Is the Common Good Improved by Economic Globalisation and the Activities of Multinational Corporations?

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Abstract

After embracing globalization, some countries have achieved fast growing. Meanwhile, many multinational corporations (MNCs) have made significant profits and also contributed a lot to economic growth. However, opponents believe that the benefits haven't been equally shared and view it "as a threat to prosperity, cultural integrity, and the environment" For developed countries that compete successfully in the globalisation process, globalisation causes great economic growth and prosperity .On the contrary, developing countries that are excluded in the globalisation process become more marginalized and more vulnerable. Although globalisation has many benefits, the common good hasn't been improved by economic globalisation and the activities of MNCs.

Keywords: Globalisation, Developing countries, Developed countries, Positives, Negatives

1. Introduction

Globalisation is the "buzzword" of the modern world. Basically, economic globalisation refers to "the removal of barriers to free trade and the closer integration of national economies" (Stiglitz, 2002,p.ix). It describes the global increasing integration of economies through trade and financial flows as well as movement of people and knowledge across international borders (Harris & Seid, 2004)."The globalisation of markets" written by professor Theodore Levitt in 1983 was a landmark article concerning globalisation. Levitt asserted that "the future belonged to companies that make and sell 'the same thing, the same way, everywhere'"(Levitt, 1933 cited in O'Higgins 2003,p.53). After embracing globalisation, some countries have achieved fast growing. Meanwhile, many multinational corporations (MNCs) have made significant profits and also contributed a lot to economic growth. A MNC refers to "a company that is headquartered in one country but has operations in other countries"(Eweje, 2005,p.5,lecture 3). However, globalisation has given rise to growing forceful worldwide anti-globalisation movements, and has attracted the hot debates from researchers, corporations, policy makers and social activists since 1980s. Proponents regard it as a force for economic growth; however, opponents believe that the benefits haven't been equally shared and view it "as a threat to prosperity, cultural integrity, and the environment"(Eweje, 2005, p.6, lecture 2). The purpose of this paper is to discuss the common good is not improved by economic globalisation and the activities of MNCs.

2. Context-History of globalisation

Economic globalisation has a long history. "Globalisation is the forward march of civilization through history, placing humanity's mark on earth" (Yong, 2004,p1). Globalisation rooted in the 15th century when western explorers voyaged for new trade routes. The Dutch Republic dominated European ocean trade in the late 16 century. In 18th century, industrialisation enhanced Britain's position as a global empire builder. In 19th century, only Europe and North America took part in the international economy activities. Now Asia, Latin America and Africa are all involved in the globalisation (Young, 2004). Besides the broader geographic areas, commerce and financial services today are more advanced and deeply integrated than ever before (IMF, 2000).

3. Present state

Generally speaking, economic globalisation can lead to both positive and negative effects to the common good. As the driver and actor of economic globalisation, MNCs play a critical role in causing the effects of globalisation.

3.1 Positives of globalisation

First of all, Globalisation led to economic growth and higher incomes of both rich and poor people. International trade is very helpful for economic development. Globalisation offers liberated market and creates more opportunities for trade. Because of increased export, many countries in Asia are growing fast, and millions of people there are reducing poverty .Due to the liberalisation of trade, consumers have better access to more goods at low price. Then people's living standard has been improved and people now live longer than before (Stiglitz, 2002).

Globalisation has huge potential for global integration, and it helps developing countries to improve their isolated

situation. Globalisation is driven by high technologies, such as internet, digitalisation, satellite communications … ant etc. The advanced communication technologies connect people everywhere. It helps people in the developing countries to know what's going on in the world, and facilitate them access to knowledge. And MNCs play an important role in transferring managerial and marketing skills, advanced technologies and new products from developed countries to developing countries (Stiglitz, 2002).

Globalisation is also helpful to improve the health conditions in the world, especially in the developing countries. International corporations, such as the international Red Cross, facilitates the movement of knowledge and medicines from the developed countries to developing countries (Stiglitz, 2002).

Besides these unquestionable good influences of economic globalisation, there are some arguments in favour of globalisation.

The proponents view that Globalisation is poor countries' main road out of poverty. "Economic 'globalisation' is a historical process, the result of human innovation and technological process"(IMF,2000, p.2). The poor countries should accept the progressive globalisation in order to fight against poverty. And without globalisation, there would be more poor people today (Gaunt,2002 cited in Eweje, 2005). The number of people living on less than $1 a day has decreased greatly from 55 percent to 24 percent of world population (O'Higgins, 2003).

Advocates make the point that Globalisation provides lots of employment opportunities for developing countries. Due to the low labour cost in developing countries, many MNCs relocate their operation to these countries. Compared to local enterprises, MNCs always offer higher wages. Local people, especially woman who are not able to make much money, prefer to work in MNCs(O'Higgins,2003).In addition, local people benefit from upgrading skills and advanced technologies.

The advocates also believe that the international financial and trade institutions (IFTIs), which are the main institutions that govern globalisation, plays an important role in transferring loan and aid from developed countries to developing countries. The WTO is a democratic institution with one-member, one-vote rule, and most member countries have democratically elected governments.

3.2 Negatives of globalisation

Besides the benefits mentioned above, many people do believe that globalisation has lost of negatives.

First of all, the benefits of globalisation haven't been shared by millions of world's poor. The income gap between the richest and the poorest countries is enlarged. In the period 1960-1962, average income accounted for $212 per capita in poor countries and $11,417 in the rich countries; by 2000-2002, average income increased by only $55 to $267 in poor countries, but average income increased by $20,922 to $32,339 in rich countries (Versi, 2004). Moreover, the actual number of poor people has gone up by almost 100 million meanwhile the total world income improved by 2.5% averagely each year (Stiglitz, 2002). And 22 industrialized countries, which stand for 14 percent of the world's population, master about half of the world's trade and over half of its FDI (Versi, 2004).

An anti-globalisation economist Mark Weisbrot (2002) noted that the growth rate per capita GDP in all low and middle-income countries in the last 20 years decreased a lot compared to the previous rate. For example, per capita income in Latin America increased by 75 percent from 1960 to 1980, but it grew only 7 percent from 1980-2000.

Globalisation didn't ensure the world's stability. The loose capital market in Latin America and Asia is beneficial for Western bank, but Latin America and Asia suffered crises when huge amount of 'hot money' that had flooded into suddenly poured out. Price inflation occurred and even the currencies were collapsed. Such kind of crises result in high investment insecurity, massive unemployment and problems of social dissolution. The stability of all developing countries is under threat (Stiglitz, 2002).

Although MNCs provide many jobs in the poor countries, "they are exporting jobs to low-wage countries"(Eweje, 2005,p.19, lecture 3). MNCs have the opprobrium to exploit workers in their sweatshops. Opponents protest that MNCs, such as Wal-Mart, Gap and Nike, ask workers work in prison-like environment and pay them subsistence wages. Workers haven't got workers' rights and are treated inhumanly. For example, Nike paid only US$0.45 per day for their sweat-shop workers in Indonesia in 1991, not enough to maintain the basic living (Roddick, 2001). Some MNCs don't run their own factories and subcontract the work to local enterprises, which are usually more oppressive than MNCs. In this way, MNCs don't oppress workers in poor countries directly, but they do it indirectly. They are held liable for human rights falling (O'Higgins, 2003).

In addition, the nature of the work is low-level. MNCs usually keep knowledge-based, high value activities at home or advanced countries. In another words, MNCs keep the technology and skill distance between the poor and rich countries (O'Higgins, 2003).

IFTIs behaves in favour of the rich countries. Although the IFTIs, like IMF, WTO and World Bank have done something good to the developing countries, they don't act democratically. These institutions pay much attention to protect the rich countries' interest, and developing countries' interests are ignored. For example, seven western countries, called G 7, control about half of the voting power in the World Bank and IMF. These countries are USA, Japan, France, UK, German, Italy, and Canada. USA and Europe share the top jobs in the World Bank and IMF habitually. There is no wonder that the IFTIs work for the rich countries (O'Higgins, 2003). Moreover, Seattle anti-globalisation demonstration protested that WTO didn't treat the North and the South equally, and not enough nongovernmental organizations could take part in its decision making (Institutional Investor,2000).

"The west has driven the globalisation agenda, ensuring that it garners a disproportionate share of the benefits, at the expense of the developing world"(Stiglitz, 2002, p.7). The Western countries insist poor countries to reduce trade barriers, but they maintain their own barriers by imposing tariffs, quotas or subsidizing their own industries. This is particular in the fields of agricultural goods, which is the critical source of export income for developing countries (Stiglitz, 2002). With entering the WTO, developed countries increased their agricultural subsidies. For instance, between 1995-1998, the rich countries of the Organization for Economic Cooperation and Development (OECD) doubled their agricultural subsidies from US$182 billion to US$362 billion totally; in 2001, the US House of Representatives decided that US$170 billion would be spend in supporting agriculture, and 64 percent of them would be used to increase subsidies (Kelsey,2002). Have removed the domestic supports and tariffs, developing countries can't compete with them.

Moreover, the prices of products on the "terms of trade" benefit only the developed countries, and the poor countries get the lower prices than what they paid for their imports. So some poor countries become poorer (Stiglitz, 2002). In the case of rural farmers in Uganda (Mubiru, 2003), the farmer's work harder, but the price of their coffee reduced a lot because of oversupply, and their earnings have been decreased 6.25 times.

In addition, antidumping laws often trouble developing countries unfairly. And they have to bear restrictive quotas on agricultural goods, clothing and textiles (Institutional Investor, 2000).

"Conditionality" undermined the cumulative trade benefits. Lenders imposed adverse conditions on poor countries for their assistance, such as high interest rate, undermined national sovereignty and short-term debt. Because the loan is borrowed in short-term form, the borrowers tend to default. And the IMF takes some measures to force these countries to pay the original loan back. Normally the poor countries have to bear further debt (O'Higgins, 2003).

The open markets of developing countries are vulnerable when lots of harmful goods pour into the markets easily. Tobacco companies of developed countries market their products to the poor people in the developing countries, who are too weak to resist the sales promotion. And governments are involved in it due to corruption. This causes the spread of smoking-related diseases (O'Higgins, 2003). Besides tobacco, globalisation accelerates the expansion of drugs trade in these countries.

Another disadvantage to developing countries is that traditional cultures are threatened by western cultural domination and loose their legitimacy. Western brands and logos pour into emerging markets when MNCs do businesses in developing countries. MNCs do lots of advertisements and promotions to impose their brands and cultures on the people in their home countries. Then western cultural norms occupy people's mind gradually. For example, Chinese didn't like western fast food in the past. But now McDonald and KFC are popular in China, particularly welcomed by children. And production standardization and uniform marketing facilitate western cultures to take place of the local culture by market brands (O'Higgins, 2003).

Globalisation leads to environmental resource and infrastructure degradation. Decreased forests and mineral resources change the earth's surface, growing factories pollute the air, water and land, crowded residential spaces destroy rural landscapes… and etc (EBF issue 19,2004). According to the finding of a study, in the Niger Delta, oils MNCs such as Shell, Mobil, Agip and Elf have generated environment pollution in oil production process, which hurt the local farming and fishing, and even the drinking water supply in the neighbouring communities was affected. Moreover, the potential harmful effects contain loss of property and diseases (Essential Action, 2000).

The flexibility of globalisation has bad effects as well as good effects on developing countries. Globalisation offers MNCs the flexibility to find the lowest cost but best value operations. MNCs consider about the lowest cost in terms of labour and factor costs, tax and exchange rate savings. The country, which has been chosen to be a site for their activities, can gain vast benefits if the operation involves many local enterprises. Local suppliers seek to establish the supply chain partnerships with MNCs. Then the host country can benefit from more jobs and general learning. "It is a win-win situation for everyone"(O'Higgins, 2003,p62). However, MNCs can evacuate suddenly if they find a cheaper place for their operation. This leads to huge jobs lost both at the MNCs site and in a series of suppliers' factories. And local economy is hit as a whole. Furthermore, MNCs locate or relocate their subsidiaries due to taxi

rate, which are involved in tax avoidance issues (O'Higgins, 2003).

4. Future directions of globalisation

"A better globalisation is the key to a better and secure life for people everywhere in the 21st century"(Versi,2004, p.2). But economic globalisation has marginalized the benefits of the poor people, and has led to a growing gap between rich and poor. How to make globalisation work for all the people in the world?

Firstly, globalisation should focuses on people rather than markets. "Markets may generate wealth, but they are amoral. What is missing is values, underpinned by politics"(George Soros, 2002 cited in O'Higgins, 2003,p.63). Even if MNCs don't cause the world's ills directly, they involve it. If MNCs take responsible globalisation strategies, some adverse effects of globalisation can be reduced (O'Higgins, 2003); meanwhile, responsible globalisation strategy is also a good long-term strategy for MNCs.

A good example is a diamond certification scheme to end the civil wars. Some countries finance civil war by the income from "blood diamonds". The traders and jewellers joined the scheme to buy only legally mined and certified diamonds because they realized the importance of customer perception (O'Higgins, 2003).

Another example is Global Compact, led by Kofi Annan, which is a powerful organisation between MNCs and UN. The Compact push corporations to sign up and act on nine principals, including human rights, labour and environment (O'Higgins, 2003). Now there are more and more corporations, labour groups and civil society organizations joining in the Compact because it can improve the companies' reputation and brand images.

Secondly, the rules of the global economy should be rewritten. Anti-globalisation protesters claim that the rules of globalisation are unfair. Democratic reforms should be held in the IFTIs, such as World Bank, the IMF and the WTO. The present G7 countries (USA, UK, Germany, France, Italy, Japan and Canada) should be expanded to G16, including countries from the developing world. And the international financial system should be regulated.

Lastly, the international community ought to forgive the debts of the world's poorest countries, and democratic government's old debts inherited from the previous corrupt, undemocratic governments.

5. Analysis and critique-Winners & losers

Globalisation is not a win-win strategy for both the rich and poor countries. Obviously, the rich countries are winners of globalisation, and the poor countries are losers. The developed countries are winners, and most developing countries are losers.

Poor countries have no chances to embrace globalisation. According to O'Higgins(2003), open market and free trade play a critical role for major market participation ,but generally major markets are not located in the poorest countries. And countries can benefit from trade when they can sell more and buy more, such as in the case of China and India. However, trade can't help the poorest countries that have no economic or social organization. The poorest countries in sub-Saharan Africa are not able to attract FDI even if the labour cost is very low there (O'Higgins, 2003). Furthermore, most capital is not invested in poor countries. For instance, during the early 1980s to 2000, about 90 percent of foreign direct investment (FDI) went to developed countries, and only 10 percent of FDI went to developing countries (Versi,2004).

Poor countries are unable to embrace globalisation. MNCs act as "powerful engines" to grow the world's economy, dominating the worldwide flows of capital, goods and services (Eweje, 2005). MNCs gain competitive advantages through globalisation practices. But majority of the MNCs belong to the developed countries, and no MNC among the top ten MNCs is belonged to developing countries. How can the poor and middle-income countries gain the same benefits as the developed countries from the globalisation practices?

Poor countries can't share the benefits of globalisation equally with the rich countries. Globalisation has driven the economic expansion successfully. Now the accumulated capitalist liquid wealth has reached about $79 trillion, which is enough to help every person in the world to get rid of poverty through work (Yong, 2004). However, parent company in developed country collect back profits gained in other developing countries by its subsidiary (Eweje,2005). Then the rich becomes richer, and the poor becomes poorer.

6. Conclusion

Generally speaking, economic globalisation and the activities of MNCs can result in benefits and harms to the common good. For developed countries that compete successfully in the globalisation process, globalisation causes great economic growth and prosperity .On the contrary, developing countries that are excluded in the globalisation process become more marginalized and more vulnerable. As the driver of the globalisation, MNCs contribute to the economic growth, but they are involved in exploiting workers and natural resources (Eweje,2005).The IFTIs works in favour of the rich countries. So there is no doubt that the benefits of globalisation haven't reached the poor people

in the world, and globalisation has widened the gap between the rich and poor. Moreover, globalisation has caused environment degradation, and has facilitated the corruption and the human rights fallings (Eweje,2005). To sum up, although globalisation has many benefits, the negatives of globalisation overweigh its positives. And the common good hasn't been improved by economic globalisation and the activities of MNCs.

If amoral globalisation combines with corporate social responsibility and the unfair rules of globalisation are rewritten, globalisation will work better for all the people in the world.

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