

# The impact of globalization to the multinational companies

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**ABSTRACT.** *The increasing trend of globalization has unignorable impact on global economy. In the past centuries, we have experienced a rising number of trade unions and trade agreement. Globalization has been blamed for job stealing and depressing wages all over the world. The earning growth has slowed down in the United States even though the development of technology is unprecedented. The implications behind globalization are valuable.*

**KEYWORDS:** *globalization, multinational companies, labor, price level, developing country, develop country*

## 1. Introduction

In the past century, we have constantly received the benefits from free trade between companies. Some economists have insisted that multinational corporations play vital roles in the processes of globalization while other believes the effect brought by globalization to multinational corporations is dramatic. Multinational corporation play as one significant non-state actor that is forming world economy in the past century, exerting a great economic influence around the world. In this paper, we will mainly focus on how globalization affects the multinational companies through looking into the price setting.

## 2. The impact of globalization on multinational companies

### 2.1 Factors of rising multinational companies

It is well acknowledged that the top multinational companies worldwide have branch companies in a great variety of countries. Developing worldwide business has become the trend for almost all top companies. The implications behind the multinational business are complicated. First of all, the various culture is one of the

big factors that companies always take into consideration. Culture shock and diffusion are inevitable, inseparable culture and communication need specific strategies for multinational companies. Rational business will not be willing to see losing clients because of language barriers, ineffective communication etc. Secondly, the digital revolution has and is expected to change the old way that people run their business. Therefore, exploring potential customers is essential for big companies, especially some high-tech companies like Google and Yahoo. However, it is not practical to turn a virtual good or intellectual property into real values. Therefore, we will mainly discuss those popular imported goods and exported goods in this paper.

### ***2.2 Increasing competitiveness under globalization***

We have to admit that globalization is keeping change the world. Although many economists criticized that globalization has brought many shortcomings in both economy side and society side. There are empirical globalization literature showing that globalization has spurred our economic growth. In OECD countries globalization and per capita GDP have been shown to be cointegrated (Chang and Lee 2010, Chang et al. 2011). Surprising, institution like Economic Policy have shown that there is a loss of 879 820 jobs due to NAFTA. Compared to the job creation, some people argue that the job loss is negligible. However, it provides an insight that competition is increased under globalization.

It is noticeable that both developed countries and developing countries have reduce its tariff on goods to improve international trade in 1930s. During the process by which the world interconnected allowing goods, capital and people to move around with lower taxes, tariffs and expense. The decrease in tariff lower the cost of international trade, therefore create much more opportunities for global business. Countries that are close to each other are more likely to seek cooperation to utilize its specialization. Since the multipolar world provide consumers with more choices of goods, the competition has become much intense. The reduction or removal of trade barriers largely encourage positive technological innovation. Only the top-leading companies in the world can survive, eliminating some strong big companies domestically. As the transport costs also decline, there is a growth of multinational corporations. Nowadays, more than 80,000 multinational companies in the world today are controlling over 800,000 subsidiaries. However, multinational corporations have to set their price at a lower level in order to increase its competitiveness. Deregulation and economic reforms give rise to increasing highly competitive companies. "Competition across countries for investment takes many forms – not just lowering wages and weakening worker protections. There is broader "race to the bottom" trying to ensure that business regulations are weak, and taxes are low" (Stiglitz 2012: 61). As for-profit enterprises, multinational companies are running business in more than one country, they are usually more sensitive to the market demand. The globalization trend decreases almost all good prices. This is mainly because when corporation in perfect competitive market, consumers are

facing a bunch of alternatives. It turns out that companies have much less producer surplus, even exit the industry while consumer now enjoying larger surplus.

### ***2.3 The price setting of different multinational companies***

Nowadays, multinational companies is accounting for one-third of world exports approximately. There are still many business wish to do business in other countries, expanding their operations abroad.

In the past, most of companies have retail outlets and production facilities in their own countries for their entire existence. With the globalization, there is an improved global integration in all industries instead of only operating in one single country. Interestingly, it is noticeable that the price setting strategies are also quite different for corporations that open up production facilities or retail outlets in other states, compared to opened up corporations by starting a wholly owned company, which is usually call subsidiary. Although the original company own the subsidiary, the subsidiary will still have retail outlets and production facilities inside the state it is operating business. In this case, the multinational companies can save fixed costs rather than building up all facilities over again. The used domestic business sometimes are much familiar with local culture and market, helping with the multinational companies to set appropriate price.

The last situation is that the company might see a local company in which country it is wish to do business. Since the local company already have production facilities, it might be willing to purchase the company, controlling the future production and retail. As long as they have a similar size in companies, merger and acquisition might happen as well. Globalization has result in lots of similar cases that a top company acquiring other companies or merging with them. For most of the times, the local business usually be kept to larger extent. Since it will take foreign companies a long time to find the business way out. After merging and acquisition, two companies will generally set the prices of products based on global market and domestic consumers willingness to pay.

Globalization trends give more confidence to business who are looking forward to starting subsidiary abroad. Besides of buying and merging, an increasing number of companies now consider to open up corporations abroad, especially when their specific products are hard to be substitutes.

### **3. Lowered costs under globalization**

Multinational companies is a main member in global supply chain construction. They're in need of components, manufacturing and transporting goods from original countries to the final country that assemble the project product.

As a result of culmination of technological advancement lowering the cost of transportation and increasing communication of the world, materials and labor costs become more transparent. The advent of the Internet affordable technology and

satellite communication is a key feature of globalization in the past century. The internet acts as a medium for ideas and questions to propagate and for communication between entities, enforcing the facilitates the growth of globalization by allowing businesses and entities to communicate without Endurance. Since it's easier for big companies to attract investment and it relatively have a more established management than start-up business. Big companies can lower its marginal cost to maximize profit through the economies of scale and dominate the market space. The greater market share will lead to easy name recognition, then increases its brand popularity again. We are more likely to see is that some companies might set their good prices at relatively lower level when they are competing with other business staying in the industries. However, once other business shuttled down and exit the market, it might increases its price even higher than the previous market price when it become a temporarily monopoly market. Before other companies entering the industry for profit, it can take advantages of the monopoly prices. Strong brands like Samsung, Toyota, Coca-Cola, they are managing the operation effectively to take advantage of global presence. It's much harder for a new brand to feature its product without enormous investment in technology and research field. Like Coca-Cola. it hire more employees outside than the United States, lowering its marginal labor cost to generate more sales revenue. Therefore, they are also able to set the price of goods at a lower level since their average cost can still be covered.

With facilities and staff located around global, even routine organizational and administrative measures are demanding on company leaders. We will also see a rising wage for skilled workers due to the labor division. Compared to hire local workers that require a higher wage, it's wise for companies to outsource its labor department to a labor-intensive country. So, while globalization decreased the prices level for products that mainly rely on labor production, it also increased the income inequality.

On the other hand, constructing buildings in all different countries means understanding and complying with a new set of regulations for each jurisdiction. Therefore, the demand for labor who are master at multiples languages, who are familiar with markets of different countries will also increased.

#### **4. The impact of globalization on micro multinational companies**

Recently, not all participants in the global state are big companies, in fact the majority of multinational are smaller companies often with operations in only one or two countries beyond their home markets. Thanks to the unprecedented development in technology and information, such micro multinational corporation are rising to improve people's standard living.

Global trend to such as political reform and technology renovation has made is easier for these companies to operate across countries. Such small companies usually save us labor costs by hiring employees in developing countries. Therefore, business don't have a large return of scales as large companies it can still decrease

its marginal cost as much as possible. On the other hand, by providing flexible workplace and work time it can have greater access to talents and expertise. A wider choice of working space enables employees to work at home even under the covid-19 pandemic, also save the rental cost for companies. We have experienced that differentiated products with similar functions usually have a relatively stable price region. Low-cost or free product such as Skype or Zoom for conference calls Dropbox for file sharing link clean for finding jobs PayPal for making transactions And eBay and Amazon is for all like shopping. Globalization enables this companies to capitalize its speed and agility while Still communicating and coordinating across cross.

Micro multinational companies also have a major competitive advantage rapid growth in their home market. Nonetheless, neither the developing market or emerging market multinational have all its answers about future.

## 5. Conclusion

Continue reforms and innovations will likely maintain the trend of companies becoming multinational. We will see a rising number of potential business pops out around the world.

Increasingly complex global problem will push business manager is going to face its price setting measure. However, the work better towards the world will bring development of technology as well. The critics believe that multinational corporations has brought a greater negative impact, arguing that multinational corporations should take responsibility of decapitalization. They will take cash flow and resources away from other countries, collect money for those headquarters one. multinational corporations generate inequality around the world since those companies that pay will cause other developing countries poorer. Through exploiting poor workers, communities, creating dependence that will have an increasingly exploitative. Since start-up business may find it's harder to get going under the larger market share has already be taken up by multinational corporations. The survive firms must be most efficient. With thousands of multinational corporations around the world, these organizations are increasingly being thought of potential challenge to the world. Not only provide job opportunities but also a sense of identity

Overall, multinational corporations stifle domestic innovation and economic activities, there is a virtue fact that it eliminates small and inefficient companies but create a positive competition.

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