

# Multinational Corporations (MNCs), International Investment and Trade

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## Multinational Corporations

- ◆ MNCs are networks of firms, linked together by ties of ownership and control, and operating in multiple countries.
- ◆ MNCs ...
  - operate in more than one country
  - sell their products in international markets
  - managers and owners are of different nationalities
  - must learn to work effectively with people from different countries

## Importance of MNCs during the last few decades

- ◆ MNCs have important organizational advantages which domestic firms cannot match
  - Economies of scale allow MNCs to produce technologically sophisticated products at the lowest possible cost
  - MNCs can maximize the firm's access to less expensive and/or more productive capital, resources, and labor located in a variety of countries
  - MNCs have access to transnational marketing networks which enable them to distribute their products in a variety of countries
- ◆ Most importantly, MNCs can integrate these advantages in order to
  - develop the latest technologies
  - use them to innovate new products or production processes
  - coordinate production and marketing on a multinational scale

## Regional Developments

- ◆ North American Free Trade Association (NAFTA)
- ◆ European Union (EU)
- ◆ Pacific Rim
  - Japan, China are the dominant economies
  - Association of Southeast Asian Nations (ASEAN)

## Japan's economic success in the 1970s and 1980s

- ◆ Ministry of International Trade and Industry (MITI)
  - Government agency that identifies and ranks national commercial pursuits
  - Guides the distribution of national resources to meet these goals
- ◆ Keiretsus
  - Organizational arrangement in which a large group of vertically integrated companies are bound together by cross-ownership, interlocking directorates, and social ties provide goods and services
- ◆ Severe recession during the past ten years
- ◆ Target for foreign investment

## International Investment and Trade

- ◆ Foreign direct investment (FDI)
  - The amount invested in another country
  - Approximately 80% of all international investments come from developed countries
- ◆ International trade has increased substantially over the last two decades
  - Percentage of world trade accounted for by the three major trading blocs has remained fairly consistent
    - Groups' share of imports and exports remains in the range of 55 - 59 percent
- ◆ MNCs buy domestic companies rather than trying to export products to that country

## U.S. Direct Investment Abroad by Country

	Direct investment position on a historical-cost basis [millions of dollars]			
	1999	2000	2001	2002
<b>All countries</b>	<b>1,215,960</b>	<b>1,316,247</b>	<b>1,383,225</b>	<b>1,520,965</b>
<b>Canada</b>	<b>119,590</b>	<b>132,472</b>	<b>141,789</b>	<b>152,522</b>
<b>Europe</b>	<b>627,754</b>	<b>687,320</b>	<b>716,901</b>	<b>796,913</b>
France	43,120	42,628	40,839	43,978
Germany	53,399	55,508	65,800	64,739
United Kingdom	216,638	230,762	238,773	255,391
<b>Latin America and Other Western Hemisphere</b>	<b>253,928</b>	<b>266,576</b>	<b>282,328</b>	<b>272,363</b>
South America	83,477	84,220	82,799	74,694
Central America	73,761	73,841	84,659	81,199
Other Western Hemisphere	96,690	108,515	114,870	116,470
<b>Africa</b>	<b>13,118</b>	<b>11,891</b>	<b>13,411</b>	<b>15,066</b>
<b>Middle East</b>	<b>10,950</b>	<b>10,863</b>	<b>12,351</b>	<b>14,154</b>
<b>Asia and Pacific</b>	<b>190,621</b>	<b>207,125</b>	<b>216,445</b>	<b>269,947</b>
Japan	55,120	57,091	58,233	65,676

Source: U.S. Department of Commerce: Bureau of Economic Analysis, <http://www.bea.gov/>

## Foreign Direct Investment in the United States by Country

	Direct investment position on a historical-cost basis [millions of dollars]			
	1999	2000	2001	2002
<b>All countries</b>	<b>955,726</b>	<b>1,256,876</b>	<b>1,355,114</b>	<b>1,347,994</b>
<b>Canada</b>	<b>90,559</b>	<b>114,309</b>	<b>102,127</b>	<b>92,041</b>
<b>Europe</b>	<b>639,923</b>	<b>887,014</b>	<b>887,014</b>	<b>1,006,530</b>
France	89,945	125,740	148,282	170,619
Germany	112,126	122,412	164,017	137,036
United Kingdom	153,797	277,613	269,321	283,317
<b>Latin America and Other Western Hemisphere</b>	<b>40,771</b>	<b>53,691</b>	<b>54,082</b>	<b>52,291</b>
South and Central America	8,340	13,384	16,338	16,917
Other Western Hemisphere	32,431	40,307	37,744	35,374
<b>Africa</b>	<b>1,361</b>	<b>2,700</b>	<b>2,397</b>	<b>2,344</b>
<b>Middle East</b>	<b>4,362</b>	<b>6,506</b>	<b>6,145</b>	<b>6,766</b>
<b>Asia and Pacific</b>	<b>178,749</b>	<b>192,647</b>	<b>184,757</b>	<b>188,023</b>
Japan	153,815	159,690	150,008	152,032

Source: U.S. Department of Commerce: Bureau of Economic Analysis, <http://www.bea.gov/>

## Discussion: Pro-MNC Arguments

- ◆ MNCs provide crucial resources which enable developing countries to participate in world markets they otherwise would not have access to
  - capital
  - technology
  - management expertise
  - established marketing networks
  - create jobs & generate tax revenue for hosts

## Discussion: Anti-MNC Arguments

- ◆ MNCs exploit the relative weakness of developing countries in order to earn super-profits
  - MNCs dominate most important sectors of host economies
  - MNCs oriented toward corporate profit, not national economic development
  - MNCs borrow locally: crowd out local entrepreneurs
  - MNCs import inappropriate technologies
  - MNCs exploit cheap labor and resources

# Conclusion

- ◆ Whether MNCs are helpful or harmful to developing countries depends on the relative balance of power between the investing firm and the host country: **who needs whom the most.**
  - relative size of firm and host country
  - how badly does MNC want access to host country markets, resources, or labor
  - can host country get access to capital & technology from alternative sources besides MNC
  - global economic conditions: debt crisis and 1980s squeeze creates greater need for FDI in developing countries, weakens bargaining power