

Do mncs help or hinder less developed countries economics essay



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Multinational corporations have been in existence since the beginning of overseas trade. They have played an important role throughout history with the British East India Company being a perfect example of the positive and the negative impacts of a large European, multinational company dominating the economic, political and social culture of every country they did business with. By the end of the 19th century, with globalization and opening up of the world economies and communications, multinational companies became the instruments of bettering global relations through commercial and economic ties.

Multinational Companies are characterized by having large sized operations in many countries with multi product portfolio, large customer base and competitors, global perspective, worldwide market and structured way of managing and decision making, with only one motive ie Profit making. Today there are more than 60, 000 multinational companies operating in the world and are a symbol of modernity, wealth, state of the art technology and skilled jobs with the top 200 MNC's in 1995 having combined sales of \$7. 1 trillion amounting to almost 28. 3% of world's GDP.

Historically multinational giants have left their footprints all across the world and have grown in power and visibility where the governments of less developed countries today are wooing these multinationals to boost up their economic development.

According to UN-OHRLLS, " The Least Developed Countries represent the poorest and weakest segment of the international community. They comprise more than 880 million people (about 12 per cent of world

population), but account for less than 2 percent of world GDP and about 1 percent of global trade in goods. Their low level of socio-economic development is characterized by weak human and institutional capacities, low and unequally distributed income and scarcity of domestic financial resources.”

According to UN list 2012, there are 48 least developed countries (LDC) in the world. Countries like Africa, Latin America that has poor economic, infrastructural and industrial base, with most of the population being in the low income bracket and a low standard of living and below poverty line are the best examples of LDC's.

Africa is one of the LDC that is a latecomer to industrialization and accounted for only 7. 2% of global material consumption (2008) as compared to 6. 8 % (1980) whereas domestic material consumption was up by 92% between 1980 and 2008. However, to tap its huge potential of natural resources and untapped domestic market, some MNC's have ventured in key sectors like Pharmaceutical, Food & Beverage, Energy, and Infrastructure sectors.

GlaxoSmithKline South Africa (Pty) Ltd is one pharmaceutical MNC that entered the African market with a motive of philanthropy and self-interest and has managed to create a Healthcare capacity in the impoverished country where millions of people had no access to even basic healthcare.

Advantages to African Economy: Development of Healthcare Capacity

GlaxoSmithKline South Africa (Pty) Ltd is instrumental in developing the healthcare capacity in the African countries. The Company has taken in

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initiative in recognizing that poor people in poor countries also need an access to medicines. Glaxo has reduced drug prices in LDC's to 25% (subject to manufacturing cost) so that medicines become affordable and accessible to the poor people. Glaxo has committed 20% of its profits made in African countries to recruit, train and retain healthcare work force in Africa.

“ GSK is committed to playing its part in improving access to healthcare in all of the countries in which we operate,” said GSK Chief Executive Officer Andrew Witty. “ We are pleased to partner with three respected NGOs - AMREF, CARE and Save the Children - to deliver solutions that can make a difference on the ground in the world's poorest countries.”

From its 2010 profits Glaxo has channelized funding to the tune of GBP 3. 8 million in 2011, initiating programs and projects to train 10, 000 health workers. In Niger, GSK conducts health education sessions in 1175 communities and trains 2350 health volunteers to deliver this message and prevent common childhood diseases. GSK has pioneered an innovative distance learning project in Tanzania to upgrade the knowledge of 1000 nurses from remote areas to improve the standards of care to rural communities. Glaxo has also initiated open source collaboration for researchers in Spain to develop medicines for tropical diseases especially HIV, TB & Malaria - the priority three diseases identified WHO.

In Africa every year millions of people die from diseases as they do not have access to essential medicines, vaccines or essential healthcare services. They lack the qualified healthcare staff and basic infrastructure and do not have the means or resources to develop their own healthcare capacity. While

Glaxo's strategy is clear that they see Africa as a long term sustainable market that will generate business in long term. " We're real optimists," Learmouth said. " Not all the least developed countries will be LDCs for ever and now is a really good time to invest to build a GSK footprint that benefits patients today and benefits our business in the longer term."

But it also cannot be denied that the African people are not just getting access to medicines and healthcare but the MNC giant is also giving back multifold by initiating multitude of CSR projects like Edzimkulu Long Range Plan – a program focused on HIV/AIDS management and economic sustainability in Ndawana, Underberg, KwaZulu-Natal, John's Hopkins Health and Education in South Africa (JPHIEGO) Cervical Cancer Advocacy Programme in the North West Province to provide technical training to healthcare workers, The Cotlands Home-Based Care Outreach Project in Soweto to educate the families having HIV positive children, Mafeteng HIV Clinic – Lesotho and Mbonomhle Child Care Centre – Sinkonkonko to name a few.

However, it cannot be denied that multinational companies' prime motive is to earn more profits by continuously looking for cheaper, efficient and more reliable resources and the Least Developed Countries are a prime targets, as they are structurally unstable, burdened by debt and unemployment. In their bid to woo the investors the governments of LDC's have lowered trade restrictions to make their economic environment more lucrative for direct foreign investment.

Unilever in Africa is the prime example of a company that has exploited cheap resources in Africa, profited by selling at higher margins, attaining market domination and shaping the agricultural and economic systems to their own profit driven needs.

United Africa Company (UAC) moved into African markets for two reasons - to expand their market and raw material base and slowly became one of the most important and largest companies of the African Continent.

William Hesketh Lever began building in 1910 which culminated into a giant conglomerate UAC on March 3, 1929. It was a huge organisation that did almost everything - wholesale, retail, manufacturing, export, banking and ended up controlling 60% of palm oil exports, 45% palm kernel, 60% peanuts, 50% cocoa with almost one thousand locations all across the African continent. The company not only enjoyed a dominant position in African economies and on its rate of profit but also easily remitted these profits out of the country to its Anglo-Dutch parent.

Unilever being one of the world's largest tea companies exercised tremendous market power by even dictating prices of tea in the world market. The workers are totally dependent on the plantations for jobs; wages are low and appalling living conditions. By vertically controlling the food chain Unilever enjoyed 30-50% of the retail price margins where the small local farmers and retailers were the losers and managed to direct the market to its own advantage.

There is no doubt about the fact that the MNCs definitely benefit the less developed countries and improve the 'backward' economic environment by <https://assignbuster.com/do-mncs-help-or-hinder-less-developed-countries-economics-essay/>

adding in better technology, capital, skills, manpower, research abilities and exports. As the economy improves and more money is pumped in it creates more jobs and increases the purchasing power of consumers and tax base of the country. The Governments of the country become more committed to stay abreast with changing global environment, reflecting in political norms and nationalistic policies leading to a more developed, capitalist, stable global society. However, there is no reliable way to prove that a country will improve its political, economic or social environment of any country because of the entry of a multinational company.