

Elective - Economic | Sample Answer

Explain how corporate strategies influence the opening and the closing of branch plants of one Multinational Company (MNC) that you have studied. (2012 Q9B)

A multinational corporation (MNC) is a corporation which has factories and other assets in many different countries outside of its home country where its headquarters are located. They control the production process from beginning to end. Global factors have huge influence on the locations of branch plants, and where they open and close.

Cheap labour is a key global factor. MNC's locate in developing economies to take advantage of lower wage rates. Workers, mainly women and children, work in very poor conditions for little reward. This has resulted in an international division of labour where all research and development is undertaken in the developed world, and mass production is carried out in the developing world e.g. Intel have located manufacturing plant in Bangalore in India as India has an average wage only 20% of the EU average yet there is more 3rd level graduates in India than in the USA and Canada combined.

The market is defined as the place where the product/output of the factory is sold. MNC's locate factories as close as possible to their markets, or where they have good access to their markets. There are 2 major global markets, which can be divided into the developed market and developing world market. While many MNC's locate their processing plants in these countries, the finished goods are exported to the first world market where the income is higher, so buying power is greater. 25% of Intel's world sales are in Europe; they located in Leixlip as they could use Ireland as a springboard to access the European market. The expanding markets of China, India and the new Eastern European members of the EU will provide a huge market for goods in the future.

Access to the economy triad is a defining global factor in the opening and closing of MNC branch plants. The economic triad comprises of the EU, North America and Japan. In order to gain access to these rich markets, the MNC's must locate their production plants in these areas. Intel has production plants in Oregon, Usa, China, and Israel. This gives them access to a variation of markets.

Transport is an important location factor in where MNC's will open and close branch plants. Industries locate near major roads, rail, port and air terminals to move their outputs as quickly, and

as cost-effectively as possible. E.g. Intel located just off the M4 motorway at Leixlip. They have easy access to Dublin airport, and the roll on roll off ferry at Dublin Port. The port tunnel has increased the speed of delivery of Intel's output.