

Spatial spread of multinational corporation economics essay



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“ As capital accumulates, the situation of the worker be his payment high or low, must grow worse.... It makes the accululation of misery a necessary condition, corresponding to the accumulation of wealth.” Marx Capital Vol I.

Increased movement of capital cushioned by innovation in technology and communication characteristic of contemporary globalization has transformed mode of production as well as the organization of production. This footloose character of labor and capital has given rise to what is termed as internationalization of business and international division of labor. It is in thos context that Multinational companies have become one of the major progenitors that have taken advantage of economic restructuring and the opportunities made possible by rise of regionalism, free trade facilitated by institutions such as WTO and the opening up of financial, resources and labor markets. The changing role of national governments from initiators to facilitators of growth has furthered this process. This process has had both winners and as well as losers.

The economic liberalism attributes diffusion of knowledge, technology and expertise to this spatial spread. MNC's due to their sheer size are able to capture economies of scale and are also characterized by efficiency in their modus operandi. Making available numerous employment opportunities in the host country is another feature highlighted. On the other hand are the critics who are skeptical of the nature of employment generation and welfare of workers. The footloose character of capital has enabled exploitation of cheap labor placed in developing countries that has given rise to proliferation of unorganized sector without social security net.

The institution of free trade policies and structural adjustment programmes by the IMF, World Bank and WTO has resulted in highly unequal integration of economies over the world. The African cycle of debt, the Latin American and East Asian crisis due to the volatility nature of financial flows has affected labor in many of these countries. (Rhys, Jenkins 2004). Primary products which constituted a major portion of the exports of LDCs faced deteriorating terms of trade. For example in 1980s under the prescription of IMF and World Bank opening of economies led to a spurt in export of coffee exports but later depressing markets due to overproduction rendering 25million coffee planters growers (Thomas, 2008). Although developing countries have managed to diversify in manufacturing and services, the nature of work has limited value added in the production chain (assembly line production).

Feminization of labor characterized by long working hours and meager wages has been one of the outcomes. The scourge across the globe in search for rich renewable as well nonrenewable resources has often led displacement of people from their homes. This has often resulted in what Michael Cernea has outlines the impoverishment risk as a result of this tendency: landlessness, joblessness, homelessness, food insecurity, increased morbidity and mortality, loss of access to common property resource and services and social disarticulation. (Cernea, Michael 1985)

Other issues concern around the loss of sovereignty due to their the massive profit that is pumped into the host economy due to which governments of host countries make all possible provisions to attract Multinational

Corporation. Governments are losing their ability to bargain with MNCs where national government autonomy is constrained by globalization.

It is argued that impact of MNC depends on the way countries, firms and citizens participate in the global economy. (Mosley 2011). Clarke (1985) points out that MNCs have a stabilizing and destabilizing effect depending on “ the character of corporation, the region, the nature of venture and establishment itself.”

The above discussion reveals the different threads to look into the impact of MNC in the wake of contemporary globalization. The following paper is an attempt to examine the impact on local spaces due to the spread of MNCs globally. I have used meaning of space not just in terms of its concrete sense but also the occupational mobility of labor which inclusive of their well being.

Multinationals: A Historical Background

Multinational companies have been crudely defined as having organisational presence in two or more national jurisdictions (Buckley and Ghauri, 2000).

Glenn Morgan (2004) tries to trace out the history of origin of multinational corporations beginning in the late 17th and early 18th century like the East India Trading Company. Global operations started with as they started investment abroad and setting up of subsidiaries outside the home country. Thus it started out as portfolio investment and later there was development of foreign direct Investment (FDI). Companies related to agriculture, mining and oil were the prominent one. Royal Dutch Shell, British Petroleum, Standard Oil and its successors, British american Tobacco, Rio Tinto, Dunlop, Lever Bros and Tate and Lyle. There was also increasing internationalization

of manufacturing . eg Scottish thread manufacturer J. P coats, UK companies like Courtaulds, Nobel, Vickers and Pilkingtons. The Japanese, German and French began in late 1980's.(Morgan: 556). The FDI flows took place mainly between developed economies and also towards East Asia and Latin American economies. The flows were related to manufacturing and services. Even developing economies have entered this foray: China, India, Phillipines, Thailand, Mexico, Brazil, Venezuela, South Africa and Egypt. Eg Chinese Lenovo that now owns the IBM pc brand, Indian Tata has taken over corus, Marcopolo (Brazilian company) that sells in more than 80 countries to name a few. (World Investment Report, 2006). China, India and Brazil are the sought after destinations for inflow of FDI (World Investment Report, 2011).

Nature of Operation

MNC's internal operations have been described as sophisticated decision making, complex ownership strategies. Initially firms were vertically as well as horizontally integrated. However with globalization the cost of such integration became apparent and hence came the adoption of subcontracting and franchise sale. There was increase in joint venture and acquisition activities. cost effective measure was adopted in an environment of increased competition. There was establishment of a networked operation with the help of technological convergence. According to a survey conducted leading factors influencing location of industry have been shown in table 1.

Table 1

Source : World Investment report 2011

This operation has resulted in global diffusion of knowledge that has enabled outsourcing, mass customization and deduplication. (Pervez and Ghari , 2000). Market servicing strategy involves ownership and location strategies where functions can be differentially localized. There has also been strategy of creating hubs that provides near markets and better source of information. If one market declines production can be switched to other markets provided the shocks affecting the national markets are independent and hub provides gains that only firms can achieve. (ibid: 87). There has also been an establishment of global commodity chains buyer driven dominated by retailers and brand names; producer driven chains dominated by monopolies and Oligopolies. (Rodriguez 1986)

Jill Rubbery points out the change in employment system from fordist to post fordist systems increased flexilbalisation of labor. The fordist model was characterized by standard employment contracts, hierarchical pay and standard working hours, labor acting as subordinate labor within the organization. This was established through trade union and collective organization backed by proper legislations and regulations. In case of post fordist employment structure there exists flatter hierarchies, flexible and extended working hours with diversity of employment contracts. 1980s and 1990s increased flexibility in labor hiring with the policy of hire and fire and proliferation of the informal sector. The flexible firm model (Atkinson 1984) was to provide firms with the segmentation of labor with experts in core areas given job security while those at the periphery performing unskilled jobs to be employed on flexible basis. This inturn has led to restructuring of labor supply. There has been an increased feminization of labor. They are

segregated to specific occupations in the entire process of production as a part of flexible part time jobs.

Morgan Glenn 2004, has tried to outline the approaches to study the nature of operations of MNC into hegemonic, hybridization and transnationalization. The first looked into how MNC's replicated their home based practices in the host country, the second approach looked into methods by which MNCs adopt and innovate according to host conditions, lastly translation provides an understanding of the internationalization of firms through 'embeddedness in the local institutional context' and 'standardisation and control from the headquarters.' Ibid: 566.

Impact on Space

The critiques of spatial spread of MNC often relate it to the spread of capitalism and neoliberalism. Works of Harvey, Sapna Banerjee Guha, Manuel Castell, dependency views tip in this direction. Harvey (2000) talks about a 'spatial fix' referring to the over accumulation of capital along with creation of uneven spaces. In other words spatial fix refers to the restructuring of spaces in a globalised world that has resulted in uneven development.

Physical displacement and Impact on livelihood of the evictees

One of the notable examples in this context is the construction of industries by MNCs in the tribal belts of India in the name of development that has induced displacement. This industrial fervor has sidelined the real ends in favor of capital accumulation and double digit growth. Increased

privatization is seen as a method of catching up with the developed economies by increasing efficiency un accounting the adverse impacts on local spaces. An estimated 40 million have been displaced since 1950 due to development projects of which 40% are adivasis and 25 % dalits, 75% are still awaiting compensation with deplorable plight of those without patta or land tittle. Around 70% of the total Indian population depends on agriculture for lively hood, burgeoning culture of SEZ (special economic zones) has created space on scarce land at the same time reduced occupational mobility of labor forcing him to sell his labor for meager wages in the absence of self owned means of production. Marginal and small farmers which constitute a majority of the agricultural population become helpless and tend to migrate to cities in search of jobs. Very often they are absorbed into the urban informal sector or rendered jobless reducing their sources of lively hood options. Further absence of labor legislations has forced labor to work in precarious conditions where they are subjected to hire and fire policy. Prior to SEZ act 2005 , there were 1143 units employing over 1. 7 lakh persons, private investment was around Rs. 5626. 24 crore, the current investment is around Rs. 83450 core employing 113426 persons. (Banerjee, 2008)

There is heightened economic insecurity with displacement as the personal disposable income of the write more family is reduced. As mentioned above most rural households are engaged in agricultural activities who depend on land for livelihood. Once displaced they are left with very limited options particularly when they are not hired by the company that has displaced them un the first place. Men usually end up migrating to cities while the woman

are left behind. Women in such conditions face high heightened insecurity and lack of work. Most tribals are engaged in forest related livelihood activities such as broom making, minor forest produce, bidi making, broom making and others. But with construction of factories and loss of forest area they are left with no source of income which often results in casualisation of labor. From a survey conducted in R&R colony (2009) constructed by Vedanta in Jharasguda district in Orissa prior to displacement main livelihood activity was paddy cultivation and kitchen gardening. Displacement and loss of agricultural land has halted all agricultural practices. As a result the displaced have to buy food which becomes an extra strain on the family expenditure. Other primary activities such as domestication of animals is also limited due to neighborhood problems. Similar cases were found in another resettlement colony constructed by Bhusan at Thelkoloji, Sambalpur district of Orissa. Bidi and Broom making was no longer practiced due to absence of forest are and subsistence farming lost with acquisition.

This shrinking can also be conceptualized in terms of their reduced opportunities for well being in in the face of limited choices.

There is loss in terms of access to common property resources which inturn puts pressure on their budget due to limited availability of fuel wood, fodder, minor forest produce and water.

There is often problem related to lack of sanitation and health . Very often resettlement colonies are built near factories spreading all harmful industrial affluents that could be a cause of serious health concern for the residents.

Problem related to defecating, bathing become evident especially for women

as they have to fix timings for such purpose which was the case before displacement.

Communities in rural areas live in a close knit society where social networks act as support systems in offering services such as child care, economic assistance, protection, information, sickness in times of crisis and need (Parsuraman, 1993). With the displacement of the entire village community fragments with breakdown of social networks.

In the absence of Resettlement and Rehabilitation act displaced groups become more vulnerable. In addition the R&R policies fail to look into gender aspects coalesced with patriarchal environment further shrinks economic and social spaces of displaced women.

Major multinational companies expected to engage in mining activities in India include Rio tinto (U. K), BHP (Australia), Alcan (Canada), Norsk Hydro (Norway), Meridian (Canada), Debeers (South Africa), Raytheon (USA), Phelps Dodge U. S. A.

The drive for exploitation of resource rich regions by private players has wrecked havoc for the residents there most effected being the tribals. This situation is not just in India but other parts of the world where profits takes precedence over people. Examples include : Dinka and Nuer in Sudan whose lands are being taken for oil mining, Mistiko lands in Nicargua for gold mining, mining on aboriginal lands in Australia, industrial plantations in tropical forests of Dayak people in Indonesia, coffee plantation on Montagards land in Vietnam, mining in North American Indian lands affecting

western shohone, Quenchan Nation, Mohawk and Zuni people. (Christopher Lakra , 1999)

Limiting the Opportunities of Well being of Workers.

The operation of MNCs are so strategically designed as to maximize profits at the cost of worker wellbeing. This is very well apparent in International Division of Labor that many dependency theorists conceptualized. The shrinking of the opportunities and deteriorating of standard of living is well evident in the working conditions characterizing sweat shops.

International Division of Labor

The global labor force has increased from 2. 74 to 3. 21 (1999-2009) billion with 56. 3 % located in Asia with the annual rate of increase of 1. 6%. ; at the same time global unemployment by 30 million (Economist Sept 15, 2010).

“ Multinationals exploit region specific characteristics of poor countries on an international scale in the name of global production.” -Guha, 1996.

It is important to note the nature of increased flow of capital in developing economies that creates volatile conditions which directly impact labor, impact on regional disparity, its relation with the governments of host countries and nature of employment they create. Multinationals claim that host countries would be benefitted by the entry of technology, management, capital as part and parcel of economic modernization that will further create employment opportunities. Critics on the other hand claim that the State has become subservient to international capital, creating geographies of underdeveloped enclaves and exploitative division of labor.

Spatial spread of MNC is determined by its manpower, resources, market and material. Accordingly their activities have been situated globally depending on the place specific opportunities that in turn has resulted in international division of labor. Chandler and Reich (1961) conceptualize the production process into three levels of activities: Level I activities that involves the decision making or the headquarters mostly situated in metropolises of parent countries, Level II activities involves the coordination of regional activities located in the metropolis of host countries and Level III activities include lowest level day to day operations situated mostly in the regions of abundant cheap labor or resource rich areas. This division in production process has resulted in division of labor operating in different ways in the capital and labor intensive sectors. Capital intensive skilled activities get clustered in highly unequal international space. MNCs higher engineers from Asian economies at half the price that they would have to pay in their home countries. As a result it decreases demand of skilled labor in their home countries while hiring skilled manpower at low rates in host countries. In labor intensive operations has given rise to increased formalization of labor and swelling of the unorganized sector through the strategy of subcontracting. Ettliger has termed this as a 'non fordist strategy' that involves use of both the organized and unorganized labor thus creating crises in the organized sector of both the home and host country. Eg Profits of MNC's have increased but the employment has reduced. Between 1986-89, General Electric's employment fell from 373000 to 292,000 while its revenue increased from 42 to 55 billion dollars. AT and T reduced employment while raising its revenue by 3 billion dollars. IBM and Fiat trudged the same path of increasing revenue but trimming jobs. Since 1980's Procter

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and Gamble India has diversified its activities and engaged in subcontracting hurting the organized labor in the factories. Most products of P&G were now being produced by unorganized labor in Hyderabad and Mumbai as a result of which the Kalwa Plant in Mumbai closed down in 1994 making some 300 odd workers unemployed. (ibid: 23). Harvey points out that there has been a significant increase in workers employed in the export and import oriented industries that has created global market for labor where countries compete for cheap labor and global competition that has further pushed down wages. With this has come an increase human rights violations with poor working conditions in areas of subcontracting.

Labour Conditions within this Multinational operation.

More than 70 workers were found working in virtual slave like conditions, behind barbed wire fences, producing million dollars worth garments for retailers like Neiman Marcus, Filene's and Montgomery Ward." (New York Times, 1995)

Violation of labor rights takes place in the form of longer working hours, poor working conditions that has negative impact on the health and safety of workers. Reports of human rights abuse from Nike supplier factories, underpayment of wages by subcontractors in Indonesia, use of child labor in production of soccer balls in Pakistan, exposure of workers to dangerous chemicals in China and Vietnam. (Mosley 2011). Such sweat shop like conditions are present across the globe and women workers are worse treated. This has also resulted in increased illegal trafficking of women; in a bid to escape poverty in home countries but in turn become slaves in such sweat shops. Eg trafficking of Thai women to Japan as cheap laborers and are <https://assignbuster.com/spatial-spread-of-multinational-corporation-economics-essay/>

forced to work without pay till they have repaid their debts. (Human Rights watch, 2000). In central and South America similar sweat shops are present. In 2000 Bolivian girls were rescued out of textile factories in Buenos where they were being subjected to slave like conditions, underfed, working 19 hours and abused often. Guatemala coffee growers working on starbucks coffee plantations are underpaid. (ibid)

Wal Mart has been accused for underpayment and poor working conditions in Chinese factories. Workers are paid a paltry \$. 13 an hour) (China Daily, 2009). Thus, neither the U. S. government nor consumers are able to discern how bad the conditions really are. The Gap produces clothing in six factories in. cases where workers are paid as low as \$. 11 per hour and in Honduras Gap workers have to undergo pregnancy tests and work overtime making \$4. 00 a day. (Global Exchange 2000).

William . P. Blade (1987) points out the problem for developing countries may not arise because MNCs are institutions of capital accumulation but when capital is diverted away from host countries. There has been increase in flow of capital towards developing countries since 1970s propelled by technological advancement and neoliberal policies. According to Tinbergen report MNCs extract 50-100 billion dollars from developing countries annually. (Guha, 1990). A notable example in this case would be the impact of financial crisis on the Asia's labor market. (Hyun et al, 2010). Exports have played a major role in the Asian success.

Source: World Trade Organization Data Base, 2008

In 2008 as consumer demand in developed economies plunged Asia's exports fell sharply. China 25%, Thailand 25%, Indonesia, Malaysia and Phillipines to 26-32%. As a result many firms resorted to cutting back productions through closures effecting labor and remittances flow that are major sources of income for poor households in developing countries 11% Tonga, 11 % in Phillipines and 5-10% in Bangaldesh, Srilanka, Vietnam and Mongolia.

Decline in Exports of Asian Economies

Source: ibid

FDI that accounts for major share of the gross fixed capital formation of Asian economies also declined in 2008. FDI is expected to contract by 30%. As a result of the economic melt down employment in key export oriented sectors as part of the regional, national and global chain have shown a decline. In China 20 million have been retrenched and force to move to rural areas. There has been an increase in reverse migration and workers. In Malaysia there has been a for fold increase in the number of layoffs. In Indonesia bulk of layoffs was reported in the textile industry exceeding 2, 37, 000. In case of Cambodia employment in garment sector contracted by 15% , similar was the case in Thailand.

Impact on Employment (Asian Economy)

Source: ibid

The largest change in the percentage of Unemployed has been Singapore followed by Japan and Korea. Casual workers have been the worst effected <https://assignbuster.com/spatial-spread-of-multinational-corporation-economics-essay/>

as it is easier to lay them off in absence of proper legislations as well as absence of social security nets. This has also led to shrinking of labor market for the youths as the large number of unemployed chase for scarce jobs. Many firms are also resorting to unpaid leave however such have a negative impact on those who do not enjoy employment benefits.

More and more workers are thus getting absorbed into unorganized sectors. In Indonesia the numbers in the unorganized sector swelled by 7.3% as compared to the organized sector 1.4%. In Thailand the increase was 3.2% in own account workers and 3.3% for contributing family workers while the organized employment grew only by 0.6%. The result of falling incomes has resulted in rise in poverty. More than 52 million workers live just 10% above the poverty line (\$1.25 per day) while more than 40 million live above 20% above that line. (ILO, 2008). In times crises poor households often cut back on expenditures on health and education, there has also been an increase in child labor as families resort to such alternatives. The number of workers in the unorganized sector in Asian region could range between 1.1 - 1.2 billion (2009 figures).

Decline in Exports of Asian and African LDCs

ILO Report, 2011

The above table reveals that merchandise exports for African and Asian LDCs slumped post 2008. Despite recovery the unemployment trends have persisted both the African and Asian countries. (table below) In both regions female labor has been more affected for Africa 7.5% and Asia 4.2% as compared to 6.3% and 3.9%.

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Employment in Asian and African LDCs

Source : ibid

Role of the state

In this entire discussion of operation of global processes one cannot escape mentioning the role of State and its response.

The spatial spread of MNCs also depends on the policy of the host countries and the investment friendly environment. It is impossible for an economy to remain isolated from the rest in this era of globalized world even though the terms of engagement may not be equal. Political economy of the world has created such conditions where governments of host countries are losing out in the bargaining process with the MNCs. During the era of import substitution and protectionist policies state exercised upper hand over the bargaining process to channelize the benefits of private investment to serve development objectives. Contemporary globalization and the push for neoliberal agenda has transformed the state from a initiator to facilitator of development. Haslam 2009, outlines three approaches to study the relationship between state and MNCs : the irrelevance of bargaining, displacement of bargaining and maximization of bargaining. The irrelevance of bargaining implies that the state and MNCs no longer share a conflictual relationship but rather a cooperative one. This can be seen in the adoption of more neoliberal policies and realizing the role of private players in promoting growth. The second approach talks about the displacement of bargaining from state - firm towards between states during bilateral and multilateral trade where states protect the interest of the firms. Maximization approach

points towards increasing bargaining power of MNCs or constraints on ability of the state to act. In Argentina till 1990 private players were virtually absent and mining was state activity, however Argentina abandoned the state led model with passing of huge legislative reforms in 1993. Government of Catamarca province tried to increase royalties from Bajo Dela Alumbreira project (private mining company) but met with resistance. The federal government fearing loss of investment sided with the mining company. In Chile change in power in 1973 led to privatization but it is only in 1990's that Chile experienced a mining boom. There was a proposal to increase taxes but was here again it was met with stiff resistance and government had to abandon the proposal. (Haslam, 2007)

Lenway and Murthy (1994) on the other hand see the state as a strategist making choices between : authority v/s market, communitarism v/s individualism, political v/s economic objectives and equity v/s efficiency. (Pervez and Buckley 2000) This reveals that ability of state to bargain is highly constrained. Very often governments of host countries themselves facilitate this process. for eg In Korea labor reform introduced in 1996 that in away allowed casualization of labor along with hire and fire policy. The reaction of this legalization was massive unemployment since 1966 (Tat Yan Kong, 2006). Labor market in Taiwan resulted increased competition among workers as 42 state owned enterprise were privatized. This effort of labor market liberalization falling of employment from 3. 1 to 2. 3%. In Vietnam introduction of Doi Moi syatem caused labor restructuring due to privatization leaving 1 million workers in the state sector unemployed between 1988 -1992. The educational gap further segmented the labor

where the educated entered the state sectors and the less educated ended up in casual employment. Women were the hardest hit as work participation among women to be very high (It was 74% in 1989 that came down to 60% in 1996). They were forced to enter insecure jobs with loss of employment benefits such as maternity leave and child care provisions. (Oudin, Xavier, 2004).

Conclusion

Given the shrinking spaces in terms of well being of workers and spatial spread of MNC under conditions of increased global competition that is out to utilize cheap labor; weaker state capacity and poor implementation of labor legislations are major reasons for deplorable condition of workers. This is evident from the fact that very few MNCs consider labor regulations as an obstacle towards investment in developing countries. The prescription usually advised is a step towards improving these conditions : firstly to recognize informal sector and the various forms of jobs that come under it. Secondly there is a need to improve social security benefits of workers more than increasing productivity in such activities that would improve their standard of living. There is also an argument that legislation in developing countries are stricter but without proper employee protection. Minimum wages is one of the tools used but it must also be noted that minimum wage legislation compliance, the penalties for non adherence, whether covering the informal sector etc. employment effect of minimum wage legislation can actually exacerbate unorganized sector employment while having a negative impact on the organized work force as employers look more towards cost cutting.

Thus there needs to be more robust alternatives in the form of social security nets cushioned with minimum wages and more importantly unorganized sector must be included. This will thus mitigate shock to labor sector in terms of crises.

With regard with the issue of displacement due to construction of setting up of extractive industry there needs be proper facilities provided post displacement to the evictees. Apart from compensation proper training facilities, employment facilities in the factory as well as proper resettlement colony with provision of all basic necessity must be provided. Here the role of the state must come in to ensure that such benefits and compensation are provided. The above discussion reveals the multitude problems emerging due to increased privatization where the state also becomes a business partner rather than placing welfare as a priority. However solutions to such issues are not easy and requires further study the area of MNC - State relationship in a globalized world. Globalization is a process that one cannot choose to escape; unequal processes such as this spatial spread are a part of it. Perhaps a better approach towards examining the process would be to understand the global structure of inequalities in which LDCs are embedded into, whether structural adjustment is actually required? Whether receipt of loans from world Bank is worth succumbing to debt cycle ? if there is a need for setting up of large scale industries ta such massive rate? These questions do not have easy answers but still need to be probed as technical fixes are necessary but not sufficient.