

Transnational Corporations

I. What are TNCs?

II. Why do TNCs Matter?

III. Why FDI?

IV. Saints or Sinners?

Why do TNCs Matter?

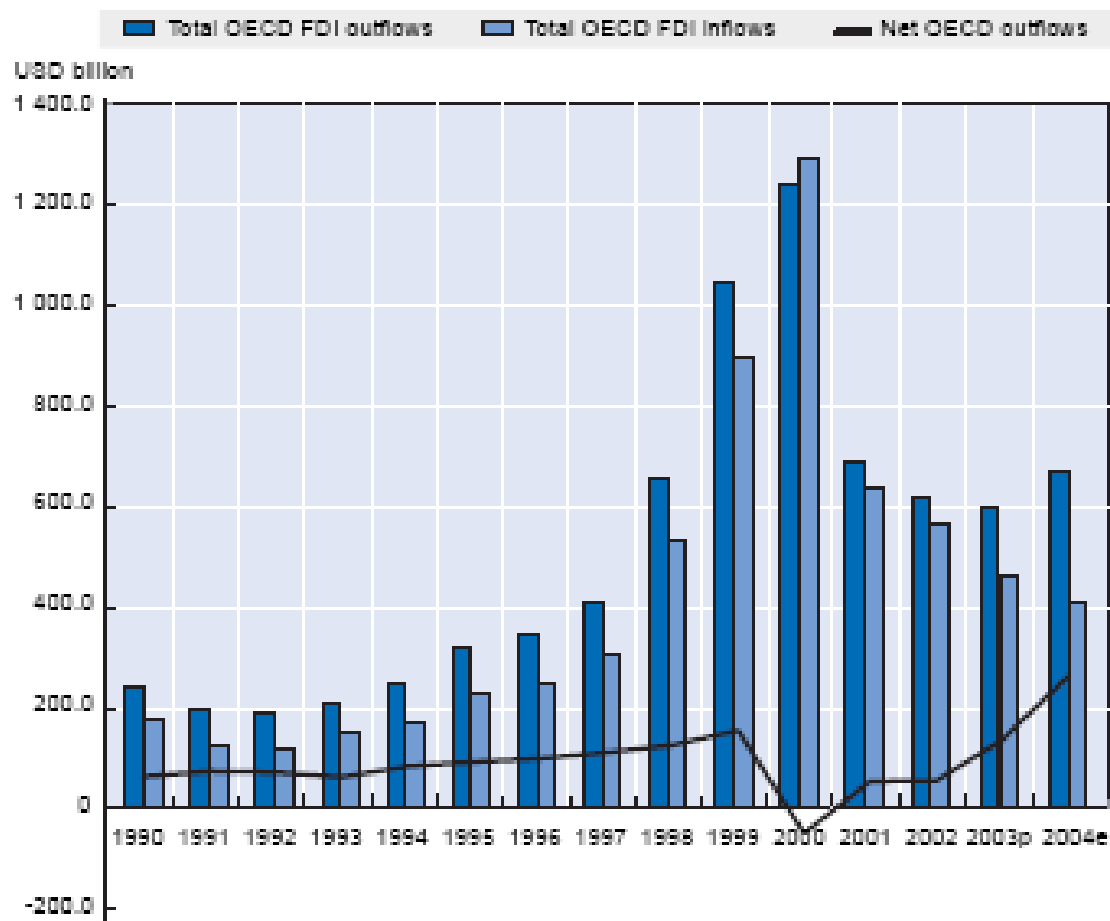
TNC: company with significant (physical) operations in two or more countries

EX: Microsoft NOT much of a TNC

- **Size:** powerful actors in the global economy
 - Approximately 70,000 TNCs with 54 million workers
 - 1% of TNCs own 1/2 of all existing foreign assets
 - Large economic actors, but small compared to bog states
 - State GDP/Corporate value added – 33/100 are TNCs, with largest (Wal-Mart) at #44 behind Chile
- **Direction:** Most FDI between developed countries
 - Triad -- US, Europe, Japan
 - Less than 1/3 goes to developing countries

Recent Trends in FDI

Figure 1.1. FDI flows to and from OECD



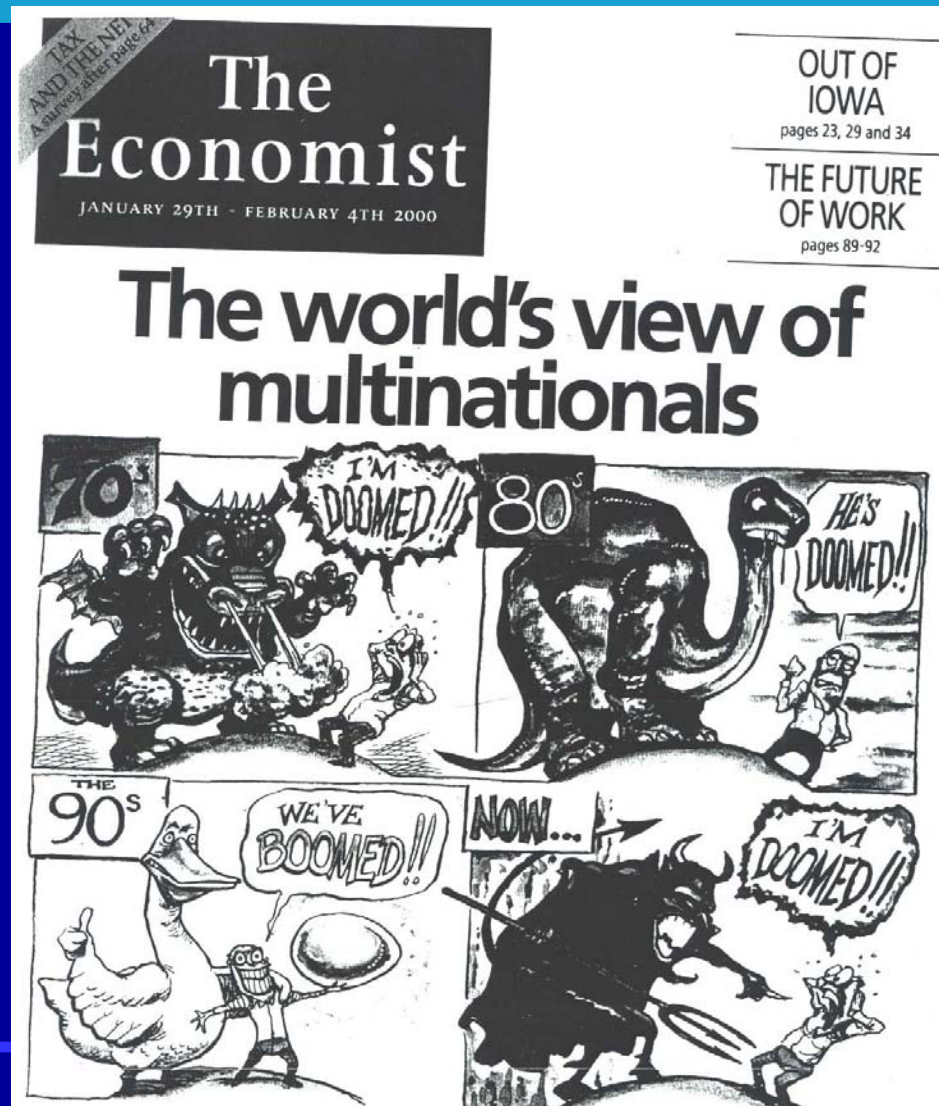
Notes: p: preliminary; e: estimate.

Source: OECD International Direct Investment Database.

Why foreign direct investment?

- Resources (Materials and Knowledge)
- Costs (Product Cycle Theory/Branch Plants)
- Market Access (Appropriability Theory)
- Firm-Specific Advantages
- Competition
- International Arbitrage
 - Taxes, “Transfer Pricing”, Exchange Rates, “Social Dumping”

Saints or Sinners?



The Pros and Cons of TNCs

POSITIVE	NEGATIVE
Technology transfer	Oligopolistic (control markets)
Increased investment	Capital outflow through profits
Management skills (productive 'know-how')	Crowd out local development (take away investment and push out of markets)
Spillover effects (which modernize backward economies)	Transfer inappropriate technology (i.e., high-tech production processes in labor rich market)
Train & educate local workers	Exploit workers (Nike, Cathy Lee)
Increase wealth and employment	Damage the environment
MNCs = Globalization = Peace? (Friedman's McDonald's Theory)	Threaten traditional cultures (McDonalds, Micky Mouse)
Improve competitiveness of home country firms	Undermine national sovereignty
	Increase global inequality
	Deindustrialize developed countries