

# **UN COMMITTEE ON TRADE AND DEVELOPMENT**

## **MULTINATIONAL CORPORATIONS (MNCs) IN LEAST DEVELOPED COUNTRIES (LDCs)**

### **Introduction**

Multinational corporations (MNCs) are large companies that conduct their business operations in several states. Although transnational corporations (TNCs) are commonly thought to be synonymous with MNCs, they are in fact different in several regards. The primary defining factor is that they keep their financial headquarters offshore to protect them from taxes. Thereby, they lack financial accountability to the states in which they conduct their primary operations. Ideally, MNCs would truly be global in nature; operating across borders with no single national emphasis. However, this is rarely the case. Generally, these countries are dominated by a parent company, typically in the developed world, through which they conduct the bulk of their research and to which they often repatriate profits.

It is the highly centralized nature of these corporations that is often the cause of international concern. Although they have the ability to stimulate the flow of investment, technology, profits, and more, they tend not to experience a sense of loyalty to, or responsibility for, the citizens of the countries in which their subsidiaries reside. Hence, they are often more likely to close branch plants abroad in times of economic downturn than to close plants at home.

A key concern with regards to MNCs is their mobile nature. Logically, they tend to establish subsidiaries in countries where conditions are most favorable to their business operations. Furthermore, in their negotiations with the government of the host country, their ability to pick up and leave provides them with a great deal of leverage over states dependent on the jobs they provide.

Host governments do have some bargaining power, but, particularly in developing nations, where economies are often weak, the concerns of the host government over how the MNC operates in their country must often take a back burner to investment concerns. Therein lies the risk of exploitation. After all, some of these large corporations are more important economic actors in global affairs than are many states.

MNCs are an important vehicle for the movement of direct foreign investment. With direct foreign investment, a firm in one country creates or expands a subsidiary in another through the use of international capital flows. The distinctive feature of direct foreign investment is that it involves not only a transfer of resources but also the acquisition of control. That is, the subsidiary does not simply have a financial obligation to the parent company; it is part of the same organizational structure.

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### **History**

The modern multinational corporation has its roots in the East and West Indies traders of the mercantilist era of the 16th-18th centuries. These were rarely multinational, and often instruments of colonialism. However, traders of the maritime nations of that era led the expansion of trade, which occurred with the age of discovery and the development of accurate long distance navigation at sea.

The coming of the industrial age saw the need to capture markets for an expanding output of basic manufactures. Improvements in ocean and continental transportation and emerging thought about free trade as an element of political and economic freedom, also gave rise to the first rudimentary MNCs. Possessing multiple markets and raw material sources, the ownership, management and capital of these early MNCs was still largely limited to the nation of origin. They often enjoyed direct or indirect government support by means of tariffs, investment and financing.

By the end of the 20th century, and with many former government monopolies in telecommunication, power generation and transport expanding into international markets, the multinational corporation dominated world trade in goods and services. They account for 70% of total foreign trade of \$ 7 trillion. Their operations range from mining, manufacturing and energy to modern financial and communication services of all kinds. They are truly multinational in all major respects.

### **Current Situation**

“While multinational corporations would prefer to comply through voluntary initiatives, the public interest can only be fully served through stronger regulation and monitoring,” said Peter Utting, research coordinator at the UN Research Institute for Social Development (UNRISD). Many companies have mastered socially responsible rhetoric, he said, but few have taken action. According to ‘Visible Hands’, the name of the report, only a small proportion of companies have introduced corporate codes of conduct. Even when they do, these tend to be narrow in scope and are often not independently verified, he said. Although MNCs have dramatically influenced the economic growth and prosperity and increased employment of LDCs, the lack of ethical considerations have allowed MNCs with too much control and power.

“Ultimately, most corporations will only respond to stronger regulation and to close monitoring by NGOs (non-governmental organizations), trade unions and consumer groups,” he added.

Labor, environmental, and consumer groups worldwide have long advocated for legally binding regulations for industry, in light of the growing power and mobility of multinational corporations.

Citing examples like Union Carbide’s gas leak in Bhopal, India that killed about 15,000 people and Shell Oil’s link with human rights abuses and pollution in Nigeria, NGOs say international binding rules for corporations are long overdue.

According to the UNRISD report, some 60,000 corporations now account for more than one-third of world exports. Their annual turnovers dwarf the Gross Domestic

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Product (GDP) of many countries. In 1998, the top five corporations had annual revenues that were more than double the total GDP of the 100 poorest countries, the report said.

The report echoes some recommendations made in the 1999 Human Development Report that called for a multilateral code of conduct, arguing that multinational corporations are “too important for their conduct to be left to voluntary and self-generated standards.” Soon after the 1999 report was released, Annan dismissed the recommendations as unnecessary and instead promoted his ‘Global Compact’ that challenges business leaders to enact nine voluntary principles derived from UN agreements on labor standards, human rights and environmental protection. “What we have to do is find a way of embedding the global market in a network of shared values,” he said to an audience of finance ministers and CEOs, at the World Economic Forum held in 1999 in Davos, Switzerland.

Many of the world’s largest business associations, including the International Chamber of Commerce have endorsed the Secretary-General’s Global Compact. But according to the UNRISD report, “there is a danger that corporate self-regulation, as well as various partnership arrangements, are weakening the role of national governments, trade unions and stronger forms of civil society activism.”

Left to their own devices, multinational corporations are likely to fulfill their responsibilities in a minimalist and fragmented fashion, said the report. “They still need strong and effective regulation and a coherent response from civil society,” it said. Corporate social responsibility should not just be about standard setting and compliance, it added. “It should also be about companies paying rather than avoiding taxes to welfare-minded states.”

Along the Mexican-United States border, for example, where US companies have set up factories in tax-free industrial zones, many of the municipalities lack adequate funds for proper infrastructure and schools. The government therefore cannot provide necessary public services to the influx of people seeking work in the area's maquiladoras. “Much of the rapidly escalating wealth of corporations is not being tapped by the state for social purposes,” said UNRISD .

Marcello Palazzi, president of the Progressio Foundation, said that even if companies adopt codes of conduct they still work in a framework that is unsustainable. Palazzi, whose Foundation works with companies that want to develop codes of conduct, said that the Wall Street-dominated stock market system under which corporations operate works against sustainable and socially-just development.

“The framework is everything,” said Palazzi, speaking at the gathering of NGO representatives - the Geneva 2000 Forum. Government taxation systems also discourage corporations from socially and environmentally sustainable operations, he said. “We are still penalizing labor and under-taxing national resource use,” said Palazzi . He talked of the need for international legislation to regulate the growing concentration of corporate wealth and power.

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“If we have transatlantic mergers, we need to have global competition and anti-trust legislation,” he said. NGOs must find a way of refocusing the debate toward developing international binding standards for multinational companies and away from voluntary corporate initiatives, added Judith Richter, an author who came to the Forum from Germany. Earlier this year, UN Secretary General Kofi Annan called for a partnership to be forged between the UN and global business. According to Annan, the only way to defeat an emerging backlash against economic globalization, big corporations should work with the UN to devise ways to operate responsibly in the LDCs.

"Unless [human rights, labor rights and environmental] values are really seen to be taking hold, I fear we may find it increasingly difficult to make a persuasive case for the open global market," he told business leaders at the Davos forum in Switzerland in January.

Companies such as Reebok, Nike, and Levi Strauss have exploited the human labor in Indonesia. Workers live in deteriorating, leaky, mosquito – infested apartments and only earn a mere \$39 a month for producing thousands of products worth well over \$100 each. Indonesia’s economy is booming because of massive direct foreign investment while the cheap labor is suffering from inhumane living conditions and illegal wages.

In February, Annan and the International Chamber of Commerce issued a joint statement in which they declared, "The United Nations and the business community should work jointly to expand economic opportunities, especially in countries which may face marginalization." The joint statement called on the UN and corporations to develop partnerships" to advance this agenda.

In March, the San Francisco-based Transnational Resource and Action Center (TRAC) revealed what those partnerships may look like in practice, as it released documents describing the UN Development Program's proposed Global Sustainable Development Facility (GSDF).

The GSDF is a fuzzily defined program that seeks to promote corporate investment in sustainable projects in the world's poorest countries. The goal, according to UN officials, is to capture the "positives" of MNCs (technology, resources, expertise) and to help promote experimental, innovative, replicable projects that integrate marginalized populations into the global economy. Above all, UN officials hope these projects will create jobs, directly and by employing local parts and service suppliers.

The plan has not taken final shape. Since TRAC released details of the plan, UN officials have said corporations will exert significantly less control over the GSDF than earlier documents indicated. UN officials say they hope to see the GSDF function as a kind of consulting firm to multinationals.

What is clear is that the GSDF has picked shockingly poor corporate candidates for its partnership efforts. Most notable is Rio Tinto, a UK-based mining giant that has compiled a stunning record of violating the very human rights, labor and environmental principles the GSDF is designed to promote. In South Africa-occupied Namibia in the

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1980s, for example, the company mined in contravention of numerous UN resolutions and amidst charges that it subjected black miners to horrible workplace and housing conditions. The company has been rocked by protests in Papua New Guinea, Indonesia, Australia, the United States and elsewhere.

Other dubious corporate partners in the GSDF program include Dow Chemical, Citibank and Asea, Brown Boveri, a Swiss-Swedish company that is helping to build some of the most controversial large dams in the world. UN "partnership" with such corporate rogues is a stark reversal from a decade ago.

In the 1970s and into the 1980s, LDCs used the UN as a forum in which to call for a New International Economic Order, with economic power and technology transferred from multinationals to developing countries. The UN Center on Transnational Corporations (CTC) did important investigative work on the multinational corporate control over different industries, and advised Third World governments on how to negotiate with multinationals. And for more than 15 years, the CTC oversaw negotiations of a Code of Conduct for Transnational Corporations -- an effort sabotaged and ultimately stifled by the United States on behalf of multinationals. Now, in another sign of the UN's transformation, the CTC has been merged into another UN agency, which tries to promote corporate investment in developing countries.

UN officials are embracing partnerships with multinationals in part out of frustration with the considerable failure of development efforts over the past several decades and in part because they think they have no choice.

But development failures can, to a considerable extent, be traced to too much corporate influence, not too little. Coke is available in poor rural areas in the Third World, but not clean water. Mines, such as those operated by Rio Tinto, despoil the land and water that is central to the livelihood of poor communities. Corporate-driven globalization (assisted by agents like the International Monetary Fund) has pushed countries to grow luxury crops for consumption abroad, not staples to feed the hungry at home.

LDCs do not need UN agencies to facilitate further multinational corporate intrusions into developing countries. Business is quite able to identify investment opportunities without any assistance from the UN, which is much more likely through its GSDF to provide image-enhancement services to big corporations than it is to spark meaningful new job-creating investments.

For the UN, the goal should not be partnership, but independence. Its crucial role should be to help counteract the immense power of multinationals in an increasingly globalized and corporatized economy -- one that is creating unparalleled material wealth but is systematically pushing billions of people into economic despair.

### **Possible Solutions**

Although MNCs help distribute direct foreign investment, they are particularly notorious for exploiting countries, especially LDCs, causing problems regarding aspects

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of human rights, environment conditions, government corruption, and economic fragility in the particular LDC.

For the problem of human rights—most MNCs have a substantial amount of power that allows them to easily find large quantities of relatively cheap labor. As a result, workers are exposed to hazardous conditions, over-exertion, and overall are subject to the abuse of capital-owners. To combat the issue, UNCTAD might try to create a council that would regulate the conditions of workers in these LDCs much like the United Nations tries to oversee issues of human rights.

For the issue of environment conditions—UNCTAD could create a regulating body that would ensure that LDCs' environments, habits, etc, are not destroyed by imperious MNCs.

Government corruption is rampant especially in a very poor LDC where an overarching aristocratic-capitalist class leads with almost no chance of check. When an MNC causes an accident involving the deaths of many workers, these governments, who tend to support the capital coming in to their LDC, allow the MNC to avoid the consequences. Such lax government policy towards these MNCs make it seem as though these international firms are not accountable for their brutal mistakes so long as the flow of capital and investment continues. UNCTAD should try to regulate the relationships between government and MNCs.

Finally, since an MNC, a very mobile firm, has quick access to cheap labor, they are relatively free to leave that particular LDC at any time deemed necessary. Many times, the LDC's economy depends on the jobs given to its laborer by the MNC. If the MNC leaves, that LDC now has a great unemployment quagmire where many are suddenly left stranded. UNCTAD might wish to assist these economies plan around such events so that the effects of MNCs will be minimized.

### **Bloc Positions**

Determining the positions (in favor or against) of nation-states toward MNCs is a bit complicated and not always logical. Generally, developed countries usually favor MNCs as it allows firms to make more profit with cheaper labor.

With developing nations, the stance is not always clear. Sometimes, the leadership of a particular country from the 3<sup>rd</sup> world will favor the investment of MNCs in their territories in order to boost the economy and infrastructure. These countries must deal with the unethical abuse of humans.

Thus, delegates must consider many complex economic factors that would help explain whether it is in their favor to support or oppose multinational corporations based on whether that particular developing nation has comparative advantage or not.

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