

The Role of Transnational Corporations (TNCs) in the Context of Developing Countries

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The globalization and the resulting rapid growth of economic interdependence are the recent phenomena with the inflow of foreign direct investment and the worldwide operation of transnational corporations. Private foreign investment is made mostly by multinational corporations, which are also referred to as Transnational Corporations (TNCs). Their role in the world economy has changed the volume and the direction of international business since 1980s. TNCs have played a leading role as investors, traders and disseminators of technology. Beyond that the distinguishing role of TNCs is that they organize the production process internationally by placing their affiliates worldwide under the common governance system. Their economic impact can be measured in different ways. In 2002, foreign affiliates accounted for about 54 million employees compared to 24 million in 1990. Their sales were about \$ 18 trillion in 2002. Compared to 1990, the stock of outward FDI increased from \$1.7 trillion to 6.8 trillion in 2002. Foreign affiliates now account for one tenth of world GDP and one third of world exports.

However, there are some critical views on TNCs and their activities in developing countries. For examples, it is argued that TNCs using their branding and marketing practices to create heavy competition on domestic production and drive out the local firms in developing countries. When the government of the host country is in a weak and ineffective position, TNCs can evade the laws, abuse its market power and try to neglect their social responsibilities and business ethics which are harmful to developing countries. TNCs are also blamed of eroding the national culture of the host countries and thereby blurring national identity. Further, some argue that sales promotion and advertising methods of TNCs undermine the local cultural standards and value systems. Besides, TNCs can move production and operation from a country to another country due to changes in the environment and perception of risk and also their automation, mergers and acquisition, downsizing and relocation of industries that lead to create and increase unemployment and lower wages, especially in developing countries. TNCs are also criticized in relation to their production system, which tend to environmental destruction and depletion of local resources in host economies.

Under the circumstances, policy response of the government is very essential in minimizing the unfavourable effects of FDI and TNCs in developing countries including Sri Lanka. At the same time, development coalitions need to be pursued not only at the national level, but also at the global level.

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