# Do multinationals develop or victimize the developing countries?

Globalization as a new form of internationalization has a variety of features that are manifested in the economic, social and political realms. One of the economic manifestations of globalization is what we call multinational corporations (MCNs) or transnational corporations (TNCs). These are corporations or enterprises that manage production or delivers services in more than one country. Giant corporations such as Microsoft, Uniliver, and Total are just a few examples of MNCs. While MNCs are conceptualized by free market economists as drivers of economic growth, Marxist and dependency theorists concentrate on their destructive side. This paper attempts to argue the case that MNCs are causing more harm than good for the developing countries. The paper uses both theoretical and empirical evidence from the developing world to justify the case.

## 1. 2 Theoretical and Empirical Viewpoints

From the free market point of view, the increasing economic interdependency between states, all-round growth maximizing and beneficial operations of the worldwide market system is indispensable for growth in all domains of life. According to David Ricardo with his theory of the comparative advantage, each state has a certain economic advantage over another. While one country might be good at producing weapons for self defense, another one is good at producing oil that is important for running machines and industrial plants for the country that manufactures weapons. Therefore, the two countries have economic advantage over each other. However, this advantage is useless unless the two countries exchange their treasurers. Thus, it is through exchange that the comparative advantage becomes beneficial to countries that agree to exchange their advantages.

This is a normal logic of international business embedded in the operations of MNCs around the world (Hoogvelt, 1997).

However, this view has been challenged by structural worldview. Structural world view subscribes to the Marxist theory that views the world system as constituted of units/states which have structural relationship predetermined by the world capitalist economy. This view is called structural because it challenges the assumption that national societies constitute “ independent” units endowed with comparative advantage. Structuralism posits that states cannot be understood without taking into account the systematic ways through which these societies are linked to another in the context of an ever expanding network of material (economic) exchange.

**It is in this lens that structural scholars such as Emmanuel Wallenstein (1982) view the world as basically divided into three tiers i. e. the core, semi-periphery and periphery countries. According to Wallenstein core countries are capitalist/developed countries such as USA, Canada, Germany and France. Core countries monopolize technology as well as capital that they use to exploit the semi-periphery and periphery countries through the exploitative agents – MNCs. Semi-periphery countries on the other hand are countries that are in the middle of core countries and poor countries. The role of semi-periphery countries is to mediate interactions between core and periphery countries. This is the case for South Africa for Africa and countries such as Hong Kong and Singapore for Asia. The last stratification of countries is what Wallenstein calls periphery countries. These are countries in the developing world in which capitalist companies invest their capital. Most of African countries fall in this category. According to Wallenstein, the operations of MNCs in periphery countries are detrimental rather than beneficial to the growth of their economies.**

**The Economics (2009) gives the following arguments for Multinational Corporations in developing countries.**

They provide an inflow of capital into the developing country. E. g. the investment to build the factory is counted as a capital flow on the financial account of the balance of payments. This capital investment helps the economy develop and increase its productive capacity.

The Harod Domar model of growth suggests that this level of investment is important for determining the level of economic growth.

The inflows of capital help to finance a current account deficit. (foreign investment enables developing countries to buy imports)

Multinational corporations provide employment. Although wages seem very low to us, people in developing countries often see these new jobs as preferable to working as a subsistence farmer with even lower income.

Multinational firms may help improve infrastructure in the economy. They may improve the skills of their workforce. Foreign investment may stimulate spending in infrastructure such as roads and transport.

Multinational firms help to diversify the economy away from relying on primary products and agriculture – which are often subject to volatile prices and supply.

Despite these arguments, the author confesses that, the arguments against the benefits of MNCs in the developing world are stronger than those advocating for the positive side. Taking that in mind I side with the structural world view to argue that MNCs in the developing world are doing more harm than good. The rest of this paper concentrates on the empirical justifications on how various operations of MNCs in developing countries has ruined the societies instead of bring up the promised comparative advantage. In the main, I survey various experiences from Africa, Asia and the Caribbean countries. The discussion is structured along various types of MNCs ranging from mining, telecom to manufacturing companies.

Countries rich in minerals such as cobalt, coltan, cassiterite, copper, and gold are often marred by corruption, authoritarian repression, militarization, and civil war. Rebel groups, governments and mining companies exploit mineral resources, fueling civil and interstate conflict as players vie for control over riches. Countries such as the Democratic Republic of Congo and Ivory Cost have fallen victim to rebels who use revenue from minerals such as diamonds, coltan and cassiterite to purchase arms and fuel conflict. Governments often establish repressive military regimes in mineral producing regions to protect their “ national interests,” but local populations rarely see the profits and are subjected to environmental damage wrought by corporations.

The statement by one of the miners from Shabunda summarizes the agonies that poor countries suffer under the operations of MNCs specializing in the mining sector. “ We are their meat, their animals. We have nothing to say” (Miner from Shabunda, South Kivu, 28th July 2008). Over 12 years, MNCs in Congo have been supporting conflicts so as to facilitate looting of minerals. Conflicts have led to drastic human rights abuses such as indiscriminate killing of civilians, rape, torture, recruitment of child soldiers and increased number of refugees and internally displaced population. However, the destination of these minerals is in the international markets in peaceful heaven in Europe, Asia and North America (Global Witness, 2008).

For example, comptoir’s – trading houses based in Goma and Bukavu – customers include European and Asian companies, such as the Thailand Smelting and Refining Corporation (THA ISARCO), the world’s fifth largest tin-producing company, owned by British metals giant Amalgamated Metal Corporation (AMC); British company Afrimex; and several Belgian companies such as Trademet and Traxys. These companies sell the minerals on to a range of processing and manufacturing companies, including firms in the electronics industry (Ibid.).

More interesting is that metals extracted from coltan, cassiterite and wolframite are used by the manufacturing MNCs to manufacture cell phones. Theses phones are exported to developing countries and purchased at yet expensive prices. This is evidently double exploitation of developing countries exercised by the increasing number of MNCs in these countries.

While for Congo MNCs are reaping in conflict for Tanzania they are reaping in peace. There have been pressures from various groups trying to influence the government to review the mining policy, contracts, mining legislation as well as the taxation system. One area of contention has been the poor relations between large scale mining investors and the communities surrounding the mining sites. There have been also instances of disagreements between small and large scale miners, investors and mine workers, and conflicts between investors and other land users (The Presidential Committee Report, 2008). In addition, concerns have been expressed by members of parliament that the government receives a commission of only 5% for gold and 3% for other minerals. This percentage is negligible when compared to what the mining companies get (Ibid.).

On the other hand the mining companies have been causing serious environmental degradation that threatens the lives of the people living around mining sites. For example, the Barrack Goldmine in the North Mara Mining site has been accused that the mine’s tailings dam is leaking Sulphiric acid into the Tigithe River, which eventually flows into the largest tropical lake in the world – Lake Victoria. The leakage is believed to have caused the deaths of at least 20 local villagers and more than 250 heads of cattle. One citizen was quoted claiming; “ We have no problem with investors, says Esther Mugusuhi, one of the affected villagers.” But (they) must respect and treat us like human beings. These Canadians are killing us…they are not doing business. I used to work productively in my farm, but I am now a dependent person…all because of the investors.”[1]This is the evidence that Multinationals are seeking for profits rather than helping to boost Tanzania’s economic growth.

Some companies have been responsible for exporting fake products in developing countries enabling them to make huge profits on the expense of the lives of the people. In the latest incidence a case that saw Zhang Yujun and Geng Jinping executed. This was one of China’s worst-ever food safety scandals involving tainting of infant formula with industrial chemical, melamine, which experts say can cause kidney stones as well as kidney failure. The sale of S-26 formula led to the death of 3 children in China and about 3, 000 others fell sick. The S-26 formula milk has been imported in Tanzania as well.

Some corporations make the developing world as the dumping pit for wastes from their industries. For example, BBC Newsnight uncovered evidence revealing that oil-trading company Trafigura knew that waste dumped in Ivory Coast in 2006 was hazardous. Trafigura had persistently denied that the waste was harmful but internal e-mails show staff knew it was hazardous. The chemical waste came from a ship called Probo Koala and in August 2006 truckload after truckload of it was illegally fly-tipped at 15 locations around Abidjan, the biggest city in Ivory Coast. In the weeks that followed the dumping, tens of thousands of people reported a range of similar symptoms, including breathing problems, sickness and diarrhoea. The incident caused at least 100, 000 residents from the West African country’s capital Abidjan, to flood into hospitals and clinics complaining of breathing difficulties and sickness. Investigations by the Ivorian authorities suggested that the deaths of at least 10 people were linked to the waste. Trafigura, is a London-based company which is one of the world’s largest oil traders

## Conclusion

From the theoretical and empirical we can tentatively conclude that the prime goal of MNCs is not to help developing countries to get out of poverty but to maximize profits on the expense of the lives of the poor people. This is in line with the structural thinking that the periphery countries are assigned a function of feeding the core countries. It is a challenge for developing countries to find out the ways in which MNCs can work profitably for the interest of the people. Anecdotal evidence reveals that, the governments in the developing world have also been responsible for allowing MNCs to commit the evils. Corrupt regimes are to blame for collaborating with the MNCs in facilitating the scandals.