted, therefore the LEDC is not losing anything. However, when a TNC locates in a LEDC, they on the other hand do extract the minerals, as they have the equipment which enables them to do so, but this isn't too good because it now does harm the LEDC as they are losing their minerals which they can never retrieve, once they are extracted, they are gone forever! But what makes matters even worse now is the fact that the goods the TNCs manufacture in their factories from the minerals extracted, are often of no use or too expensive for people living in the LEDCs, and well, where are the people supposed to get the money to buy the goods from anyway...they don't really earn adequate wages.

In conclusion, TNCs without a doubt have all the power as LEDCs are eager and in some sense also desperate for their presence because they will literally give up everything in favour for them, such that TNCs can always get their way regardless of the situation.