Transnational corporations (TNCs) are one of the most important actors in the global economy, occupying a more powerful position than ever before. In their persistent battle to increase profits, they have increasingly turned to the developing world, a world that holds many attractions for them. In this article, John Madeley* analyses the economic, social, and cultural effects of TNCs on the world’s poor. He argues that transnational corporations have used their money, size and power to influence international negotiations and taken full advantage of the move towards privatisation to influence the policies of governments. The most serious charge, however, is that they have especially used their power to effectively cause hardship for millions of the poor in developing countries.

Fifty years ago, only a few hundred transnational corporations existed. Today there are some 65,000 of them, with about 850,000 foreign affiliates across the globe. Sometimes called multinational organisations, they operate “across national boundaries in a context of nation states” and are engaged in almost every economic activity, most notably in agriculture, foodstuffs, fishing, forestry, pharmaceuticals, mining, manufacturing, energy, tourism, transport, and financial and other services.

Mostly based in Western economies, TNCs now occupy a powerful position in the global economy, accounting for around two-thirds of international trade. While most are comparatively small, some are huge. In 1999, 51 of the world’s 100 largest economies were corporations, 49 were governments. One of the largest companies, General Electric, had revenues of $126 billion in 2001, more than the combined national incomes of sub-Saharan African countries, except the Republic of South Africa.

Foreign direct investment (FDI) is dominated by transnational corporations. With TNCs boosting their investment, FDI in developing countries has increased dramatically in recent years. But FDI is highly concentrated: about 80 per cent has gone to only ten developing countries, while the smallest 100 recipients have received only one per cent. Almost two-thirds of the FDI to developing countries went to Asia, only five per cent to Africa.

Size matters

The size and nature of the corporations, the jobs they offer to create, and the taxes they might pay make for an unequal relationship between TNCs and the governments of developing countries and their peoples. When a government negotiates with a TNC that is thinking of investing in its country, the negotiations are skewed in favour of the corporation. This raises questions about whether corporate power enables them to effectively subvert democracy.

TNCs tend also not to consult local people about their plans. Even the affiliate of a TNC that operates in a developing country may have little say over how its company is run. Most decisions, the outcome of which affects the behaviour of foreign affiliates, are taken by their parent companies on the basis of information and expectations known only to them. David Korten describes TNCs as “instruments of a market tyranny that is extending its reach across the planet like a cancer, colonising ever more of the planet’s living spaces, destroying livelihoods, displacing people, rendering democratic institutions impotent, and feeding on life in an insatiable quest for money”.

The case for TNCs rests on the theory of comparative advantage – that everyone gains when countries specialise and that TNCs help in their specialisation. But the theory of comparative advantage has lost its credibility; countries have specialised economically but people have not gained. Furthermore, when TNCs invest in the economies of other countries, they do so because they believe that a profitable operation is possible. The money invested by a corporation is often not its own – it may have been borrowed from banks in developing countries, reducing the amount of money that the banks have available to lend to smaller business in their country.
Neither can TNCs be relied on to stay in a country, as they tend to be less interested in the long-term sustainable operations in any one country. They are more concerned about their own profit than with the welfare of a host country. Corporate efficiency is good for profits but it can drive small-scale companies in developing countries out of business. A new TNC-owned factory may create jobs but at the cost of existing jobs in locally-owned factories. A net gain of jobs may not result. While foreign direct investment has created more than 12 million jobs in developing countries, many of the newly created jobs have often displaced workers in competing domestic industries. According to an International Labour Organisation (ILO) report, the role of TNCs in job creation is "at best marginal". ILO points out that if TNC employment is growing at all, it is "due to acquisitions and mergers rather than to new employment opportunities".

Changing the life of the poor

TNCs have been powerful enough to lead industrialisation in some countries. But there is evidence that such TNC led industrialisation in several Asian countries has been achieved at a severe cost to agriculture and rural development. Governments have tended to keep farm-gate prices low, both to save money for industrialisation and to enable workers in the new export-orientated factories to have cheap food and not demand high wages.

Of particular significance is that the presence of TNCs in poorer countries has widened internal inequalities. Almost all the studies that have been done on the effects of FDI have concluded that it has led to an uneven income distribution in developing countries. TNCs produce goods and services for those who have purchasing power; they cannot meet the basic needs of people who do not have the money to express their needs in the market place. The corporations apply their knowledge to make comparatively luxury goods and services. The nature of their products and knowledge may create biases against the poor, very few of whom are its direct customers, employees or sources of supply.

Governments of developing countries may seek to attract TNCs because the corporations can provide the capital that a country lacks to invest, for example, in activities such as manufacturing and prospecting for mineral deposits. Attracting TNCs demands that governments allocate resources for the purpose; this means there is less for other sectors of the economy, such as agriculture, education and health care. Exporting processing zones have been set up with the aim of creating jobs and increasing export earnings. Five, even ten-year tax-free arrangements have been offered to TNCs to attract them into these zones, plus the promise of cheap, non-unionised casual labour.

Most of the jobs in such enterprises tend to be low-skilled, low-paid, and geared to a particular company operation. "Advanced" technology is used on mass production lines. A worker will perform a small, specialised task of a large operation. Such tasks are likely to turn workers into little more than the arm of a machine and not necessarily equip them with skills they can use elsewhere, in domestic enterprises for example.

Impacting the WTO agenda

Transnational corporations are powerful enough to exert considerable influence on the agenda and rules of the World Trade Organisation. While it is corporations rather than countries that trade, the WTO is made up of countries. WTO decisions are usually in line with corporate expectations. Government ministers and their officials conduct business at WTO meetings under the gaze of representatives from major corporations who may even be part of the official delegation.

The company people expect to be heard when they lobby for decisions that help their business. "The role that TNCs can play in a nation’s economy can make their host government a very accommodating and attentive audience; the corporations have much more access to WTO decision-makers than citizens groups and NGOs", says Myriam Vander Stichele of the Transnational Institute.

The WTO’s Trade-related Intellectual Property Rights (TRIPs) agreement was largely written by a consortium of corporations. It gives TNCs the right to protect their patents in WTO member countries. But the consequences of this for developing countries are serious. It can hinder the development of a local drugs industry, for example, and farmers who plant crops that have been patented will have to pay royalties to the patent holder, even though farmers and their ancestors may have grown and helped to develop those crops for centuries.

WTO rules are based on the principle of non-discrimination – countries are not allowed to discriminate in favour of domestic companies, to the detriment of foreign companies. Under the WTO’s Trade-Related Investment Measures (TRIMS) agreement, any support, any special treatment that governments offer to their domestic companies they have to offer to TNCs. This agreement elevates trade policy over development policy, hindering the development of local industry. The rules also mean that TNCs are under no obligation to use local labour or materials – they can shop around for the cheapest possible source.

Responsibility, accountability, codes and regulation

To improve their image, TNCs now talk more about corporate responsibility. The phrase is common in company reports. But especially when there are no changes in company policy on the ground, "corporate responsibility" may be nothing more than public relations. Thus, the debate "should shift its focus away
from corporate responsibility towards corporate public accountability”, argues Judith Richter, author of a recent paper ‘Dialogue or Engineering of Consent’; “it should move away from relying on corporate statements of intent towards creating legal and political institutions to monitor and sanction socially- and environmentally-harmful corporate practices”.

Corporations should be accountable to society if they expect to win the respect of society, but there is no international regulation of TNCs. Corporations often plead that they can regulate themselves, that they can be trusted. But industry self-regulation is not possible when it interferes with maximisation of profit.

Some TNCs – manufacturers of toys and shoes, for example – have drawn up codes of conduct. They have done so, however, without any system of independent monitoring, making them of limited value. Codes of conduct are insufficient. TNCs are “too important and too dominant a part of the global economy for voluntary codes to be enough... they need to be brought within a framework of global governance, not just a patchwork of national laws, rules and regulations”, says the UNDP Human Development Report 1999. Corporations need to be regulated at the international level if their power is to be harnessed.

“A new global body is needed to oversee the regulation of multinational business, to ensure that its activities safeguard people’s basic rights and contribute to the eradication of poverty globally”, recommends the UK-based aid agency, Christian Aid. “The regulation of transnational business is perhaps the most pressing problem of globalization… never in human history has a comparatively small number of private corporations wielded so much power. The power of the TNCs needs to be brought under democratic control”.


Mining the poor

Mining is the world’s fifth largest industry. It is also, by its very nature, one of the most environmentally destructive activities. In recent years, TNCs have increasingly moved to the Southern hemisphere where the opportunities are larger and the mining industries are less regulated; the environmental standards that are expected of the companies in the North do not apply in most of the South.

In the wake of liberalisation and privatisation, governments of developing countries, which were once suspicious of mining TNCs, are now changing their laws, easing their regulations and offering tax concessions to attract them. Since the beginning of the 1990s, 70 countries, including 31 in Africa, have opened their doors to international mining companies, and governments are selling state-owned mines at a rapid pace.

Most mining is high-tech, open-cast and short-lived, and dependent on volatile markets. Large-scale mining can create havoc with the lives and cultures of people in mining areas. During the last hundred years, mining has meant that probably 100 million people, most of them in developing countries, have been removed from land where they lived and farmed. In many cases the land was forest, which again had to be removed. Mines produce huge waste dumps, which are often health and safety hazards, threatening, for example, to slip down hillsides. They can contaminate water sources, both near the mine and far away, sometimes very far away from the immediate area of a mining activity.

Sustainability is not high on the agenda of mining TNCs, and the world is hardly awash with mining companies with good records. Responsible mining is needed in which the corporations seek the consent of local people before mining begins. The World Bank and International Monetary Fund could help by not giving loans for a mining operation unless local people have been consulted. International regulation of the industry is necessary to ensure labour and land rights and strict environmental standards. The world may need the materials that mining produces, but the people in mining areas should not be expected to pay for them with their livelihoods and cultures.

Mining in Zambia.

Some countries see the privatisation of mines as a central plank in their economic strategies. In 1998, Zambia was pinning hopes of economic recovery on privatising its state-owned copper mines.