

## **Territorial strategies of the Transnational corporations**

### **Introduction**

#### **> What's globalization ?**

the process by which regional economies, societies, and cultures have become integrated through communication, transportation, and trade.

#### **> What's a Transnational corporation ?**

Companies that operate in at least two countries are called transnational corporations (TNCs). A TNC is engaged in various business activities (sales, distribution, extraction, manufacturing, and research and development).

The TNCs have got a major role in globalisation. They reinforce by their activities the links between the different economic regions of the world. They represent one quarter of the global GDP and two thirds of the global trade.

#### **> Main question**

How are the TNCs transforming territories by their strategies ?

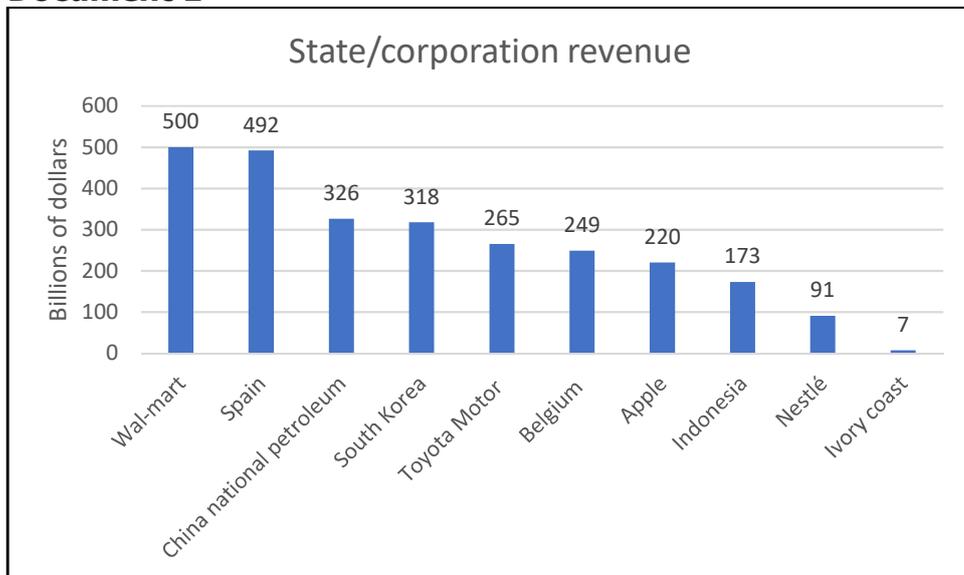
### **I/ Case study : Nestlé**

### **II/ Territorial strategies of the TNCs**

## Case study *Nestlé* : a worldwide company

Nestlé is the world's largest food and nutrition company. Today, the company operates in 121 countries around the world, has 447 factories worldwide and employs over 333,000 people. Nestlé boasts some 6,000 brands, with a wide range of products across a number of markets.

### Document 1

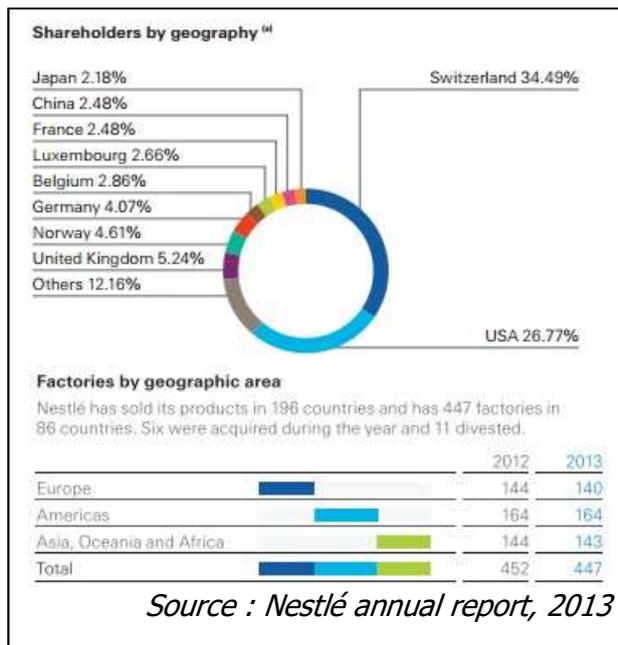


Sources : CIA factbook for state revenue and fortune.com for TNCs revenue (2017)

### Document 2



### Document 3



## Document 4

By principal markets	Differences 2013/2012 (in %)		in CHF millions 2013
	in CHF	in local currency	
United States	+0.3%	+1.5%	23334
Greater China Region	+29.3%	+27.6%	6618
France	+0.7%	-1.4%	5578
Brazil	+1.2%	+12.9%	5116
Germany	+3.6%	+1.4%	3321
Mexico	+0.3%	-1.4%	3179
United Kingdom	+3.5%	+6.1%	2824
Philippines	+17.0%	+19.0%	2410
Italy	-3.3%	-5.3%	2098
Canada	-3.6%	+0.8%	2064
Russia	+6.3%	+10.6%	1852
Spain	-0.8%	-2.9%	1843
Australia	-12.1%	-4.8%	1775
Japan	-13.9%	+6.6%	1569
Switzerland	+0.6%	+0.6%	1512
Rest of the world	+2.8%	W	27065

Total of sales = 92 158 CHF millions  
 Source : Nestlé annual report, 2013, p. 59  
 CHF = franc suisse

## Document 6

**Nestlé improving its image**



**Addressing child labour in Côte d'Ivoire**  
 In collaboration with the International Cocoa Initiative, Nestlé is helping identify and address specific incidences of child labour in Côte d'Ivoire. Under the scheme, local community members highlight the impacts of child labour on families through awareness sessions and regular visits to plantations. Initial results show the system is helping to identify at-risk children. In one region, 70% of children were involved in cocoa-related work of some form or another, while 19% were involved in dangerous cocoa-related work.

Source : Nestlé corporate social responsibility summary, 2013 (www.nestle.com)

## Document 5

### The dark side of chocolate

In 2001 consumers around the world were outraged to discover that child labor and slavery, trafficking, and other abuses existed on cocoa farms in the Ivory Coast, a country that produces nearly half the world's cocoa. An avalanche of negative publicity and consumer demands for answers and solutions soon followed.

Two members of US Congress, Senator Tom Harkin of Iowa and Representative Eliot Engel of New York, tackled the issue by adding a rider to an agricultural bill proposing a federal system to certify and label chocolate products as *slave free*.  
 [...]

The chocolate industry fought back. Ultimately, a compromise was reached to end child labor on Ivory Coast cocoa farms by 2005. In 2005 the cocoa industry failed to comply with the protocol's terms, and a new deadline for 2008 was established. In 2008 the terms of the protocol were still not met, and yet another deadline for 2010 was set.

Almost a decade after the chocolate companies, concerned governments and specially foundations spent millions of dollars in an effort to eradicate child labor and trafficking in the international cocoa trade, has anything changed?

Miki Mistrati and U Roberto Romano launch a behind-the-scenes investigation and verify if these allegations of child labor in the chocolate industry are present today.

Source : presentation of the documentary "the Dark side of chocolate (2010)" on the website, [www.topdocumentaryfilms.com](http://www.topdocumentaryfilms.com)

### Questions

- 1/ What can you say about the power of the TNCs in comparison with states power ?
- 2/ What is the role of developed countries in the Nestlé strategy ?
- 3/ What is the role of developing countries in the Nestlé strategy ?
- 4/ Why are emerging countries so important for the strategy of TNCs as Nestlé ?
- 5/ What are the limits to the power of Nestlé ?

## **Case study**

### ***Nestlé* : a worldwide company (correction)**

#### **1/ What can you say about the power of the TNCs in comparison with developing countries ?**

The TNCs of the document are from northern countries. And as the document shows a single TNC as Nestlé represents the same capitalisation as a major country as India. It means that the TNCs are very powerful in comparison to states.

#### **2/ What is the role of developed countries in the Nestlé strategy ?**

The developed countries are central in the Nestlé strategy. As we can see in the document 3, 85 % of the shareholders are coming from northern countries (including Japan). Moreover, 56 % are Europeans. It means that the majority of the benefits are coming back to Europe or USA even if it's a worldwide company. If we look at the document two, the biggest number of research and development centers are located in developed countries.

According to the document 4, 50 % (45918) of the sales are located in the developed countries.

So developed countries are controlling the benefits and the R and D and still represent an important market for Nestlé.

#### **3/ What is the role of developing countries in the Nestlé strategy ?**

The developing countries are important as production countries. As we can see in the document 3, Asia, Oceania and Africa are gathering one third of the factories of the corporation. But we don't know exactly if developed countries of this region, as Japan, or Australia are concerned too.

The developing countries are important for the sales. As we can see in the document 4 they are 5 in the top 15 of countries for sales. China is the second destination.

As we can see in the document 5, they represent too an important source of raw materials as cocoa, with for example Ivory coast which produce "nearly half the world's cocoa".

So developing countries are important as raw material sources, or place of production and less important for sales.

#### **4/ Why are emerging countries so important for the strategy of TNCs as Nestlé ?**

The most important emerging countries are known as BRICS (Brazil, Russia, India, China and South Africa). They are important for Nestlé as fast growing regions where the sales are increasing really fast.

In the document 4, we can see that the biggest evolutions of sales (between 2012/2013) are all located in these countries : + 27.6 % in China, + 12.9 % in Brazil, +10.6 % in Russia.

In the document 3 we can see that emerging countries are even involved in the capital of the company with 2.48 % of shareholders who come from China for example.

So emerging countries are important because they are representing high growth markets and could be a source of investors.

#### **5/ What are the limits to the power of Nestlé ?**

As we can see in the document 5, the strategy of Nestlé is denounced in a documentary about cocoa plantation which are using slave children.

This kind of denunciation is really bad for a worldwide company as Nestlé and they are very careful with their image as the document 6 shows it. After the documentary, broadcasted in 2010, Nestlé tries to improve its image by financing schools to fight against child labour.

So, it shows that even if a TNC as Nestlé is powerful its power has got some limits.

## 5/ What are the limits to the power of Nestlé ?

Nestlé is exposed to critics = child labour in Ivory Coast (documentary doc 5)

Nestlé is very careful with its image (doc 6).

### Other controversies

In 2002, Oxfam denounced the fact that *Nestlé* asked 1.5 million dollars to the Ethiopian state (for a debt) while the country faced a famine. *Nestlé* is forced to accept a better deal.

Greenpeace launched in 2010 a campaign against Palm oil use which provoked indirectly deforestation in Indonesia : *Nestlé* is directly accused. *Nestlé* promised to use palm oil produced in better conditions.



## Conclusion

### How is *Nestlé* using globalisation ?

#### **Nestlé is using the international division of labour :**

Developed countries : R and D, sales

Developing countries : raw materials and production

Emerging countries : new markets and investors

#### **Nestlé is still a very european company**

More than half of the profits and the sales are located in Europe. Switzerland captures one third of the profits for only 2 % of the sales.

#### **Nestlé's power is limited**

The slogan of Nestlé « good food, good life » = company exposed to critics

Food is a very sensitive market and Nestlé must be very careful not to shock the world's opinion.

## **II/ Territorial strategies of the TNCs**

### **A/ Powerful TNCs**

#### **> The domination of northern TNCs**

Study of the document (top 20 world's TNCs)

TNCs are involved in all kind of activities (agriculture, mining, industries and services).

81 % of the TNCs are belonging to the northern countries.

300 of the top 500 TNCs are located in North America and in the European Union.

#### **> New TNCs from emerging countries**

During the naughties (2000ies), TNCs from emerging countries appeared (BRICS). They are involved in all kind of activities. PetroChina (China, Oil and gas) or Tata (India : steel industry, car manufacturing), Gazprom (Russia, Oil and gas)...

Their growth is important and they are investing a lot in developing countries (Africa for example).

But they are still smaller than the northern companies : only 4 among 20 biggest companies in market capitalisation (all from China).

#### **> The importance of national origins**

The TNCs are deeply involved in their countries of origins.

Their **national market** is often the most important.

Ex : Wal Mart sales = 75 % in the USA

Their headquarters, research centers, and shareholders are still in their native countries.

TNCs can have a political support from their native countries.

Example : the dongfeng / peugeot partnership is celebrated during an official visit of the chinese president and his a key moment of the visit (march 2014).

### **B/ Using territories at a global scale**

#### **> New division of labour**

The common strategy of TNCs is to benefit from the international division of labour.

Before the 1970ies, the division of labour was basic : developed countries in the north did the production and bought the products. The developing countries provided the raw materials (mineral and agricultural commodities).

Since the 70ies, production is more and more outsourced in developing countries.

In 1954, industrialised countries produced 97 % of the global production.

In the 1990ies, it is 77 %.

This strategy is possible because money and products can move freely in the world : low taxes and cheap transports.

Labour-intensive industries are moving first (garment industry for example). High tech industries are moving in a second time and services too... (banking, call centers, IT, accounting...)

But the TNCs have got very different strategies. It depends of their production, their location...

#### **> One product for all**

TNCs spread Globalization by release only one product, one after the other. To benefit from economies of scale

For example, Apple released the Ipod Classic, then the Ipod Nano, shuffle, Iphone, Ipad etc.

But at the same time, TNCs have to adapt to the local market, and depending on their speciality, this adaptation is more or less important.

Example : Nestlé is specialized in milk products, but in Asia the consumption of milk is really smaller than in western countries.

### > **Securing raw materials**

TNCs are looking for good sources of raw materials. The price is important but there are many other factors : political stability, transports, corruption level, education...

The poorest countries are not always privileged > some countries in Africa are outside globalisation even if they are rich in raw materials.

### > **Conquering new markets**

The emerging countries are very important for the TNCs because they represent production areas with low-cost labour and new markets : new middle class especially in Asia.

So TNCs must be flexible, when the wages are increasing they move to low cost labour countries.

For example : since 2000 the Chinese garment industry is moving to Bangladesh, Vietnam, Indonesia.... and now China is producing Apple phones.

### > **Free trade promotion (global, regional and local level)**

TNCs are involved in an important lobbying to defend their interests.

Example : the World Economic Forum of Davos (1000 companies with more than 5 billions in turnover) gathers each year executives of big firms and political leaders...

They are lobbying their national governments, and international organisations as the World Trade Organisation, the World Bank, the International Monetary Fund...

Their goal is to fight for low taxes, and customs duties.

## **C/ Transforming territories at a local and regional level**

> TNCs are **transforming national territories** by their investments.

Some regions are improving because of globalisation, mainly coastal regions, because of they are privileged by the FDI of TNCs.

Ex : North and south divide in Great Britain / Coastal China

> TNCs are **reinforcing the power of the Global cities** which are chosen as centers of command of their development (NY, London, Tokyo, Paris and now Shanghai, Hong Kong...).

They contribute to the development of CBDs and are widening the gap between rich and poor in these cities (especially in developing countries).

## **Conclusion**

TNCs are **key actors** of globalisation and they are **transforming territories** at every scale. They are **powerful** and their strategies are **diverse**.

**At a global scale** > New International Division of Labour (Developed, emerging and developing countries...) transforms relations between regions of the world.

**At a regional scale** > they favour the development of free trade zone (EU, NAFTA)

**At a national scale** > they reinforce the power of coastal regions and reinforce the economic specialisation

**At an urban scale** > they reinforce the power of global cities