Globalization between rich and poor countries

Economics, Globalization

Globalisation may be the concept of the 1990s, a key by which we understand the transition of human society in to the third millennium. My essay will be focusing on the economic side of it. I will be explaining the MNCs effect on the poor countries inrespectto the rich countries (of course intending developed countries and less developed countries), in order to do so I will first need to introduce the concept of economic development.

We will find that the impact of MNCs on LDCs can be under many aspects crucial to the development of the latter, even though it is important to bare in mind the positive contribution MNCs can bring in to LDCs. However in order to cover all the points of this wide topic, it would have been necessary to look at not only the economic side that there is to it , but as well political, social and cultural sides, which are here only briefly referred to. The main concern of theorists ofimperialismhas been to explain why rich (or capitalist) states behave the way they do toward poor states.

With the birth of dozens of new states in the years after the Second World War, interest was sparked on the other side of the imperialistic coin, so to speak. From the point of view of this new states, understanding why states behave imperialistically is only part of the problem. The other part focuses on the question of how best to deal with richer, larger states to achieve economic well-being and political independence. Answers to this questions, so far at least, have been much more numerous than examples of success in attaining thesegoals.

The experience of Third World countries in the four decades since the Second World War has demolished one theory after the other concerning the most effective ways to speed development. In the 1950's, the United States dominated the world economically, and Americans likewise tended to dominate the discussion about economic development inacademiccircles as well as in international forums. Even Americans, of course, had a variety of ideas about how the emerging new countries could best achieve economic growth, but a few basic themes and assumptions were widely shared.

One implicit assumption was that England, the United States and other industrialised Western countries served as historical model that the new countries should try to emulate in their efforts to develop politically and economically. This emulation meant, in the orthodox view, that the new countries should adopt free enterprise systems based individual initiative and democratic political systems. In general, development theories in the 1950s stressed the importance of internal changes in the new states as the crucial steps toward economic development.

On the other point of view, the dependency theorists, do not deny that internal changes are necessary, but from their point of view, orthodox analysts seriously underestimate the extent to which the problems of Third World countries are caused by factors external to those countries and the impact of the international economic and politicalenvironmenton them. " It fiddles its accounts. It avoids or evades its taxes. It rings its intra-company transfer prices. It is run by foreigners from decision centres thousands of miles away. It imports foreign labour practices.

It doesn't import foreign labour practices. It overpays. It underpays. It competes unfairly with local firms. It is in cahoots with local firms. It exports jobs from rich countries. It is an instrument of rich countries' imperialism. The technologies it brings to the third world are old-fashioned. No, they are to modern. It meddles. It bribes. Nobody can control it. It wrecks balances of payments. It overturns economic policies. It plays off governments against each other to get the biggest investment incentives.

Won't it come and invest? Let it bloody come home. (The Economist, January 21, 1976, p. 68) It of course refers to Multinational Corporations. One reason why developing countries turned to bank loans in the late 1970's involved their suspicion about foreign investments by multinational corporations (MNCs). MNCs provoke some of this suspicion because they so large. In fact, many of them, by some measures , are larger economic units then developing countries. As can be seen in Appendix 1, if we compare the GNPs of countries with the gross annual sale of MNC's, several of the largest economic units in the world are not states, but corporations.

In these terms, General Motors is bigger than Argentina, and Exxon is larger than Algeria or Turkey. Another reason that MNCs in developing countries provoke suspicion is that comparisons of inflows and outflows of capital associated with their activities shows, years after year and place after place, that MNCs take moremoneyout of developing countries then they put in to them. In addition, critics of MNCs point out that these companies do not bring much money in to developing countries in the first place.

Instead, they borrow from local sources or reinvest profits that they have earned in foreign countries. " Over the 1966-1976 period, 4 percent of all net new invested funds of U. S. transnational corporations in the less developed countries where reinvested earnings, 50 percent were funds acquired locally, and only 1 percent funds newly transfered from the United States" (emphasis added). Defenders of MNCs concede that inflows from investments by corporations in developing countries are typically smaller than outflows of repatriated profits.

But such comparisons are irrelevant or misleading. The fact that corporations took more money out of Country X in 1998 that they put into that country in that same year does not prove that Country X is being " decapitalised", because what comes out from Country X in the form of repatriated profits in that year is not a function of funds going into the country during that time. Rather the profits of 1998 are the result of corporate investments in several preceding years.

Such comparison also ignore the facts that once capital is invested in a country (even if it is borrowed from banks within that country), it forms the basis of a stock of capital, which can grow and produce more with each passing year. In other words, once a factory is set up, some of the profits every year will be sent to the MNC's home country, and it is quite possible that no money will be brought in. But part of the rest of the profits, year after year, will be paid in taxes, and the remainder will be used to expand production, hire new people, and pay more each year in salaries and wages.

This argument certainly does not end the controversies surrounding MNCs. They also are blamed for balance-of-trade problems, for using inappropriate capital-intensivetechnology(in countries where labour is in surplus supply), and for encouraging the rich to indulge in conspicuous consumption of luxury products instead of investing in the productive capacity of their countries, while at the same time persuading the poor to drink Coca-Cola instead of milk.

Perhaps the strongest argument that can be made in defence of MNCs point out that in the long run, they are destined to get caught in dilemmas from which there is no obvious escape. Take, for example, the focus by critics on the enormous profits that they repatriate. If MNCs respond to this criticism by bkeeping that money in the host countries and reinvesting it there, they are unlikely to boost their own popularity. Continuous reinvestment will eventually become very threatening in the host country as MNCs expand and take over larger shares of domestic markets.

If MNCs avoid capital-intensive technology and turn to more labour intensive production techniques, critics complain that they are using poor countries as dumping ground for obsolete technology. In general, the longer a MNC stays in a developing country, the more reasons there will be for it to become unpopular. When they first arrive, they create jobs and face the risk offailure. But after they have become established, the risks are minimal, and they seem to be sitting there raking in enormous profits.

If the MNC hires many local people for important positions ofresponsibility, this is likely to speed the day when the nationals feel they can run the subsidiary on their own, without the help of the MNC. If the MNC keeps citizens of the host country out of management positions, that may lead even more quickly to antagonism on the part of the host country, whose citizens will argue that MNC's employment policies are designed to keep them in a position of permanent subordination and dependence.

That subsidiaries of MNCs in developing countries will become unpopular seems all but inevitable, but that unpopularity is not necessarily deserved. They may serve for engines of development even if they provoke antagonism and opposition. Many researchers have tried to determine the overall impact of MNCs in developing economies by statistically analysing the relationship between foreign investments and economic performance . Some have found that foreign investments in Third World countries retards economic growth; additional analyses reveal correlations between foreign investments and inequalities in the distribution of wealth.

But the weight of contrary evidence is such that conclusions regarding these controversies must be even more than normally tentative . Albert Szymansky concludes that much of the empirical work reporting deleterious effects of foreign investment " in reality... demonstrates nothing more than how easy it is to produce just about any conceivable results with multivariate computer analysis- if one is willing to throw in enough control variables and utilise enough different sets of countries" .

Although this comment may be insensitive to many complex problems that can make simple, seemingly more straightforward analyses even more misleading, it does voice what seems to be an increasingly common opinion about the impact of MNC investment in developing countries: the nature of the impact depends on how the government of a given country deals with it. (And how is dealt with is not inevitably determined by the presence of the investment.) In other words, MNC investments can have bad effects, but dealt with effectively, they also can bring substantial benefits.

As Robert Gilpin concludes, MNCs are " neither as positive nor as negative in their impact on development as liberals or their critics suggests. Foreign direct investment can help or hinder, but the major determinants of economic development lie within LDCs (less-developed countries) themselves" . However, dependency theorists would disagree. Their basic argument is that foreign investment, or any other economic contact that poor countries have with the world's economic system, particularly with the rich, capitalist, industrialised countries, has almost uniformly disastrous effects on the economic and political fortunes of those countries.