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Multinational Corporations

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Multinational corporations have existed since the beginning of overseas trade. They have remained a part of the business scene throughout history, entering their modern form in the 17th and 18th centuries with the creation of large, European-based monopolistic concerns such as the British East India Company during the age of colonization. Multinational concerns were viewed at that time as agents of civilization and played a pivotal role in the commercial and industrial development of Asia, South America, and Africa. By the end of the 19th century, advances in communications had more closely linked world markets, and multinational corporations retained their favorable image as instruments of improved global relations through commercial ties. In more recent times, multinational corporations have grown in power and visibility, but have come to be viewed more ambivalently by both governments and consumers worldwide. Indeed, multinationals today are viewed with increased suspicion given their perceived lack of concern for the economic well-being of particular geographic regions and the public impression that multinationals are gaining power in relation to national government agencies, international trade federations and organizations, and local, national, and international labor organizations.

As the name implies, a multinational corporation is a business concern with operations in more than one country. These operations outside the company's home country may be linked to the parent by merger, operated as subsidiaries, or have considerable autonomy. Multinational corporations are sometimes perceived as large, utilitarian enterprises with little or no regard for the social and economic well-being of the countries in which they operate, but the reality of their situation is more complicated.

There are over 40,000 multinational corporations currently operating in the global economy, in addition to approximately 250,000 overseas affiliates running cross-continental businesses.

The World Trade Organization (WTO), the International Monetary Fund (IMF), and the World Bank are the three institutions that underwrite the basic rules and regulations of economic, monetary, and trade relations between countries. Many developing nations have loosened trade rules under pressure from the IMF and the World Bank. The domestic financial markets in these countries have not been developed and do not have appropriate laws in place to enable domestic financial institutions to stand up to foreign competition.

Multinational corporations often access new markets by creating joint ventures with firms already operating in these markets. This has particularly been the case in countries formerly or presently under communist rule, including those of the former Soviet Union, eastern Europe, and the People's Republic of China.

Multinational corporations are thus able to penetrate new markets in a variety of ways, which allow existing concerns in the market to be accessed a varying degree of autonomy and control over operations.

While no one doubts the economic success and pervasiveness of multinational corporations, their motives and actions have been called into question by social welfare, environmental protection, and labor organizations and government agencies worldwide.

Finally, government agencies fear the growing power of multinationals, which once again can use the threat of removing their operations from a country to secure favorable regulation and legislation.

Current trends in the international marketplace favor the continued development of multinational corporations. Countries worldwide are privatizing government-run industries, and the development of regional trading partnerships such as the North American Free Trade Agreement (a 1993 agreement between Canada, Mexico, and United States) and the European Union have the overall effect of removing barriers to international trade. Privatization efforts result in the availability of existing infrastructure for use by multinationals seeking to enter a new market, while removal of international trade barriers is obviously a boon to multinational operations.

Perhaps the greatest potential threat posed by multinational corporations would be their continued success in a still underdeveloped world market. As the productive capacity of multinationals increases, the buying power of people in much of the world remains relatively unchanged, which could lead to the production of a worldwide glut of goods and services. Such a glut, which has occurred periodically throughout the history of industrialized economies, can in turn lead to wage and price deflation, contraction of corporate activities, and a rapid slowdown in all phases of economic life. Such a possibility is purely hypothetical, however, and for the foreseeable future the operations of multinational corporations worldwide are likely to continue to expand.