World Academy of Science, Engineering and Technology
International Journal of Social and Business Sciences
Vol:18, No:11, 2024

The Impact of Changing Political and Economic Conditions on International Production Cooperation with a focus on Multinational Corporations and Transnational Corporations

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Abstract**—**The research highlights the influence of political conditions on the operations, investment decisions, and international production networks of Multinational Corporations (MNCs) and Transnational Corporations (TNCs). It investigates how factors such as political instability, protectionist policies, and regulatory changes impact the structure and functioning of International Production Cooperation (IPC). Furthermore, the analysis identifies gaps in the literature and formulates pertinent research questions to address in the paper. The study explores MNCs and TNCs' responses to changing political and economic conditions, emphasizing their strategies for adaptation. Additionally, it delves into the specific mechanisms employed by these corporations to mitigate risks and challenges arising from evolving political and economic landscapes. The research provides policy recommendations for governments, international organizations, and industry associations. These recommendations focus on enhancing policy stability, promoting regional integration, supporting digital technology adoption, and encouraging responsible and sustainable practices in IPC. By incorporating these suggestions, policymakers and practitioners can foster an enabling environment for MNCs and TNCs, thereby facilitating stable and efficient international production networks. Overall, this research contributes to a deeper understanding of the role of MNCs and TNCs in IPC under changing political and economic conditions. The insights garnered from this study can guide future research and inform policy decisions to promote sustainable and resilient international production cooperation.

Keywords**—**International cooperation, Multinational Corporations, Transnational Corporations, international production networks, Global Value Chains.

I. Introduction

THE role of MNCs and TNCs in IPC has evolved significantly over the years. These corporations play a pivotal role in shaping global economic landscapes by establishing production networks across different countries. This paper analyzes the impact of changing political and economic conditions on IPC, focusing on the role of MNCs and TNCs by reviewing the existing literature on the topic.

IPC involves the establishment of production networks, supply chains, and partnerships between firms and countries to efficiently distribute resources, knowledge, and technology [1]. MNCs and TNCs play a crucial role in this process by leveraging their resources and capabilities to expand and optimize production networks [2]. In this paper we will examine the impact of changing political and economic conditions on international production networks.

In changing political conditions the political environment of host countries can have significant implications on MNCs and TNCs' operations, investment decisions, and international production networks [3], [4]. For example, political instability, protectionist policies, and regulatory changes can create challenges for MNCs and TNCs, leading to disruptions in their international production networks [5].

In changing economic conditions such as global economic downturns, regional crises, and fluctuations in exchange rates and commodity prices can affect MNCs and TNCs' international production networks [6]. Such conditions can alter the comparative advantage of host countries, forcing MNCs and TNCs to restructure their international production networks to adapt to new realities [7].

The existing literature on the role of MNCs and TNCs in IPC covers a wide range of topics and perspectives, providing valuable insights into the strategies, challenges, and opportunities faced by these corporations. This overview highlights key themes and contributions in the literature on MNCs and TNCs' role in IPC.

Several theoretical frameworks have been developed to explain the motives, strategies, and behavior of MNCs and TNCs in IPC. Among the most influential are Dunning's (1988) eclectic paradigm (or OLI framework) [8], which emphasizes the interplay between ownership, location, and internalization advantages, and the Uppsala model of internationalization [9], which focuses on the incremental development of foreign market knowledge and commitment.

The OLI framework, also known as the eclectic paradigm, is a theoretical framework developed by John Dunning that explains why firms choose to engage in foreign direct investment (FDI). The OLI framework proposes that three factors determine the success of a foreign investment: Ownership advantages, Location advantages, and Internalization advantages. Ownership advantages refer to the unique assets, capabilities, and resources that a firm possesses that give it a competitive advantage over other firms in its industry. These advantages can be in the form of intellectual property, proprietary technology, brand recognition, or

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managerial expertise. Location advantages refer to the benefits that a firm gains by investing in a specific foreign location. These advantages can be in the form of access to natural resources, low labor costs, favorable government policies, or proximity to key markets. Internalization advantages refer to the benefits that a firm gains by owning and controlling the assets and activities that are required to produce and sell its products or services. By internalizing these activities, a firm can reduce transaction costs, minimize the risk of opportunistic behavior by third parties, and gain greater control over its value chain.

According to the OLI framework, firms will choose to engage in FDI when they possess ownership advantages that can be exploited in a foreign location, when there are location advantages that make foreign investment attractive, and when internalization advantages can be realized by owning and controlling the assets and activities in the foreign location.

The Uppsala model of internationalization is a theoretical framework developed by Johanson and Vahlne [9] that explains how firms gradually develop their foreign market knowledge and commitment over time. The model proposes that firms initially enter foreign markets through low-risk and low-commitment modes such as exporting and then gradually increase their commitment as they gain more knowledge and experience. According to the Uppsala model, there are four stages of internationalization:

1. No regular export activities: The firm has no regular export activities and only engages in sporadic export sales.
2. Export via independent representatives: The firm starts to export regularly but only through independent representatives such as agents or distributors.
3. Establishment of a sales subsidiary: The firm establishes a sales subsidiary in the foreign market to have more control over its sales activities.
4. Establishment of production/manufacturing subsidiary: The firm establishes a production or manufacturing subsidiary in the foreign market to have more control over its operations and to take advantage of location-specific advantages.

The Uppsala model proposes that firms develop their foreign market knowledge through a process of experiential learning, which involves accumulating information and knowledge about the foreign market through repeated interactions and adjustments. As the firm gains more knowledge and experience, it becomes more confident in its ability to operate in the foreign market and increases its commitment to the market by investing in local operations and resources. This model has been widely used in international business research and has been shown to provide a useful framework for understanding the incremental development of foreign market knowledge and commitment by firms. However, some critics argue that the model [6]-[8], [10], [14] may not be applicable to all types of firms or industries and may oversimplify the complex process of internationalization.

A significant body of literature examines the role of MNCs and TNCs in shaping global value chains (GVCs) and IPC. Gereffi et al. [10] introduced the concept of GVC governance, highlighting the power dynamics and coordination mechanisms between lead firms (often MNCs and TNCs) and their suppliers. Yeung and Coe [7] extended this perspective by incorporating the concept of strategic coupling, emphasizing the role of regional and local actors in co-shaping IPCs.

Several studies have explored how MNCs and TNCs manage political and economic risks in IPC. Boddewyn [12] examined the role of political risk management strategies, such as lobbying and engaging with policymakers, while Rugman and Verbeke [6] focused on the strategic use of regional and global diversification to mitigate risks. The theory proposes that firms can reduce their exposure to risks such as exchange rate fluctuations, political instability, and regulatory changes by diversifying their operations across different regions and markets.

According to Rugman and Verbeke [6], there are two types of diversification strategies that firms can use: regional diversification and global diversification.

Regional diversification involves expanding into multiple markets within a specific region. This strategy allows firms to leverage regional economic integration and reduce their exposure to risks that are specific to a particular country. For example, a firm operating in Europe may diversify its operations across multiple European countries to reduce its exposure to the risk of Brexit or other country-specific risks.

Global diversification involves expanding into multiple markets across different regions of the world. This strategy allows firms to diversify their operations across different currencies, time zones, and legal systems, reducing their exposure to global risks such as exchange rate fluctuations and political instability.

Rugman and Verbeke [6] argue that firms should adopt a balanced approach to diversification, where they strategically allocate their resources across different regions and markets based on the potential risks and opportunities. They propose that firms should use regional diversification to reduce risks that are specific to a particular region, while global diversification should be used to mitigate global risks that affect multiple regions. Overall, Rugman and Verbeke's theory of regional and global diversification provides a useful framework for firms to manage their risks in the global market by strategically diversifying their operations across different regions and markets.

A growing body of literature has explored the role of corporate governance and corporate social responsibility (CSR) in MNCs and TNCs' IPC strategies. Aguilera et al. [1] emphasized the importance of strong corporate governance practices for managing risks and enhancing stakeholder trust, while Jamali [11] examined the role of CSR in building positive relationships with local communities, governments, and other stakeholders.

Several studies have investigated the role of innovation and R&D in MNCs and TNCs' IPC strategies. Archibugi and Michie [13] highlighted the importance of global innovation networks, while Mudambi [14] examined the strategic use of R&D to maintain a competitive advantage in IPC.

This overview of the existing literature illustrates the rich and diverse sources on the topic of the role of MNCs and TNCs in

IPC. The various themes and perspectives discussed provide a strong foundation for understanding the complexities of IPC and the strategies employed by MNCs and TNCs to navigate the challenges and opportunities posed by changing political and economic conditions.

II. The Issues and the Influence Regarding MNCs and TNCs

Despite the existing literature, there are still gaps in understanding the role of MNCs and TNCs in IPC amid changing political and economic conditions. The following research questions will be addressed in the research:

1. How do MNCs and TNCs respond to changes in political conditions in their host countries, and how do these responses affect their international production networks?
2. How do MNCs and TNCs adapt their international production networks to changing economic conditions?
3. Are there any specific strategies that MNCs and TNCs adopt to mitigate the risks and challenges posed by changing political and economic conditions?

MNCs and TNCs are highly sensitive to changes in political conditions in their host countries, as these can impact their operations, profits, and reputation. These companies typically respond in various ways, depending on the nature of the change and the level of risk it poses to their business. Some of the common responses include *Adapting* to the new political conditions. MNCs and TNCs may choose to adapt to the new political conditions in their host country by changing their business practices, policies, or strategies. For example, they may adjust their supply chain or production processes to comply with new regulations, or modify their marketing strategies to appeal to the local population. *Lobbying and advocacy*: MNCs and TNCs may engage in lobbying and advocacy efforts to influence the political conditions in their host countries. They may use their economic and political power to shape policies and regulations that are favorable to their business interests. *Relocating operations*: In some cases, MNCs and TNCs may choose to relocate their operations to other countries if the political conditions in their host country become too risky or unfavorable. This may involve shifting production facilities, research and development centers, or headquarters to other locations. *Diversifying operations*: MNCs and TNCs may also choose to diversify their operations across multiple countries to reduce their exposure to political risk. This may involve creating international production networks that are spread across different regions, allowing them to mitigate the impact of political changes in any one location.

The responses of MNCs and TNCs to changes in political conditions can have significant effects on their international production networks. For example, if a company decides to relocate its operations to another country, this can disrupt its existing production network and supply chain. Similarly, if a company decides to diversify its operations across multiple countries, this can create new opportunities for collaboration and partnership with other businesses in different regions. Ultimately, the response of MNCs and TNCs to changes in political conditions will depend on a range of factors, including the nature of the change, the level of risk it poses to their business, and the opportunities and challenges presented by different countries and regions.

MNCs and TNCs adjust their international production networks to adapt to changing economic conditions, such as prioritizing cost reduction during economic downturns by consolidating their production networks, outsourcing, or offshoring [6], [7]. During economic upturns, they may focus on expanding and diversifying their international production networks to take advantage of new growth opportunities [2].

Understanding the strategies adopted by MNCs and TNCs in response to changing political and economic conditions is essential for policymakers and practitioners. Policymakers can design policies that promote a stable and predictable environment for MNCs and TNCs, while practitioners can learn from their experiences and adopt best practices to navigate the complexities of IPC.

MNCs and TNCs' responses to political and economic changes can vary depending on the region where they operate too. For instance, companies operating in developed economies may prioritize maintaining a stable regulatory environment and strong intellectual property protection, while those operating in emerging economies may focus more on managing political risks and navigating complex regulatory landscapes. Moreover, in regions with high levels of regional integration, such as the European Union, MNCs and TNCs may adapt their strategies to take advantage of the single market, harmonized regulations, and common policies. In contrast, in regions with less integration or significant geopolitical tensions, MNCs and TNCs may prioritize risk diversification and operational flexibility to minimize potential disruptions [5].

MNCs and TNCs' strategies and challenges in IPC can also vary depending on the industry in which they operate. For example, companies in capital-intensive industries such as automotive or heavy machinery may prioritize cost reduction and supply chain efficiency, while those in knowledge-intensive industries such as pharmaceuticals or information technology may prioritize innovation and intellectual property protection [14]. Additionally, MNCs and TNCs in industries with high levels of technological change or shorter product life cycles, such as consumer electronics or fashion, may adopt more flexible and agile international production networks to quickly adapt to market trends and changing consumer preferences.

Digital technologies, such as artificial intelligence, big data analytics, and the Internet of Things, are increasingly transforming IPC and the strategies adopted by MNCs and TNCs [15]. These technologies can help companies monitor and analyze political and economic developments in real-time, enabling them to make more informed decisions and adapt their production networks more quickly [16]. Furthermore, digital technologies can enable MNCs and TNCs to create more resilient and adaptable international production networks by improving supply chain visibility, enhancing communication and collaboration between different actors, and enabling advanced manufacturing practices such as additive manufacturing and smart factories.

III. Recommendations

Based on the detailed analysis, the following policy recommendations can be made for governments, international organizations, and industry associations:

1. Enhance policy stability and predictability: Governments should aim to create a stable and predictable policy environment that reduces uncertainties and risks for MNCs and TNCs and encourages long-term investments in IPC [2].
2. Promote regional integration and cooperation: Regional integration and cooperation can facilitate IPC by harmonizing regulations, reducing trade barriers, and promoting cross-border investments.
3. Support the adoption of digital technologies: Governments and international organizations can promote the adoption of digital technologies in IPC by providing incentives, funding research and development, and fostering public-private partnerships [15].
4. Encourage responsible and sustainable practices: Policymakers should encourage MNCs and TNCs to adopt responsible and sustainable practices in their international production networks, such as fair labor practices, environmental protection, and inclusive growth [2].

These policy recommendations can help create an enabling environment for MNCs and TNCs to navigate and adapt to changing political and economic conditions and contribute to more resilient and efficient IPC.

Corporate governance and CSR play a crucial role in how MNCs and TNCs adapt to changing political and economic conditions and their IPC. Strong corporate governance practices can help MNCs and TNCs manage risks, maintain transparency, and enhance stakeholder trust in their operations, especially during times of uncertainty. CSR practices, on the other hand, can help MNCs and TNCs establish a positive reputation and build strong relationships with local communities, governments, and other stakeholders in their host countries [1], [11]. This can not only mitigate potential risks associated with changing political and economic conditions but also create opportunities for MNCs and TNCs to contribute to sustainable development and inclusive growth in their host countries [2].

Changing demographics and consumer preferences can also influence MNCs and TNCs' IPC strategies [17]. For example, aging populations in developed economies can lead to increased demand for healthcare products and services, prompting MNCs and TNCs in the healthcare industry to adapt their production networks accordingly [15]. Similarly, growing middle classes in emerging economies can create new market opportunities for MNCs and TNCs across various industries, such as consumer goods, financial services, and education [17]. These changing demographics and consumer preferences can necessitate MNCs and TNCs to adapt their international production networks to cater to evolving market demands and capture growth opportunities [2].

Innovation and R&D play a critical role in enabling MNCs and TNCs to adapt to changing political and economic conditions and maintain their competitive advantage in IPC [13], [14]. By investing in R&D and fostering a culture of innovation, MNCs and TNCs can develop new products, services, and business models that can help them navigate uncertainties and exploit emerging opportunities in their host countries and industries [15]. Moreover, MNCs and TNCs can leverage their global innovation networks, which consist of R&D centers, universities, research institutes, and other knowledge-intensive organizations, to access new knowledge, technologies, and skills across different countries and regions [13], [14]. These global innovation networks can enhance MNCs and TNCs' ability to adapt to changing political and economic conditions and contribute to the resilience and efficiency of their international production networks [2].

IV. Summary

In conclusion, the role of MNCs and TNCs in IPC amid changing political and economic conditions is a complex and multifaceted issue. This review has shed light on the various factors that influence these corporations' strategies, including regional variations, industry-specific challenges, digital technologies, corporate governance, CSR, changing demographics, consumer preferences, and innovation. By understanding and adapting to these factors, MNCs and TNCs can effectively navigate uncertainties and contribute to more resilient, efficient, and sustainable international production networks. The findings of this analysis have important implications for policymakers and practitioners, who can use this knowledge to design policies and strategies that promote stable and efficient IPC. Furthermore, this analysis identifies several areas for future research, including the exploration of emerging challenges and opportunities in IPC and the role of SMEs in global value chains.

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