Ways in which activities of international firms threaten sustainable development....

[Technology](), [Development]()

Introduction

In the past two decades, concerns have been raised over the impactglobalizationhas on sustainable development (Carvalho 2001). In particular, the activities of international firms have been seen as a threat to sustainable development. As such, sustainability issues have become the focus of the international agenda today. A range of issues such as trade, inter alia, international governance, development cooperation, environmentand resource management have topped the global agenda (Carvalho 2001).

In view of the above, this paper examines the ways in which activities of international firms threaten sustainable development. The paper recognizes that while foreign firms may have socio-economic benefits and environmental spillover benefits in host country, the activities of international firms to a large extent threaten sustainable development. The analysis also suggests some of the ways through which governments may seek to reduce the threat and make globalization work for sustainable development.

An analysis of the topic will be incomplete without defining the concept of sustainable development.

Sustainable development

As defined by Brundtland commission, Sustainable development is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development, 1987, p 43). It comprises of three main areas that often intertwine: environment, society and economy.

The sustainability paradigm requires environmental protection and social welfare to be constituted as an integral part of the development process (Carvalho 2001). It rejects the contention that casualties in environmental and social realms are inevitable and acceptable consequences of economic development and seeks a future in which the three components are balanced in pursuit of development (Carvalho 2001).

Fig. 1 Diagrammatic representations of the sustainability paradigm (Moir & Carter 2012)

Ways in which activities of international firms threaten sustainable development.

The issue of whether activities of international firms exert pressures on environment has fueled much of the ongoing debate on international trade and environment (Kirkpatrick et al. 2004). On one side, international firms are seen to contribute to sustainable development whereas on the other hand, they serve as impediments to this transition. Some of the benefits of international trade include increased investment flows and production of goods in which a country has a comparative advantage in (DFID 2002). Countries also benefit through access to foreign markets that allow for better exploitation of economies of scale (Kirkpatrick et al. 2004).

Beyond the economic benefits, FDI can also contribute positively to the environment. Multinationals may contribute toclimate changemitigation in important ways. They can play a greater role in the shift towards a low carbon economy. Multinationals may contribute to sustainable development through international transfer and diffusion of low-carbon technologies to the host country (Randaccio 2012). The cleaner production technologies used by multinationals may be absorbed by local firms (Randaccio 2012).

In fact, the presence of international firms in developing countries may yield substantial environmental benefits, a process known asPollutionHalo effect (Randaccio 2012). As pointed out by Dean & Lovely (2010), FDI may bring greenertechnologyto a country’s fragmented sector. This is particularly evident with top Chinese firms which have benefited from environment spillover effects. A study by Marconi & Sanna-Randaccio (2011) found that top Chinese firms used Clean Development Mechanism (CDM) projects in many areas to adopt technology provided by leading foreign firms.

It is clear from the above that activities of international firms may contribute to sustainable development through international transfer of cleaner energy production technologies and through the transfer of financial resources and managerial skills to resource-constrained economies (Randaccio 2012)

However, while such multinational firms may have positive socio-economic benefits and environmental spillover benefits in the host country, their activities may as well threaten sustainable development. The negative effects can be categorized into: scale effects, structural effects, production and distribution effects and regulatory effects.

Scale effects

While cross-border investments may increase the scale of production and consumption; it may as well have adverse social and environmental impacts. The increase in production may be accompanied by an increase in resource material use and higher levels of pollution (Kirkpatrick et al. 2004).

Structural effects

Structural changes in the economy of a country may occur as a result of trade liberalization (Kirkpatrick et al. 2004). Where such changes favour industries that extract less natural resources, the impact on sustainable development becomes positive (Kirkpatrick et al. 2004). However, where such changes favour industries that extract more of the natural resources, the effects occur in the opposite direction (Kirkpatrick et al. 2004).

Production and distribution effects

The transfer of production from the foreign country to the host country may have certain distributional effects in the host country. The consequent distributional effects between trading partners may be damaging to the environment (Kirkpatrick et al. 2004). In particular, trade liberalization may result in ‘ pollution havens’ (Smarzynska & Wei 2004)

Regulatory effects

The regulatory effect may be positive or negative. A positive effect may occur where increase in trade may stimulate adoption of environmental standards whereas a negative effect may occur where policies and regulations are constrained by the need to comply with multilateral agreements (Kirkpatrick et al. 2004)..

Fig. 2 Impact of trade policy on sustainable development (Kirkpatrick et al. 2004).

Although activities of international firms may have positive or negative impact on sustainable development, the overall trend that has been observed across the globe has been negative. In many countries, the viability of the ecosystems has been threatened by the activities of multinational firms. Since most of these international firms are purely profit driven, their activities have led to the depletion of tropical forests, marine pollution, habitat destruction, and extinction of endangered species, land degradation and loss of crop cover (Moir & Carter 2012).

A prime example can be seen with Shell’s operations in Nigeria. Given the abundance of natural resources, particularly the vast reserves of petroleum, Nigeria has played host to oil multinationals (Kadafa 2012). The activities of Shell have turned hitherto productive areas into wastelands, adversely affecting the livelihoods of the local community who are predominantly small-scale farmers (Kadafa 2012).

The loss of natural capital and degradation of land especially in the delta region has forced the affected delta community to migrate to other productive regions (Kadafa 2012). This has also heightened tensions between the local community and oil operating companies (Kadafa 2012). This notwistanding, gas flaring in the region has contributed significantly to greenhouse gases andair pollutionwhich has had dire consequences on ecology.

A similar scenario can be seen with the activities of Multinational oil companies in Angola. Oil exploration in Angola has also adversely affected fish farming in Cabinda (Agostinho et al 2005). Other popular examples include Exxon Valdez and BP oil spills, which have had the largest and most damaging impact on the environment.

Ways in which government can seek to reduce the threat

Governments have a greater role to play in reducing such threats. Governments can adopt a number of measures which include:

Offering financial incentives to encourage environment friendly activities.
Closely monitoring activities of international firms to ensure compliance with the set environment standards
Ensuring adherence to the ‘ polluter pay principle’ which require the person responsible for pollution to bear the cost (Harris 1995).
Ensuring that areas under agriculture, forestry and aquaculture are managed sustainably (Carvalho 2001)
Safeguarding endangered species and protecting their habitats (Carvalho 2001).
Auditing environmental and social management systems of international

firms (Harris 1995)

Ensuring that multinationals have contingency plans in place to prevent the adverse impacts of their activities on environment

Engaging and consulting with the local community when undertaking projects (Harris 1995)

Requiring multinationals to disclose information on project risks and their approach to mitigation

Ensuring a robust environment and social impact assessment (ESIA) is undertaken by international firms before commissioning of a project (Harris 1995)

Promoting international trading system that enhances sustainable development.

Conclusion

It is clear from the above that the activities of international firms threaten sustainable development in a number of ways. Cross-border investments increase production which is accompanied by an increase in resource material use and higher levels of pollution. Trade liberalization may result in ' pollution havens'. Also, environment policies and regulations may be constrained by the need to comply with multilateral agreements.

On the contrary, the activities of international firms may contribute to sustainable development through international transfer of cleaner energy production technologies and transfer of financial resources and managerial skills to resource-constrained economies. The overall trend on sustainable development has however been negative. In many countries, the viability of the ecosystem has been threatened by the activities of multinational firms.

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