Transnational Corporations

By Kanes

Globalization, as pointed out earlier, is driven to a great extent by the market. The principal players in the market are transnational corporations which are therefore the principal agents of globalization. They have an inherent tendency to expand their operations on account of rapid advances in technology and economies of large-scale production. The national market is too small to absorb all what they produce and what they save and they are in competition with one another. Thus, they are constantly acquiring or merging with rival companies and opening sales outlets abroad to capture markets, relocating their industries to derive cost advantages and market access and investing their savings in money markets for higher profits. There are about 53,000 large transnational corporations in the world with about 450,000 affiliates and they are involved in as much as two-thirds of world trade, half of which is intra-firm trade which bypasses altogether the free play of genuine market competition. They dominate the production, distribution and sale of many goods from the developing countries, especially in cereal, mining and tobacco markets. The top 300 industrial transnational corporations account for 70 per cent of the total foreign direct investment and control about 25 per cent of the world's stock of productive assets.

Merges and Acquisitions

Transnational corporations are ubiquitous. There are those which concentrate on trade like Coca Cola, Pepsi Cola, McDonald Hamburgers, Pizza Hut, Shell and Caltex, those that provide services such as Hilton, Inter-Continental, Holiday Inn hotels, City Bank and American Express and others that are mainly manufacturing concerns such as Unilever, British American Tobacco, Batas and Nestles. Competition among themselves drives them into mergers and acquisitions such as those between Boeing and McDonnel Douglas aircrafts, Exxon and Mobil oil companies, Microsoft and Apple computers, BMW and Chrysler, Volkswagen and Rolls Royce and Sandoz and CIBA. In a period of rapid technological change, firms need to spend billions to stay competitive or to increase their market share; mergers and acquisition give them command over resources for this task while at the same time reducing competition. They also crush and swallow up large and profitable firms in developing countries. In the wake of India's liberalization for instance, foreign transnational corporations appeared to be gaining control of Indian industries by buying up domestic companies with whom they had formed joint ventures. For example the Korean Daewoo raised its share in the car venture with DCM, British Cartow Communications bought up a television venture of the Mody family, General Electric bought out its partner in a lighting venture and Coca Cola and Pepsi Cola bought out local soft drink bottlers. It is in this context that the Indian Prime Minister pledged to protect domestic industries by giving a "Swadeshi" thrust through a selective approach instead of an open door one to foreign investment.

The East Asian currency crisis and the consequent full liberalization policies imposed by the IMF as a condition for its assistance, have provided an excellent opportunity for the transnational corporations to take over the troubled Asian firms at rock bottom prices. Examples of mergers and acquisitions are: BASF (Germany) and Daesang (Korea); Commerzbank (Germany) and Korea's Exchange Bank; Bosch (Germany) and Mando Machinery Corporation (Korea); Volvo (Sweden) and Samsung Heavy Industries (Korea); Tesco (UK) and Lotus Supermarkets (Thailand); AES (US) and Hanwha Energy (Korea); Coca Cola (US) and Korean bottlers; ABN-AMRO Bank (Netherlands) and Bank of Asia (Thailand). Many other cash stripped Asian firms are being acquired by transnationals almost daily with the blessings of the IMF. In fact, there is now a reaction against increasing foreign ownership of domestic assets in several quarters.

The annual number of mergers and acquisitions in the world more than doubled between 1990 and 1997 from 11,300 to 24,600. Cross-border mergers and acquisitions accounted for $236 billion in 1997.

Power and Influence

The largest transnational corporations have more resources and are more powerful than most developing countries. In 1994 the total sales of General Motors-amounted to $164 billion which exceeded Thailand's GDP of $154 billion, Saudi Arabia's GDP of $130 billion and Malaysia's GDP of $98 billion. To what extent they have globalized theiroperations is illustrated by the fact that McDonald Hamburgers of USA has over 22,000 restaurants in over 106 countries and Piza Hut has over 10,000 in 86 countries. They are so powerful that they have been instrumental in changing governments in some countries where they operate, particularly in Central and South America. The United Fruit Company for example had used its influence to oust governments hostile to its interests, and install governments sympathetic to them in the "Banana Republics" of Latin America. In fact the "Banana War" between the USA and the European Union has arisen because of EU's discrimination against Latin American banana exports largely controlled by US companies the chief among them being 'Chiquita' the old United Fruit Company's new name. Transnational corporations also do not hesitate to use their govemments to open new markets; Motorola for instance, influenced the US government to secure through official negotiations a market share in Japan for its cellular telephones.

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The sheer size and global network of transnational corporations enable them to violate national laws and regulations. They can and do for instance, lower their tax liability by using transfer pricing to shift profits from a high tax country to a low tax one and make it difficult for governments to raise revenue. Import of inputs from affiliates can be overinvoiced and exports to them can be underinvoiced to reduce or hide profits in a particular country. Import prices can be similarly manipulated to justify price increases of their products. They can threaten to shift their factories elsewhere and coerce governments to change policies to suit their interests. In India, transnationals have sometimes charged 2, 4 or even 10 times the prices they would charge for inputs in Europe and the United States in order to avoid controlled low prices. As they are maximizing global, not national profits, they do not want to set a low-price precedent in the developing countries.

World markets are dominated and world market prices influenced by transnational corporations. The percentage share of the market of the top 10 transnational corporations in each sector in 1998 was 86 per cent in telecommunication, 85 per cent in pesticides, nearly 70 per cent in computers, 60 per cent in veterinary medicine, 35 per cent in pharmaceuticals and 32 percent in commercial seed. Five mega transnationals have gathered over half the world market in key sectors such as aerospace, electrical equipment, electronic components and software, two in fast food and five in soft drink, beverages and tobacco. The world tea market is also dominated by a few transnational corporations. Unilever Group which has acquired Lipton, Brooke Bond, Bushels (Australia), Salada (Canada) and Quality Tea (New Zealand) controls about 35 per cent of the world trade in tea. Unilever and Allied Lyons control about 53 per cent of the British tea market. Advertising is now a $435 billion business and the bulk of it is done by the transnational corporations to create or increase demand for their goods. In addition, the developed countries - in effect their transnational corporations - hold 97 per cent of the world's patents.

The world market thus does not operate in idyllic competitive conditions as buyers and sellers do not have equal bargaining power. As transnational corporations are becoming bigger with mergers and acquisitions and fewer, their domination over world markets and world prices will tend to be greater. Privatization does not automatically lead to competition; on the contrary it tends to lead to monopoly. The European Community in fact, has raided Coca Cola's offices in Britain, Germany, Austria, and Denmark to investigate whether the company unlawfully coerced retailers into stocking its products over those of rivals in violation of its competition laws. The Indian farmers burned down five of Monsanto's genetically modified cotton trial sites to demonstrate their opposition to "seed colonisation" by the firm which has swallowed up the leading Indian seed companies and India's most advanced genetic engineering research centre and was planing to introduce "Terminator" or "Suicide Technology" — seeds which grow into healthy plants but then produce infertile seed.

Technology is being concentrated more and more into transnational corporations, they define research agenda and tightly control their findings with patents, racing to lay claim to intellectual property under the rules set out in Trade Related Aspects of Intellectual Property Rights (TRIPS) of the WTO. The TRIPS Agreement will enable transnational corporations to dominate the global market even more easily. New patent laws pay no attention to the traditional knowledge of indigenous people; in fact, their traditional knowledge is silently stolen-"biopiracy" - by them as illustrated in the case of Basmati rice, turmeric, pepper and margosa or neem which are being patented in the US. The new technologies of the transnationals are priced for those who can pay; they are out of reach for the poor people.

Relocation of Industries in Developing Countries

Transnational corporations can directly influence the flows of foreign capital investment as the 300 largest firms, as shown earlier, control 70 per cent of the world's foreign direct investment. Foreign direct investment has grown four times as fast as world output and three times as fast a world trade. Foreign direct investment in developing countries is mainly in labour-intensive production in order to exploit their lower labour costs. Modern communications and information technology have enabled transnational corporations to coordinate production, exporting and marketing of products of several geographically separated stages in a variety of locations. For example, Matsushita Electric Company manufactures various parts and components of audio equipment in a number of countries: Singapore (transistor, switch, speaker and motor), Malaysia (variable resistance capacitor, tuner, electric capacitor), Philippines (electric capacitor) and Indonesia (speaker); for assembly in Indonesia, Philippines, Singapore, Taiwan and Thailand for exports to North America, Europe, the Middle East as well as to supply the domestic markets. Japanese foreign affiliates in South Korea, Hong Kong, Taiwan and ASEAN countries provided Japan with 12.7 per cent of her non-oil imports in 1998. Nearly three-quarter of Japanese imports from Asia in general machinery electrical machinery, transportation machinery and precision equipment were supplied by Japanese foreign affiliates. Developed countries as a whole outsource about $585 billion worth of production to exploit low labour costs in developing countries and it formed more than two-fifths of their exports.

Transnational corporations globalize their operations both by establishing affiliates and by sub-contracting for parts and components. The Mercedes Benz Company is a good example of this. It has located assembly plants in countries with good market prospects such as India, Indonesia, Malaysia, Philippines, Thailand and Vietnam and import parts and components for assembly from affiliates and sub-contractors all over the world. The company's own plants produce about 40 per cent of the car — the engine, gearbox, axles, and car body and imports the rest from outside: cable harnesses from Austria and Bulgaria, air ducts from Italy, heating and air-conditioning from France and Japan, wood for the interior from Canada and Romania, circuit boards from Malaysia and the Philippines, seat covers from the Czech Republic and natural fibres from South East Europe and Brazil. Thus the Benz is truly a multinational car. Most of the garment factories in Sri Lanka are suppliers or sub-contractors to transnational corporations specializing in garments.

The extent to which transnational corporations have penetrated developing countries for trade, production, financial and other services is illustrated by the following figures of their presence in a few selected countries.

Transnational Corporations

Country	*No. of Foreign Affiliates in 1995*
China	**15,966**
Singapore	**10,708**
Taiwan	**5,733**
South Korea	**3,671**
Hong Kong	**2,628**
Brazil	**7,110**
India	**926**
Sri Lanka	**139**

In Singapore for instance, there are over 1 00,000 workers making electronic components in American-owned factories to be shipped to the US. The share of exports produced by the affiliates of transnational corporations is fairly substantial in some countries like Singapore.

Transnational corporations have taken the place of the chartered companies which launched international integration of national economies in the fifteenth-sixteenth centuries with the rise of capitalism and overseas expansion through imperialism and colonialism. Unlike in the past, however, they are welcomed with the red carpet in developing countries for their capital, technology and marketing skills which developing countries need to develop their resources. In fact, they are liberalizing

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deregulating privatizing, reducing welfare expenditure and budget deficits, lowering income taxes, adopting flexible labour policies, removing restrictions on foreign trade and investment and eliminating state intervention mainly to create the 'enabling environment' to attract transnational corporations. These liberalization policies and opening the market for transnational corporations to integrate with the world market or to globalize is encouraged, supported and sometimes imposed by the IMF. They are presumed to increase foreign investment, particularly to export-based industries, expand exports, raise economic growth and improve the living standard of the people. Globalization, however, erodes national economic sovereignty as power shifts from national governments to transnational corporations and international financial and trade institutions like the IMF and the WTO. In its concern for market efficiency, it is concentrating on creating an 'enabling environment' for the market to flourish not for people to enjoy long, healthy and creative lives.