CHAPTER – II

IMPACT OF MULTINATIONALS ON SOCIETY

The rise of globalization and a globalized economy, particularly the proliferation of Multinational Corporations (MNCs), have raised questions about the role of business in global governance. The increased presence of MNCs in the International Political Economy has led to the startling reality that companies can be political entities and their influence as political actors can be sizeable, both in positive and negative capacities. A contemporaneous trend used to combat the negative actions of MNCs has been the emergence of Corporate Social Responsibility (CSR), the principle that companies have a duty to practice better business norms and use their resources for the best interest of the international community.

Nevertheless the nature of certain corporate practices continues to be controversial, sparking a debate on the best way to regulate business across national borders. MNCs have been evaluated and studied from both internal and external frameworks with accountability awarded to the companies themselves, the governments of the home country, the governments of the host country, the citizens of the host country, transnational soft law agreements, and the global social community. The discrepancies in the resulting literature conclude the only real conclusion is that there is no transparent path to standardize to corporate citizenship.

The Concept of MNCs

Regarding the MNCs, there are numerous definitions of MNCs. The simplest ones define a multinational corporation as an enterprise which
possesses at least one unit of production in a foreign country.\textsuperscript{1} Such a simple definition inheres one big advantage – no important aspect of the phenomenon (e.g. financial, local or internal affairs) or of the problem (for example complex questions of nationally associated corporations or small e-commerce companies) is arbitrarily excluded.

The multinational corporation (or enterprise) generally consists of the parent company (the resident of one country) and at least one affiliate (resident of another country). Apart from the simple definition stated above, the research papers on MNCs have come up with more specific definitions. Andreff, for example, defines the MNC in a more theoretical way as an enterprise whose capital is acquired in the process of international accumulation.\textsuperscript{2} Meier and Schier come up with a more strategic definition stating that the MNC is an organization owing or controlling enterprises or physical and financial assets in at least two countries of global economy and opting for a multi-domestic strategy founded on social-economic differences of these countries (as a reply to specific local demand).\textsuperscript{3}

Concerning the term itself, the enterprise operating in more than one country is referred to as a multinational (or sometimes transnational) corporation. The terms are sometimes in the literature used interchangeably, sometimes they are strictly differentiated. Especially the earlier analysts\textsuperscript{4} tended to make substantial differences between those two terms: According to these studies, if the company pursues its strategy

\begin{footnotesize}
\begin{enumerate}
  \item Meier and Schier, G., \textit{Enterprises Multinationales, Stratégie, Restructuration, Gouvernance}, op. cit.
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\end{footnotesize}
and integrates its activities across national borders, it should be referred to as “transnational” while when its control and ownership are shared fairly and equally between a number of different countries (and thus, the corporation “takes on” many national identities), it should be called “multinational”. The author of this thesis realizes the original thought on this division; however, similar conclusions could be too misleading in today’s complex reality of MNCs. The outlined differences remain therefore not in the structure of the corporation but in its strategy towards its operations.\textsuperscript{5}

As Meier and Schier clearly state the enterprises generally expand through several stages: Starting from an international corporation (mainly exporting its products/services) to a multinational corporation (organizing production across borders) and moving to the final stage of a world/global corporation (with functions integrated on a global level). Similarly to the earlier argument, the general division between “multinational” and “global” enterprise cannot be drawn universally for all corporations. Since the main purpose of this thesis is to present the concept of a corporation operating in more countries and not to pay attention to individual differences, the term “multinational” corporation will be used universally for all enterprises with operations overseas without any further reference to the stage of their international/multinational/global engagement.\textsuperscript{6}

Another area that remains quite challenging for the MNC-oriented studies is to define a general concept of a MNC’s internal structure and linkages between the parent company and its affiliates. One of the most


\textsuperscript{6} Chavagneux, C., Le pouvoir des multinationals” in \textit{Alternatives Économiques}, No. 189, Iss. 2, 2001, pp. 30-37
general patterns was introduced by Schier and Meier in their comprehensive study in 2001. These authors distinguished three major types of operations arising in the intra-company relations: purely financial (including the capital transfers), local (performed exclusively by the affiliate) and intra-group (managerial control and intra-firm trade).

Figure 2.1
Relations Between The Parent Company And The Affiliate In The International Context

In addition to that, the types of MNCs are becoming more and more difficult to classify. One of the most common divisions of MNCs
distinguishes between extraction, manufacturing and service corporations. Another approach presents the classification between the following three categories: First, horizontally integrated companies which acquire additional business activities at the same level of the value chain. Second, vertically integrated corporations which are composed of a network of operations in upstream and downstream activities in the production process. The last category is referred to as a conglomerate structure when the corporate divisions operate as relatively autonomous businesses under a larger corporate umbrella and as such, constitute self-contained strategic business units while each of them produces a single product.

This classification is closely connected to the theories providing framework for MNCs and their affiliates First, the product-cycle theory, built upon the phases of maturing of a product and its production technology, provides one of the common frameworks for reasoning of company’s expansion to new markets. Second, the organization theory deals mainly with the phenomenon of vertically integrated companies and the way they coordinate the successive stages of production.

Finally, the theory of competitive advantage serves as a basis for rationalization of international fragmentation of production. The production activities of a MNC are divided into the international network of production sites according to their comparative advantages in the

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According to the latest World Investment Report executed by UNCTAD (United Nations Conference on Trade and Development), the services account for nearly two thirds of FDI, manufacturing for 30% (has declined from 41% in 1990) and the share of extractive industries in total FDI increased a little between 2000 and 2005, but generally having been on the decline since the Second World War.
different phases of production process. Apart from that, the competitive advantages further play an important role in the bargaining process. The number as well as the scope of operations of MNCs have been increasing continuously since their first emergence. Currently, there are about 78000 multinationals worldwide with more than 780 000 foreign affiliates, accounting for the equivalent of 10 % of world GDP and one third of world exports.

Dunning (1992) identifies three fairly distinct phases in the development of nation-states – MNCs interaction: The Honeymoon phase (early 1950’s – mid 1960’s), the Confrontation phase (mid 1960’s – late 1970’s) and the Reconciliation phase (late 1970’s till present). Being aware of the fact that the dates vary between companies and countries, the major features of the relationship can be identified within the time periods stated above.

The Honeymoon phase starting in early 50’s was characterized by a very positive approach towards multinational enterprises coming to the war-ravaged (European) countries because all the associated elements such as technology, capital, entrepreneurship, managerial and organizational skills were desperately needed. In early after-war period, the relationships between MNCs and states were extremely mutually beneficial since the expanding companies found new markets for their products as well as sources of raw materials and energy. Other countries besides Europe were not heavily targeted by MNCs yet.

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Clearly, multinational corporations can provide developing countries with critical financial infrastructure for economic and social development. However, these institutions may also bring with them relaxed codes of ethical conduct that serve to exploit the neediness of developing nations, rather than to provide the critical support necessary for countrywide economic and social development.

When a multinational invests in a host country, the scale of the investment (given the size of the firms) is likely to be significant. Indeed governments will often offer incentives to firms in the form of grants, subsidies and tax breaks to attract investment into their countries. This foreign direct investment (FDI) will have advantages and disadvantages for the host country.
Globalization Has Made MNCs More "Footloose" Than Ever

Partly true. There is a widespread perception that multinational corporations will rush to relocate in response to changing economic conditions. Yet there are compelling reasons for many MNCS to stay put or, at the very least, to shift the location of their operations at a gradual pace. Some multinationals often find themselves "locked" into emerging hot-spot "clusters" of related assets and specialized infrastructure—such as Silicon Valley for microprocessors, Tsukuba City for miniaturization, and London for foreign exchange. Increasingly, such clusters can even be found in developing countries such as India, where Bangalore has become a hub for the software industry. These immobile resources are comprised of a dense network of specialized, often small, independent enterprises that supply crucial inputs and are difficult to replicate elsewhere. Leading MNCS must interact with these clusters if they are to gain and retain access to the latest thinking.

Another reason why MNCs are reluctant to uproot their operations is that they depend upon the skills of specialized teams of local workers. Volkswagen, for example, is using its Resende plant in Brazil as a lead site for experimenting with ways to change the assembly process.Multinationals that have become dependent on such "intelligent systems" can continue to attract investors by maintaining and strengthening these human assets, not by walking away.

MNCs Are, First and Foremost, Creatures of Their Home Countries

Not always. Most people assume that the home country always gets first priority whenever MNCS have to make hard choices: If faced with a downturn in the market, multinationals will close facilities abroad to protect those at home. Yet Japanese MNCS have strived to remain
competitive by developing lower-cost capacity in facilities abroad. In doing so, corporate executives have played a role in "hollowing out" Japan's economy and have broken with generations of tradition that put national interest above all else.

Moreover, corporations now place higher priority on the innovation process - regardless of where that process is centered - than on outdated notions of home country. Some MNCS have developed world product mandates that farm out management authority and research-and-development leadership to foreign units. Tokyo is "home" to IBM's personal computers, while Taiwan is "home" to Philips' computer monitors. Indeed, there is now widespread unease that MNCs are becoming truly "stateless," acting in the interests of shareholders who are themselves becoming globally dispersed. These concerns are amplified by the growing trend among major corporations to promote foreign nationals to top management positions. Some French and German companies even use English as the lingua franca for their management communications globally.

**All Multinationals Are Large Corporations**

No. It is easy to get that impression, since giant MNCs dominate the news. The top 100 multinationals own nearly $2 trillion of assets outside their home countries, a quarter of the world's stock of all foreign direct investment (FDI). And the recent wave of megamergers has made many large multinationals even larger. But a closer look at the marketplace reveals that the surge in MNC growth is also being driven by myriad newcomers, many of whom are actually quite small. Most of the estimated 45,000 firms that operate internationally employ fewer than 250 people. It is commonplace to find service companies that maintain fewer than 100 employees operating across more than 15 countries.
For years the traditional wisdom among multinational corporations was that bigger is better. Large MNCs could lower their production costs by producing massive volumes to serve global markets. By achieving such "economies of scale," they gained a crucial advantage over their competitors.

In today's turbulent markets, however, size does not always matter. Big banks have been merging across borders to make themselves even bigger, but their success rates have been dismal. In the oil and gas industry, traditional leaders such as Exxon and Shell now face serious challenges from smaller upstarts that have carved out industry niches in exploration or lubricants. The success of Enron in transforming itself from a sleepy, domestic-pipeline operator in Texas to an international force in gas and power generation shows how potent this new challenge can be.

New competitors are emphasizing the power of intangible resources such as intellectual property and a flexible organizational structure that allows firms to respond better to their customers' diverse needs. These emerging multinationals are beginning to develop and link together expert teams within the corporation in ways that resemble the activities of the hot-spot clusters that lie outside the corporation. In contrast to traditional economic models of competition, these companies have found that economies of scale can best be achieved at the corporate level rather than the production level.

The message is clear to the major incumbents: transform or die. At a time when size and market shares are growing in importance for some MNCs, for others the value of incumbency has never been less.
Influence on Governments and Policy

As an example of this duplicity, MNCs have used their influence on various governments to impose high tariffs on products, such “... as textiles, in which the poorest countries have comparative advantage”\(^{10}\) Another example of MNCs’ opposition to free trade is evident in the agricultural sector of the global market where MNCs customarily accept subsidies from their respective governments, rendering poor countries unable to compete in the export of agricultural products.\(^{11}\)

MNCs’ advocacy for the free-market system is situation specific and self-serving. Their primary objective is to generate as much money as possible for their shareholders and to do so while expanding in size and influence. By appearing to be promoting capitalism and, in some minds, thus democracy, MNCs have acquired “the ability to operate beyond the constraint of any one nation’s laws and regulations in ways that can be…detrimental to host countries”\(^{12}\). In short, the market power MNCs have attained through their false campaign for the free-market system has increased their influence over the global society and has made them a formidable power.

Often, changes demanded by MNCs opens up poor countries’ economies to the global economy after having destroyed whatever little stability their economy had. Thus, in order to attract foreign investment by MNCs, “governments [of developing countries] have suppressed union organizing to hold down wages, benefits, and labor standards”\(^{13}\).


\(^{11}\) Ibid


These governments have also provided tax breaks, subsidies, and reduced environmental regulations just to create an attractive atmosphere for MNCs.

In addition to their negative impact on economies around the globe, MNC’s insatiable desire for profit has damaged democratic principles worldwide. Democracy, at its most rudimentary level, is a governmental system comprised of individuals who are given the authority by citizens through elections to make decisions, create laws and establish institutions that will promote the public interest. This definition of democracy, however, is practically obsolete when elected officials now design and implement policies that put the corporate interest ahead of the public interest.

In fact, politicians have been successful in manipulating the public through the media, owned and run by MNCs, into believing that “the corporate interest is the public interest”. For example, President Bush just recently signed into law a bill that would transfer class-action suits filed against corporations seeking $5 million or more from state courts, where juries often return multi-million dollar verdicts against corporations, to federal courts, where the atmosphere is far more conservative. The logic behind this bill, as relayed to the public, is that it “will help protect people who are wrongfully harmed while reducing the frivolous lawsuits that clog our courts, hurt the economy, cost jobs, and burden American businesses” (CNN). It is obvious, however, that corporations are the primary beneficiaries of this legislation.

Through their campaign contributions to local, state, and national politicians, MNCs have bought themselves a considerable share of American democracy; and, like their other assets, it is used to generate

\[\text{Ibid}\]
profit. The resulting decline of American democracy, the “quintessential” democracy in the world, illustrates MNCs’ power and increasing threat. MNCs directly or indirectly weaken the right of individuals to assemble or form associations. Out of fear of losing their jobs, especially now that the cost of living has drastically increased, many individuals relinquish their right to protest MNCs’ activities.

MNCs’ affiliates alone employ over 45 million individuals worldwide.\(^\text{15}\) In fact, it is becoming difficult for individuals to effectively protest against TNCs and their constituents. When there is a public protest, if a few individuals resort to violence, the police often use the actions of these few people to disband a relatively peaceful protest. Then the media (owned and operated by MNCs) put their spin tactics into action and paint a relatively peaceful protest as being violent in order to sway public opinion against protestors undermining the right to assemble freely and defeating the purpose of the protest.

This is the same stratagem that is employed by the media to affect the outcome of elections. Elections are one of the central pillars of a representative democracy; and it is through elections that the people decide how they will be governed by who they elect. However, with the way elections work in modern times, Americans no longer get to choose the selection of people from which they will elect their representatives. Rather choices must be made from among the individuals that MNCs and the media support.

Elections have been reduced to a game of who can raise the most money (much of which comes from corporate sources), has the best

political advertisements or the most clever character assassination slogans. For example, during the 2004 presidential election, the media incessantly portrayed Senator Kerry as someone who flips flops on the issues. Polls later revealed that one of the reasons voters did not vote for Kerry was because they believed he flips flops too much on the issues. In this scenario and in many others, the media effectively swayed the public into believing something that is not the case.

So individuals who do not have the money to play this game or have the support of the media cannot win. The American people learn about the current political issues and a candidate’s plan to rectify these issues through TNC owned media. MNCs, through their election finance choices, have the resources to affect the outcome of elections and, subsequently, public policies. There is not one single committee chair in the U.S. Congress that was elected or can be elected without transnational capital. Therefore, it is only logical that the corporate interest would trump the public interest and, in so doing, would undermine the democratic foundations of American democracy.

Third World Countries

The same disregard for the public interest characterizes MNCs exploitation of the workforce and natural resources of third world countries. Through subcontractors, MNCs pay the workers of these countries a meager wage to produce products that are sold on the market for ten times (and sometimes fifty times) what it cost to produce. For example, cheap laborers working in Hon-Soll factories in Honduras earn a base wage of $.65/per hour for each $75 NFL and NBA jersey they
stitch for MNCs, such as Nike Inc. and Rebook. These workers also produce clothes for Wal-Mart, Kohl’s and Victoria’s Secret.\(^\text{16}\)

In addition to the relatively low wages, these cheap laborers work under conditions that are just atrocious and detrimental to their health. In China, cheap laborers work may fifteen-hour shifts every day of the week to produce Huffy bicycles, and sixteen-year-old girls apply toxic glue to Stride Rite shoes with their bare hands and a toothbrush.\(^\text{17}\) In the Philippines it has been reported that Anvil Ensembles, maker of baby clothes, has given their workers amphetamines so they can work 48- and 72-hour shifts.\(^\text{18}\) The goal of MNCs, relative to their interactions with third world countries, is to maximize their profits by reducing the cost associated with input, such as labor and raw materials. Nothing takes precedence over this goal, not even the “… concerns for the [welfare of the] community or nation in which the corporation does business”.\(^\text{19}\)

However, some have argued, like the author Jagdish Bhagwati (2004), that a MNC “brings many benefits [to these third world countries] that should outweigh the giveaways in tax and other benefits such as the free use of public land”. But who benefits the most from these many opportunities that MNCs have to offer? A study performed by the United Nations revealed that “80 percent of the poor countries are either left out, marginalized, or hurt by MNCs activities” (UN). Shell Oil has extracted over $300 billion worth of crude oil from the Niger Delta, earning enormous profits, but the people in this region have yet to reap

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\(^\text{16}\) National Labor Committee, 2005.

\(^\text{17}\) Tabb, W., *Unequal Partners*, op. cit.


the benefits from the mass extraction of their natural resource. Instead of receiving sufficient compensation, the people in this region suffer from high unemployment and starvation due to the contaminated water, vanishing forests and wildlife, and infertile land, which are the results of Shell Oil mining and production activities in Nigeria.\(^{20}\)

Korten notes MNCs establish operations wherever they “can easily obtain raw materials and … exploit the cheap labor that is available”. Now, there is something to be said about governments, such as Nigeria’s, complicity in facilitating MNCs entry into their countries, but there is also the issue of corporate social responsibility and governments’ approval should not negate this responsibility.

Nonetheless, MNCs, remain indifferent, to the consequences of their profit-seeking activities in the third world and often use the power of the United States government to expedite entry into and exploitation of developing countries. No doubt at the behest of pharmaceutical MNCs, the U.S government has threatened the South African government with sanctions because a few South African companies are violating MNCs’ patents on AIDS medications by producing and selling cheaper generic AIDS pills to South Africans.\(^{21}\)

The third world is further exploited by MNCs through the debt-repayment policies and structural adjustments of the World Bank and the International Monetary Fund. The majority of the so called developmental loans provided to third world countries by these international institutions were and are still financed by transnational capital. So, in addition to the free use of public lands, weak

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\(^{21}\) Tabb, W., *Unequal Partners*, op. cit.
environmental laws, tax breaks, and cheap labor, MNCs also receive a share of the little money these countries are able to generate from their undeveloped economies. During the 1990s, countries of the third world paid an aggregate amount of $77 billion to their western creditors, most of which was in interest.\(^\text{22}\) As of 2000, the external debt of all third world countries was two trillion US dollars, which is the equivalent of “over $400 for every man, woman and child in the developing world – where the average income in the very poorest countries is less than a dollar a day”.\(^\text{23}\)

To repay these loans government revenues are diverted from education, health care, basic sanitary programs and other community services.\(^\text{24}\) The results of which are damaging to the people these public institutions were intended to assist. For example, “today in Ethiopia a hundred thousand children die annually from easily preventable diseases, while debt repayments are four times more than public spending on health care”.\(^\text{25}\) To meet the basic diet requirement needed to remain alive, children and women in third world countries sometime have no choice but to sell their labor. These same children and women may be those who are captured and sold on the black market by traffickers. The $9 billion human trafficking industry, which has its base in the third world countries, is a ripple effect that stems from MNCs need for cheap labor and the inability of these developing countries to repay their western

\(^{23}\) Ibid.
creditors. Recently, as a result of public pressure, some debt has been forgiven, but more needs to be done.

Advantages

The possible benefits of a multinational investing in a country may include:

- Improving the balance of payments - inward investment will usually help a country's balance of payments situation. The investment itself will be a direct flow of capital into the country and the investment is also likely to result in import substitution and export promotion. Export promotion comes due to the multinational using their production facility as a basis for exporting, while import substitution means that products previously imported may now be bought domestically.

- Providing employment - FDI will usually result in employment benefits for the host country as most employees will be locally recruited. These benefits may be relatively greater given that governments will usually try to attract firms to areas where there is relatively high unemployment or a good labour supply.

- Source of tax revenue - profits of multinationals will be subject to local taxes in most cases, which will provide a valuable source of revenue for the domestic government.

- Technology transfer - multinationals will bring with them technology and production methods that are probably new to the host country and a lot can therefore be learnt from these techniques. Workers will be trained to use the new technology and production

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techniques and domestic firms will see the benefits of the new technology. This process is known as technology transfer.

- Increasing choice - if the multinational manufactures for domestic markets as well as for export, then the local population will gain form a wider choice of goods and services and at a price possibly lower than imported substitutes.

- National reputation - the presence of one multinational may improve the reputation of the host country and other large corporations may follow suite and locate as well.

**Disadvantages/Impacts of MNCs**

The possible disadvantages of a multinational investing in a country may include:

**Depletion of Non-Renewable Resources:** Access to natural resources - multinationals will sometimes invest in countries just to get access to a plentiful supply of raw materials and host nations are often more concerned about the short-term economic benefits than the long-term costs to their country in terms of the depletion of natural resources.

“Earth provides enough to satisfy every man’s need but not for every man’s greed”,27 observed Mahatma Gandhi long ago. The resources of the world are quasi- insufficient. They are sufficient to fulfill our needs but insufficient to satisfy our wants. However, the purpose of modern business is provisioning of more and more goods as man is supposed to be having wants which are ever – increasing and ever – multiplying. The efforts of all the nations in the world are, therefore, concentrated in

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achieving higher and higher rates of economic growth in order to meet the ever-increasing wants. As a result, the world production is increasing at exponential rates. Production, however, requires not only man-made capital but also natural capital in the form of mineral, soil and fuel resources. The natural resources are generally non-renewable having a fixed man. Since the world population is increasing and consumption levels are moving up causing a higher and higher resource demand, the depletion of world resources is going on exponentially. It is being increasingly realized now that a dangerous situation of exhausting our fixed resource – base might soon arise, if present trends remain unchanged. The effect of environmental degradation is now well felt globally one of the factor responsible is consumerism. We have accepted our approaches to life as western style and materialism. The western materialism is based on maximum production and maximum consumption. This attitude to life leads to consumerism that is the maximum utilization and utmost consumption of the resources available. Our insatiable desires to have more and more have accelerated the process of depletion of natural resources.

*Environment Degradation:* Environmental impact - multinationals will want to produce in ways that are as efficient and as cheap as possible and this may not always be the best environmental practice. They will often lobby governments hard to try to ensure that they can benefit from regulations being as lax as possible and given their economic importance to the host country, this lobbying will often be quite effective.

Man is a part of an ecosystem comprising of the earth, air, water, plants and animals, having natural ecological processes. There interconnectedness and inter-dependence among the various constituents of the

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29 Ibid.
ecosphere. No human activity is possible without the support of the environment and reciprocally, the environment does not remain unaffected by human activity. Regarding the constitution of our environment, the famous environmentalist Barry Commoner has said, “The environment make up a huge, enormously complex living machine that forms a thin dynamic lawyer on the earth’s surface and every human activity depends on the integrity and proper functioning of the machine.” The ecosystem consisting of multiple interconnected parts which acts and react upon one another must not be disturbed in order to facilitate a smooth functioning of life, economic as well as non-economic. As exemplified by Barry Commoner, “without the photosynthetic activity of green plants, there would be no oxygen for our engines, smelters and furnaces, let alone support for human and animal life. Without the action of the plants, animals and micro-organisms that live in them, we could have no pure water in our lakes and rivers. Without the biological processes that have gone on in the soil for thousands of years, we would neither have food crops, oil nor coal.”

The production of goods needs not only man-made capital but also ‘biological capital’ represented by a properly balanced ecosphere. As a matter of fact, the ecosphere is the background against which the entire game of our economic activities takes place. The various constituents of the ecosphere must operate in a state of balance in order to provide the necessary biological capital for the economic activities. However, modern industrial processes to produce more and more wealth create a disturbance in the operation of the ecological forces of nature. As result, the natural cycles get disordered and out soil, air and water become polluted. The environmental pollution not only creates the problems of externalities for

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the economist but also poses the question of the very survival of human race.\textsuperscript{31}

Environmentalism is a broad philosophy, ideology and social movement regarding concerns for environmental conservation and improvement of the health of the environment, particularly as the measure for this health seeks to incorporate the concerns of non-human elements. Environmentalism advocates the preservation, restoration and improvement of the natural environment in an attempt to balance relations between humanity and their broader natural environment. The exact nature of this balance is controversial and there are many different ways for environmental concerns to be expressed in practice. Environmentalist concerns with globalization include issues such as global warming, climate change, global water supply and water crises, inequity in energy consumption and energy conservation, transnational air pollution and pollution of the World Ocean, overpopulation, world habitat sustainability, and deforestation, biodiversity and species extinction.

\textit{Uncertainty} - multinational firms are increasingly 'footloose'. This means that they can move and change at very short notice and often will. This creates uncertainty for the host country.

\textit{Increased competition} - the impact the local industries can be severe, because the presence of newly arrived multinationals increases the competition in the economy and because multinationals should be able to produce at a lower cost.

\textit{Crowding out} - if overseas firms borrow in the domestic economy this may reduce access to funds and increase interest rates.

\textsuperscript{31} Ibid.
Poverty and Hunger: The problem of poverty and hunger in the world is the greatest stigma upon modern business. The number of the poor and the hungry has been constantly increasing all over the world in spite of all the efforts at rapid economic growth. Moreover, as held by Lutz and Lux, poverty as we know it, is a relatively recent phenomena; poverty did not exist four hundred year ago. To quote them, “Surprising as it may sound; the modern phenomenon of poverty had its beginning with the Enclosure Movement in England. Previous to that under the stable order of traditional society, poverty pockets as we know them now were almost non-existent.32 Modern business growth backed by high investment and industrialization has been unable to control the ration of poverty.

Inequalities of Income: The fragmentary world-view divides life and sets one part against the other. In the economic sphere, the paradigm has resulted in sharp inequalities of income and wide disparities at the regional as well as international level. Modern growth model leading to large – scale capital intensive, technologically advanced methods of production is responsible for the increasing level of concentration of economic power and has led to the accentuation of inequalities of income and further widening of the gulf between the rich and the poor.33 In developed economics also, there is high degree of concentration of income and wealth. Paul Samuelson has given a very interesting graphic analogy regarding the skewed distribution of income in the United States. “If we made today an income pyramid out of child’s blocks, with each layer

33 Sharma, Prabha, Shashi, Gandhian Holistic Economics, op. cit., p.58.
portraying $1000 of income, the peak would be far higher than the Eiffel Tower, but almost all of us would be within a yard of the ground.”

Inequalities of income and wealth are the source of many social and economic evils. They lead to the emergence of social tensions and sharpening of class conflicts. Strictly in economic terms, gross inequalities of income adversely affect production and investment and lead to the misallocation of resources. Man suffers not only from absolute poverty but also from relative poverty created by inequalities of income. Growth itself obstructs the availability of certain comforts to everyone. Increasing international commerce with high barriers to entry, corporate consolidation, tax havens and other methods of tax avoidance, and political corruption have all caused increases in income inequality and wealth concentration: the increasingly unequal distribution of economic assets and income within or between global populations, countries, and individuals. Economic inequality varies between societies, historical periods, economic structures or systems (for example, capitalism or socialism), ongoing or past wars, between genders, and between differences in individuals' abilities to create wealth.

**Influence and political pressure** - multinational investment can be very important to a country and this will often give them a disproportionate influence over government and other organisations in the host country. Given their economic importance, governments will often agree to changes that may not be beneficial for the long-term welfare of their people.

**Transfer pricing** - multinationals will always aim to reduce their tax liability to a minimum. One way of doing this is through transfer pricing. The aim of this is to reduce their tax liability in countries with high tax

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rates and increase them in the countries with low tax rates. They can do this by transferring components and part-finished goods between their operations in different countries at differing prices. Where the tax liability is high, they transfer the goods at a relatively high price to make the costs appear higher. This is then recouped in the lower tax country by transferring the goods at a relatively lower price. This will reduce their overall tax bill.

**Low-skilled employment** - the jobs created in the local environment may be low-skilled with the multinational employing expatriate workers for the more senior and skilled roles.

**Consumerism:** The theory of consumerism is based on "maximum utilization and utmost consumption of available resources" —material, physical, geo-biological, etc. It is a state of temperament and mental inclination. It gives maximum emphasis on optimum utilization of available resources both natural and man-made. It is a craze against preservation or gradual use of available resources. We know that natural resources such as—air, water, soil, minerals are scare. They are not to last for all the times to come. But in consumerism, this hard reality is not kept into account. This is due to insatiable desire to have more and more, hard realities of the prevailing environment are ignored. This negligence, in a long-run, proves to be hazardous for the human beings residing on this planet. Scientists, economists and other specialists are warning us against the rapidly diminishing reserves of minerals, decreasing areas of forests, flora and fauna and many endangered species, global warming, depletion of ozone layer, increasing temperature of earth and other alarming dangers. But despite their warnings, there is going to be alarming hazardous utilization of nature and natural resources. It is a great predicament for humanity. The Problems cropped up due to the consumerism are - mass
production, use of heavy machinery and modern technology, procurement of raw material in large quantity, use of excessive energy and bulk finish production, transportation, storage involves large warehouses and creation of huge wastage. This will lead to environmental degradation.

The causes for the consumerism are – a) multiplicity of needs and wants. The human needs are proliferated. Needs are ever increasing. b) The cravings and lust which are tormenting elements of human soul. c) The propensity to accumulate commodities cramp the soul and degenerate into the morbid desire to make a fetish of external goods of life. d) Human desires to overpower the nature. This will alienate the man from nature.

**Health and safety** - multinationals have been accused of cutting corners on health and safety in countries where regulation and laws are not as rigorous. During the 20th century, Industrialization had many negative impacts on the world. A certain example happened in Minimata Bay, in Japan. The Chisso Corporation, located in Kumamoto, dumped at least 27 TONS of mercury compounds into the Minimata bay. It took Japan up to 40 years to compensate all the victims fully, and all throughout the 20th century people had to live with them, "Minimata Disease." Many died, many had deformities, and tons of others had to deal with physical and/or mental pain due to the disaster.

**Child Labour** Businesses started to hire children to work in factories because their small bodies could reach into tiny holes and it is easier for them to do things which require small hands or bodies. Children have to start helping out their families with providing money, and thus started working in factories. They have to work exceptionally long hours, with almost no breaks, and low wages. Since most children are working in factories, they do not have time for education, nor could they afford it. Since most poor families needed their children to help out by working in
factories, it created a cycle. Generation after generation would be poor, and because of this no one would ever have the chance to get education, and get a higher paid job. One more thing that was overall negative during the industrial revolution is the conditions in Coal Mines. Although they created more jobs, they were one of the most dangerous jobs in the city. The expected life span of Coal Mine workers was 17 years old. Children were forced to crawl in tight spaces and narrow paths. There was also the danger of cave-ins that happened occasionally. The workers also inhaled coal dust all day long, risking very dangerous lung diseases.

**Poor Working Conditions** Factory work is very dirty and dangerous in nature. Owners of factory strictly disciplined their employees and treated them harshly. The workers are underpaid and overworked. They do not get enough money for the labor they are providing. One also has a short life expectancy if they worked in a factory. The hours in a workday are very long too because the factories are indoors and do not have to use sunlight to decide business hours. The government also provided no regulations for the treatment of a business’s employees.

**Exploitation** Exploitation of the poor by the rich, labor by capital, consumer by producer, village by city are the common features of an economy wedded to the goal of more and more. At the internationals level, the pursuit of material self-interest has led to the exploitation of the third world countries by the developed countries of for the sake of markets, raw materials and scarce natural resources. The advanced commerce which are able to sell their products, raise the expectations of the consumers in the poor countries and allure them into buying them. In exchange for these products which are quite unsuitable for the underdeveloped nations, the developed nations obtain raw materials and scarce resources by offering them high unfavorable terms of trade. As Hazel Henderson has noted,
“rather than concentrating on increasing self-sufficiency, poor countries, sucked into the whirlpool of world trade, often act in their own worst interest by selling their protein and raising cash crops to exchange for inflation ridden foreign currencies”. 35 In the name of technology – transfer, the underdeveloped countries are dumped with obsolete, harmful technologies and product. Technology transfer generally favors the rich in an underdeveloped country, and leads to the accentuation of the already existing inequalities of income. The lure of high standards of living in the economically advanced countries drains the educated, the talented and the enterprising out of the poor countries.

**Unemployment** Labour is looked upon simply as an item of cost in modern economics. The producer has to minimize the costs in order to maximize his profits. Machinery, therefore, comes in displacing labor and creating unemployment. Competition amongst the producers leads to technological progress and concentration of capital. Unemployment, therefore, keeps on rising with each step in technological advancement. The problem of unemployment is closely linked with poverty. As a matter of fact, technological advancement, concentration of economic power, inequalities of income, unemployment, poverty and rising population are all interacting factors.

**Stagflation and Instability** Inflation accompanied by unemployment known as stagflation has become a standing feature of all the industrial economics committed to the path of undifferentiated economic growth. The presumption that there is a trade – off between inflation and unemployment is proving to be unrealistic. Recent years have witnessed a continuous rise in both the rates of inflation as well as unemployment. Unlimited industrialization accompanied by unhindered technological advancement in

order to achieve ever-rising levels of production results in both the rates of inflation as well as unemployment. Unlimited industrialization accompanied by unhindered technological advancement in order to achieve ever-rising levels of production result in both unemployment and inflation. Unemployment occurs due to the technology progress and industrialization. Prices start rising due to the mounting environmental and social costs and depleting non-renewable resources. These costs which are initially externalized by the producer ultimately start making their impact upon the price level. The existing inequalities of income and wealth create social tensions and therefore the non-capitalist sections of the economy always keep making efforts to push up the levels of their incomes by creating pressure on the government and the capitalist class. A gradual rise in the money incomes of the non-capitalist class also adds to the problem of inflation and unemployment. In under-developed nations, increased investment along with technologically advanced methods of production leads to inflation and further adds to the problem of unemployment due to the presence of various bottlenecks, lack of capital and necessary infrastructure as well as lack of effective demand.  

**Dehumanization** Besides problems at the physical material level involving environmental pollution and depletion of resources, socio-economic problems of poverty, inequalities of income, exploitation and unemployment, economic problems of stagflation and instability, adherence to the fragmentary paradigm has led to the problems of alienation of men leading to moral degradation and dehumanization. As Schumacher has observed, “Our current methods of production are already eating into the very substance of industrial man”. As a result, in spite of all our scientific achievements and so-called economic growth and better

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standards of living, peace and happiness has eluded man. The rate of crime, corruption, drug – addiction, mental breakdown, profound social, political, economic discontentment and rebellion and the constant haunting fear of a nuclear holocaust are some of the symptoms expressing deep frustration and unhappiness of modern man. Economics of more and more alienates man from his true self the spirit, and obstructs growth in to the dimension of love which is expressed in selflessness, cooperation and harmony of relationships. The greed for wealth leads to all sorts of crime and corruption. Man becomes desensitized and remains callously indifferent even in the midst of the problems of poverty, hunger and unemployment of the fellow – beings. As economic progress take place, moral progress retarding leading to the qualitative deterioration of human spirit and thus alienation of man from the true self.\textsuperscript{38}

\textit{Opposition to Capital Market Integration} Capital markets have to do with raising and investing moneys in various human enterprises. Increasing integration of these financial markets between countries leads to the emergence of a global capital marketplace or a single world market. In the long run, increased movement of capital between countries tends to favor owners of capital more than any other group; in the short run, owners and workers in specific sectors in capital-exporting countries bear much of the burden of adjusting to increased movement of capital. It is not surprising that these conditions lead to political divisions about whether or not to encourage or increase international capital market integration. Those opposed to capital market integration on the basis of human rights issues are especially disturbed by the various abuses which they think are perpetuated by global and international institutions that, they say, promote neo-liberalism without regard to ethical standards. This can also

\textsuperscript{38} Sharma, Prabha, Shashi, \textit{Gandhian Holistic Economics}, op. cit., pp. 63-64.
be referred to as “corporate capitalism”, as previously mentioned, which are money driven organizations such as the World Bank and the International Monetary Fund, along with many of the popular and competitive multinational corporations, like Nike and other institutions. Common targets include the World Bank (WB), International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD) and the World Trade Organization (WTO) and free trade treaties like the North American Free Trade Agreement (NAFTA), Free Trade Area of the Americas (FTAA), the Multilateral Agreement on Investment (MAI) and the General Agreement on Trade in Services (GATS). In light of the economic gap between rich and poor countries, movement adherents claim "free trade" without measures in place to protect the under-capitalized will contribute only to the strengthening the power of industrialized nations. Some of the powerful Northern corporations have implemented policies like privatizing public industry and reducing tariffs. By doing this it has created a growth in sweatshops in the developing world, where wages are minimal and unfair, and conditions are unsafe to the workers’ health and psychological state. The global North can benefit from this by getting goods for a cheaper monetary amount. However, this is at the expense of these impoverished people and the community or country as a whole. Now, fair trade has been introduced in order to attempt to rebuild the economies of third world countries by paying employees, who work to produce goods to be exported, a fair price for their efforts.

**Rise of Corruption** Corruption inevitably leads to a diminished business climate when the public trust is put at risk. Corruption can take many forms that can include graft, bribery, embezzlement and extortion. Its existence reduces business credibility and profits when professionals misuse their positions for personal gain.
**Inefficiency** When resources are tampered with and used improperly, the efficiency of a business suffers. Insufficient resources are available to effectively run the business and maintain its levels of operations. When the news about corrupt business professionals breaks, customers lose respect and trust, requiring company officials to spend valuable time and resources to monitor the fallout and reassure clients the company is still viable. Legal fees, penalties and public relations efforts reroute important resources form the core business and lead to an inefficient use of company funds and personnel.

**Lost Resources** In addition to the inefficient use of resources, corruption can have a number of other economic impacts on business. Employee ranks often are inflated to cover up the corrupt professional’s activities. The cost of increasing employee ranks in addition to any embezzlement that is going on is passed on to consumers in the form of higher prices. Prices also can be inflated when corruption takes place outside a company in the form of corrupt government officials who take bribes. Consumers pay the costs of vendor corruption when purchasing agents require payoffs, or when vendors skim profits and raise prices to cover their illegal activities.

**Weakened Development** Investors are skeptical of doing business with companies and municipalities that are known for corruption. Whether you are seeking investment to grow your firm or you sell investments for a living, you will have a much harder time finding willing investors when bribes or in-kind favors are required, or your business has a history of corruption within its ranks. Competition is unfairly affected when investors’ risk is multiplied by changing business climates that follow corrupt business practices. Due diligence is defeated when the facts change
according to the current levels of corruption. Practical investors steer clear of businesses with a corrupt history.

*Increases Crime* The results of corruption in business add to the burgeoning roles of crime-fighting government agencies, police departments and internal investigators. The trickledown effect of corruption usually ends up feeding black market interests, and may even support the efforts of organized crime as the activities infiltrate various business levels. Corruption begets continued criminal activity when it goes undetected. The effects of corruption in emerging third world countries is evident and widespread, but even in America, where competition and greed can outweigh the good of society, corruption fuels the growth of criminal enterprises and eventually affects the society in which the business operates.

In many ways, industrialization and globalization of Business is negatively impacting our world today. Ever since the industrial revolution took place in 18th century, human beings have been consuming natural resources to achieve unprecedented material development. After the conflict between capitalism and socialism, a characteristic of the 20th century, the 21st century is now observing the expansion of the market mechanism to enable capital to make profits on a global scale. This process is, however, extensively devastating forests, polluting air, and water at an accelerating pace, and will thus drive human beings and other species to the fringe of extinction. Impact of industrialization is the release of mercury into the world's lakes from manufacturing, mining, fossil fuel combustion, and hazardous waste combustion. The release of carbon dioxide into the air from factories pollutes the world's air, harming the environment. Factory pollution is one of the causes of global warming, which is the theory that all around the world; the temperature on earth is
increasing. Global warming is the effect of two hundred years of burning fossil fuels, such as coal and oil. These fossil fuels released from factories prevent the heat on earth from escaping into space, causing the temperature to rise. In the hey-day of laissez-faire capitalism of Europe, the basic maxim of business: maximize profits. Social responsibility and ethical practices have no place in its philosophy. The business of business is business. Business began merely as an institution for purpose of making money. So long as a man made money and kept himself out of jail he was considered successful. He do not feel particular obligation and acknowledge no responsibility to the community. As he was the owner of his business he thought he had a perfect right to do with it what he pleased. Business is not an end itself. It is only a mean to an end. That end is man himself. Therefore business has to contribute to man’s happiness, his freedom, his material, moral and spiritual growth.

Export of Profits - large multinational are likely to repatriate profits back to their 'home country', leaving little financial benefits for the host country.

Cultural and social impact - large numbers of foreign businesses can dilute local customs and traditional cultures. For example, the sociologist George Ritzer coined the term McDonaldization to describe the process by which more and more sectors of American society as well as of the rest of the world take on the characteristics of a fast-food restaurant, such as increasing standardisation and the movement away from traditional business approaches.