

Economics from the Ground Up

Social costs and benefits of MNCs

Unethical behaviour and some potential negative social effects of MNCs

- One of the major criticisms of multinational corporations, and of globalisation more generally, is that they promote the spreading of **homogenous products and culture** around the globe. Some local commentators have expressed a concern that the spread of these corporations to corner of the globe has allowed **western values**, promoted through music, movies and television, to replace local cultural mores and values. Along with the promotion of this type of “**cultural**” **homogeneity**, MNCs are also accused of promoting **product homogeneity** by mass-producing standardised products which are exported to the whole globe, putting in peril the kind of product variety that might be available with a larger number of smaller, local producers. It is almost a truism now that Coca-Cola can be bought in (almost) every country of the world, and the “golden arches” of McDonald’s are ubiquitous, and very popular, across much of the globe. But the homogenisation of production extends far beyond fast food and soft drink, to mobile phones, computers, cars, and popular culture.
- The size of MNCs can allow them to **exert influence in the area of government policy making**, particularly in smaller, developing countries. Because of their mobility, MNCs may find they can work around local regulations and policies more easily than firms that are based in only one particular country.
- While it can be hard to find firm statistics on the foreign-ownership (by MNCs) of Australian assets, concerns have been raised over the **foreign ownership of formerly-national brands and companies** in both Australia and other countries. There have been some notable purchases of iconic Australian brands by foreign ownership, such as Arnotts, CSR Sugar, Vegemite and Kraft. The last formal study undertaken by the ABS was for the year 2000-2001, and showed that foreign-owned firms played a significant part in the mining and manufacturing industries, and that USA and UK were the two largest countries of business ownership. A study undertaken in 2011 showed that **the mining industry in Australia is about 83% foreign owned**, reflecting the high foreign ownership of the two major players BHP-Billiton and Rio Tinto. A report on foreign investment in Australia from the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) has found that foreign firms accounted for ownership of about half of the nation’s dairy, sugar and red meat sectors. (Source: <http://www.ausfoodnews.com.au/2012/01/19/almost-half-australias-food-industry-is-owned-by-foreign-investors-report-shows.html>)
- Multinational corporations have been accused both of **direct human rights abuses** and of colluding in various ways with repressive states. Human Rights Watch, one of the world’s largest independent organisations involved in the monitoring of human rights and their abuse, catalogues the many human rights abuses perpetrated by MNCs around the globe, particularly in developing countries. Some MNCs have been implicated in very serious human rights abuses in developing countries. In 2009, Royal Dutch Shell agreed to settle a human rights claim that the company and its Nigerian subsidiary were complicit in the torture, killing and other abuses of local Nigerian activists against the company’s oil operations in the Niger Delta. The protestors had been concerned about human rights and environmental abuses in the area. The settlement was around \$15 million.
- MNCs have also been accused of producing **potentially dangerous, sometimes lethal, products**. One of the most famous of these cases in Australia was the James Hardie asbestos case. James Hardie is an industrial building materials company that was founded in Melbourne in the late 1800s. One of the products manufactured by James Hardie was asbestos, used for its fire-retardant properties. Asbestos was found to cause very serious, often fatal health problems, and once these problems began to appear in its workers, James Hardie acknowledged it had known for some time of the dangers of their product. James Hardie ceased production of products containing asbestos in the 1980s. However, the company restructured its operations, including moving its headquarters overseas. One of the results was that there was not enough money available to pay claims against it by the affected workers and members of the community. This

resulted in an enormous negative response from the community and governments in Australia, who claimed James Hardie was acting unethically. Ultimately, James Hardie was forced to set up a proper compensation fund. The James Hardie case remains infamous in the history of MNCs behaving badly.

While they produce products that are not inherently dangerous, some of the world's largest MNCs have been the target of concerted community campaigns about the health effects of their products. For example, both McDonald's as one of the world's largest fast food chains and Coca-Cola as the world's largest beverage company, have come under attack from healthy eating advocates for promoting food that contributes to health problems around the world.

- The use of outsourcing and outworkers within developing countries has been shown to sometimes lead to **worker exploitation**, in both developing and developed countries. As the case study on Sherrin footballs later in this chapter shows, the use of outsourcing and outworkers within developing countries means that not all products carrying the brand of a well-known MNC will have been made in factories operated or even overseen by these MNCs. In general, these outsourced outworkers work under very poor standards, even for local conditions, and are treated very exploitatively. For many years there has been great concern expressed over the exploitation of workers by multinational corporations in developing countries. These countries often do not have the same labour laws or protections as developed countries, they have low rates of unionisation and in some cases unions and workers organising for better pay and conditions are in fact outlawed or actively silenced. This exploitation of workers is particularly galling to some in the more developed countries who buy the products of MNCs and pay standard rich-country prices for them, and are aware that the enormous gap between what they are paying and what the worker at the other end of the production process represents simply a very large profit margin for the MNC.
- Many large corporations in developing countries operate dormitories for their workers, and quite a few companies have been accused of **poor working conditions**. One ongoing issue is that governments in developing countries do not always recognise and enforce internationally accepted labour standards, and hence MNCs are able to act with impunity. An OECD report found that to lift standards, local laws and norms mattered as much as the behaviour of MNCs themselves. In 2012 there were a series of **riots** at a Foxconn complex, which houses 79,000 workers for their plant in northern China. Foxconn is a large, Taiwan-based MNC that employs 1.2 million workers and operates across 18 countries. It is the primary supplier of Apple iPhones and iPads, Sony's PlayStation game console and Nintendo's Wii. The company had been under pressure for some time after a spate of suicides at its plant and complaints from workers that they were being very badly treated by security guards used to monitor worker behaviour. While the workers said the pay was good, their living conditions were not.
- One extremely serious concern has been over **the use of child labour** in the developing world. The UN estimates that around the world around 215 million children work, many of them full-time. While most MNCs do not use child labour, there is evidence that some MNCs outsource their production to local suppliers who then do use child labour (see Application exercise 12p below). Not only is child labour inherently concerning for its moral dimension, but by having children work it keeps them out of school, decreasing access to education, which is a vital source of economic advancement and a contributor to economic growth in countries.
- Some of the economic problems caused by MNCs discussed in the previous section can also be considered negative social effects, including some **social dislocation**. One impact of the location in China of large numbers of multinational production facilities has been an enormous amount of rural-urban migration within the country. Large numbers of young people (the majority between 18 and 25) have left their rural village and relocated to work in factories in large urban centre and special economic zones. In fact, in the last two decades China has experienced the largest internal migration in human history. The cultural and social consequences have been significant for China. Writer Sheng Keyi has written about her own experiences of the migration in her novel *Northern Girls*. Most of the girls from the country are low-skilled, and they work in factories where they are highly monitored. Many of the young people have left behind children, and this creates a sense of social isolation and dislocation.

Some potential positive social effects of MNCs

Many multinational corporations have been concerned by being portrayed as exploiters and human rights violators. Increasingly they have attempted to protect and repair their reputation. Sometimes this has meant adopting principles of corporate social responsibility including complying with Codes of Ethics for both themselves and their suppliers. In other cases, they sign up to independently-operated programmes, such as Fairtrade. Some global organisations, such as the OECD also publish standards for how multinationals should operate. The OECD has produced a series of “Guidelines for multinational enterprises”, which MNCs can volunteer to abide by. They include principles and standards for responsible business conduct in areas like employment, human rights, the environment and dealing with bribery and corruption.

Potential social benefits of multinational corporations

- In response to accusations about child labour used by suppliers to MNCs, some commentators point out that, **as countries develop and integrate further into the global economic system, rates of child a labour have fallen and will continue to fall.** The World Bank confirms this correlation, finding that as GDP per capita increases, the percentage of the labour force made up by children also falls. In fact, the UN confirms this has happened. The number of child labourers (aged 5 to 14) fell by 11% between 2000 and 2004, and the reduction was much larger for those involved in hazardous work (work that might jeopardize a child’s physical, mental or moral health). This fell by 33% over the same period. Therefore, it might be argued that as MNCs contribute further to increasing GDP per capita in countries (discussed in economic benefits of MNCs above), their very presence will help to reduce child labour over time. (Source: <http://www.un.org/en/events/childlabourday/background.shtml>)
- In response to concerns about the exploitation of workers, particularly in developing countries and in the production of certain primary products such as chocolate, coffee and sugar, some MNCs have embraced involvement with the **Fairtrade movement**. Fairtrade is a response to the historic situation whereby producers of primary agricultural products in developing countries receive only a very low, and many say, unfair, price for their products. This is compared to the high prices charged by MNCs for the final product made by them from the raw materials and sold into markets in developed countries. Many have argued that this approach has led to the ongoing impoverishment of farmers in the developing world, and increased global inequality. **Fairtrade** provides a fair price for goods and services, making sure that the producers of products in developing countries are remunerated fairly. Companies claiming to support Fairtrade must also provide safe working conditions and commit to environmentally sustainable production.
- If MNCs do indeed increase incomes in their host country, then they also can **contribute to broader development of the country**. Most of the young people who relocate to work in factories in urban areas of developing countries also help support the families they have left behind in rural areas, by **sending transfer payments** to their villages. **The tax base** will also rise with the income levels and the government will have more money to spend on domestic needs so health care, education and other programmes can be funded. These programmes lead to longer, healthier lives for citizens in addition to improved opportunities through education and aid from the state.
- MNCs are increasingly coming to recognise that the social dimensions of their activities cannot be simply ignored or sacrificed in favour of profit. Increasingly, **ethical management funds** are holding sway, as the role of the **ethical investors** grows in the market place and has more of an impact. Some shareholders are very concerned about the reputation of the companies in which they hold a stake, a have become more vocal in demanding those companies act ethically. Some investment funds focus on only purchasing stocks in companies that take their corporate social responsibilities seriously.
- Along with shareholder pressure, there has been increasing **community pressure on MNCs to act ethically**. In 2001, major pharmaceutical corporations (sometimes disparagingly referred to as “Big Pharma”) came under the spotlight over the availability of anti-retroviral drugs used in the treatment of HIV/AIDs in developing countries. While these drugs are readily available in western countries, in place like sub-Saharan Africa, the world’s most heavily affected area for HIV/AIDS, their very high prices relative to local incomes had made them scarcely available. When governments in some African countries tried to implement legislation to reduce the price of drugs (namely through the use of generic, non-brand drugs using

technology developed by the drug companies), thirty-nine pharmaceutical MNCs took those governments to court. The public around the developing and developed world were outraged at the idea of 39 companies with such massive profits (combined greater than the GDP of South Africa) stopping the provision of drugs to people in desperate need. The immeasurable potential damage to their reputations caused the companies to drop the case.

Negative environmental effects of MNCs – and some company responses

- Some critics of MNCs have accused them of promoting the sale of luxuries in poorer countries, and marketing those products to create a demand and therefore **promoting consumer culture**. Since the rise of consumer culture has been blamed for increasing environmental damage around the globe, including the overuse of productive resources, critics of MNCs are very concerned about the environmental impacts of the spread of consumerism to poorer, highly populated countries.
- The arrival of MNCs in some developing countries has encouraged **changes to the focus on local production** by encouraging the reallocation of resources away from the production of necessities. For example, economic resources such as labour, land and capital might be diverted to the production of luxury goods for consumption by richer local people or for export, rather than production of basic necessities of life. One good example is the focus on growth of “cash crops” for export such as sugar, coffee, soy and palm oil. These crops are often bought by MNCs such as global food manufacturers for use in their food production processes. Cash crops are a way of earning export income, and because they are more profitable than the basic food items for everyday consumption in local communities, cash crops often replace local food crops as a focus on production. Not only can this cause hunger in those countries, but many of these crops are grown in such a way that they end up causing damage to the local environment. For example, the enormous global growth in demand for oil crops such as palm oil and soy has seen vast swathes of rainforest cleared through **deforestation** to make land for growing these crops. This **destroys the biodiversity** of the area, and the habitat for native animals, including endangered species such as the orang-utan in Borneo. Some companies have been responsive to pressure from the community to stop using products sourced from areas where rainforest has been cleared, as discussed in the example of Nestlé below, but others continue to deforest tropical rainforest areas in Latin America, Africa and South East Asia.

Mining practices in some African countries have been associated with the destruction of the native habitats of highland Gorillas. Rare earth minerals required in the production of mobile phones, such as coltan, are mainly only found in reserves in the Congo River Basin in Africa, which also happens to be the main habitat where the world’s last remaining gorillas live. Mining in the area is contributing to forest loss and unrest in the region. In response, the Australian mobile phone industry set up Mobile Muster to encourage people to recycle their old mobile phones and thus reduce demand for these rare earth minerals.

- Many critics of MNCs point to the fact that many of them undertake **hazardous or highly polluting production** in developing countries (such as India or Brazil) to deliberately take advantage of the fact that those countries have less restrictive environmental protections than the countries in which the MNCs are based and sell most of their products.

While the mining and clearing being undertaken in these countries is not necessarily directly done by large MNCs, they buy the products which are sourced there for use in their production processes. However, in defence, it could be argued that the increasing environmental damage created by MNCs is simply a reflection of the insatiable appetites of the world’s population for ever more and higher rates of consumption and material standards of living.

The potential for MNCs to positively impact on the environment

- As was discussed above, **Fairtrade is also about the environment**. Companies adopting Fairtrade principles commit not only to a fair price for their farmers of their raw materials, they also promote environmentally sustainable practices.
- Many multinational corporations have come under **increasing pressure from various stakeholders to improve their environmental and social record**. This includes customers who increasingly want to purchase “green” products, and shareholders who are concerned over potential damage to the company’s reputation

and profitable from environmental scandals. Read the story about Nestlé's Kit Kat below for an example of this type of pressure in action.