

INTERRELIGIOUS AND INTERNATIONAL FEDERATION FOR WORLD PEACE

“Sustainable Development:
The Role of Multinational Corporations”

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The following remarks were presented at a panel on “The UN and Freedom from Poverty,” hosted by the Interreligious and International Federation for World Peace, Assembly 2000 conference on “Renewing the United Nations and Building a Culture of Peace,” at the Waldorf-Astoria Hotel in New York, Aug. 17-20, 2000.

Sustainable Development: The Role of Multinational Corporations
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The economic role of multinational corporations (MNCs) is simply to channel physical and financial capital to countries with capital shortages. As a consequence, wealth is created, which yields new jobs directly and through “crowding-in” effects. In addition, new tax revenues arise from MNC generated income, allowing developing countries to improve their infrastructures and to strengthen their human capital. By improving the efficiency of capital flows, MNCs reduce world poverty levels and provide a positive externality that is consistent with the United Nations’ (UN) mission — countries are encouraged to cooperate and to seek peaceful solutions to external and internal conflicts.

It follows that a supporting role for the UN would be to motivate developing countries to achieve the necessary political and economic environment that attracts foreign direct investment (FDI). Nations lacking FDI have common characteristics: they have economies that are heavily dependent on government regulations and controlled by inefficient state-operated monopolistic enterprises, and they tend to have non-democratic regimes. As a consequence, these nations are experiencing extreme rates of poverty, repressed human rights, and excessive environmental damage. These problem countries are primarily concentrated in Sub-Saharan Africa, South Asia, North Africa, and the Middle East.¹

An important role currently undertaken by the UN is the provision of a valuable and detailed assessment of the economic impact of MNCs through its publication of the World Investment Report. In addition, the UN’s publication of the Human Development Report and the World Bank’s World Development Report, provide researchers with a broad picture of trends in world welfare. These reports, however, present static measures of income inequality and are thus too limiting. According to Nancy Birdsall and Carol Graham, the UN and World Bank should also analyze measures of mobility.² Studies that focus only on income inequality, as emphasized by Jere Behrman, may be highly misleading because countries may have identical income distributions but far different social welfare levels due to differences in economic and social mobility.³

The primary thrust of this paper is to examine the myths and facts about MNCs that underlie public opinion and thus shape public policy.⁴ In particular the paper addresses the following questions: Are profit-motivated MNCs engaging in destructive competition and insidious plots to economically and politically manipulate entire economies? Are MNCs methodically eliminating domestic firms in order to exploit their monopoly powers? Do MNCs export high-wage jobs to

¹ *World Investment Report 1999: Foreign Direct Investment and the Challenge of Development*, United Nations, New York and Geneva, 1999, pp. 45–73. Bryan T. Johnson, Kim R. Holmes, and Melanie Kirkpatrick, *1999 Index of Economic Freedom*, The Heritage Foundation and *Wall Street Journal*, 1999, pp. xix–xxviii.

² Nancy Birdsall and Carol Graham (EDs). *New Markets, New Opportunities? Economic and Social Mobility in a Changing World*, Brookings Institution Press, Washington D.C., 2000.

³ *Ibid.*, Chapter 4, Jere R. Behrman, “Social Mobility: Concepts and Measurement.”

⁴ Also see Gary Quinlivan, “Multinational Corporations: Myths and Facts,” *Religion & Liberty*, Acton Institute, Winter 2000.

low-wage countries? Are MNCs undermining the world's environment? Are MNCs augmenting the external debt problems of developing countries? Are MNCs perpetuating world poverty? Do MNCs exploit child labor?

Monopoly Power?

Competition is not destructive, it has compelled MNCs to provide the world with an immense diversity of high-quality and low-priced products. Competition, given free trade, delivers mutually beneficial gains from exchange and sparks the collaborative effort of all nations to produce commodities efficiently.

Has the monopoly power of MNCs grown? Granted, some MNCs are very large: as of 1998, they produced 25 percent of global output, and in 1997, the top 100 firms controlled 16 percent of the world's productive assets and the top 300 controlled 25 percent. Firm size and market power, however, are dynamic. The Wall Street Journal (WSJ) annually surveys the world's 100 largest public companies ranked by market value.⁵ Comparing the rankings in 1999 to that of 1990, there were five new firms (Microsoft, Wal-Mart, Cisco Systems, Lucent Technologies, and Intel) in the top ten. Four of the five new firms were not even in the top 100 in 1990. Even more remarkable is that there were 66 new members on the 1999 list. The UN tracks the 100 largest nonfinancial MNCs ranked by foreign assets.⁶ Although not as dramatic as the change in the WSJ rankings, from 1990 to 1997, the UN reported a 25 percent change in the composition of their top 100. An increase in monopoly power should also lead to fewer and larger MNCs, but as reported by the UN, from 1988 to 1997, the number of MNCs rose substantially from 17,500–20,000 to approximately 60,000 with over 500,000 foreign affiliates.⁷

Has the increase in foreign direct investment (FDI) by MNCs harmed domestic investment? The UN's 1999 World Investment Report cited two recent studies: the first, by Eduardo Borensztein, José de Gregorio and Jong-Wha Lee, found an additional dollar of FDI increases, crowding-in, domestic investment in a sample of 69 developing countries by a factor of 1.5 to 2.3; the second study, by the UN, utilized data from 1970 to 1996 for 39 mostly developing countries and found a strong crowding-in effect associated with FDI in Asia, but offered some evidence of a possible crowding-out effect in Latin America.⁸ An alternative avenue to examine crowding in/out effects is to survey the number of new firms that enter the marketplace. According to World Bank data covering 133 countries, the number of firms (excluding investment companies, mutual funds, and some others) incorporated and listed on stock exchanges increased from 29,189 in 1990 to 40,394 in 1997.⁹ Sub-Saharan Africa was the only region with a negligible increase in the

⁵ "The Global Giants: U.S. and tech firms gain ground in annual survey," World Business Rankings, *Wall Street Journal*, September 27, 1999, R29–R31.

⁶ *World Investment Report 1999: Foreign Direct Investment and the Challenge of Development*, United Nations, New York and Geneva, 1999.

⁷ *Ibid.*, pp. 5–6.

⁸ *Ibid.*, pp. 171–3.

⁹ *World Development Report: Entering the 21st Century*, Oxford University Press, 1999/2000, Table 16. The number of domestic incorporated companies listed "excludes investment companies, mutual funds, and other collective investment vehicles" (p. 243). Also see Gary Quinlivan, "The Multilaterals," chapter in *Globalization of the Economy: the Effects on Politics, Society and Family*, edited by Lee Edwards, Paragon Press, expected

number of listed domestic companies.

Coordinated international manipulations of markets are almost always government supported and directed. For example, in the first two quarters of 2000, OPEC, the Association of Coffee Producing Countries, and the Cocoa Producers Alliance cartels attempted to force commodity prices upward. In the 1970s, OPEC's oil price distortions were a major source of world recession and the increased external debt and poverty of developing countries. Fortunately, free markets protect consumers from prolonged abuses by government-sponsored monopolies and cartels.

The Right/Left Wing Conundrum

Paradoxically, both the extreme right and extreme left are united in their belief that MNCs, with an evil intent, are infringing on national sovereignty.¹⁰ They view MNCs to be amoral government-manipulating rent-seeking monoliths that exploit the lack of environmental regulations and cheap foreign labor in developing countries.¹¹ Their remarks, however, lack substance.

MNCs do not operate with immunity — they are heavily monitored both in the United States and abroad.¹² Admittedly, from 1991 to 1998, there has been a tendency toward the liberalization of FDI regulations. According to the UN, there were 895 new FDI regulations enacted by more than 75 countries, but only 52 of these regulations sought greater control over FDI.¹³ The role of multilaterals (primarily the UN and World Bank) should be to promote responsible deregulation that encourages competition, discourages rewards to special interests (both domestic and foreign), and defines and protects private property rights.

Profits are very important to MNCs, but their investment decisions are heavily deterred by the presence of economic and political corruption. A UN survey of MNCs revealed that the number one reason MNCs do not invest in given countries is the presence of extortion and bribery, and not surprisingly, the main source of the corruption is government officials. Both the International Chamber of Commerce and the International Organization of Employers have established social codes and standards agreed upon by their members that attempt to discourage bribes and extortion and to establish principles for responsible environmental management.

MNCs are not committed to the destruction of the world's environment, but instead have been

publication date is 2001.

¹⁰ Patrick Buchanan, "An American Economy for Americans," *Wall Street Journal*, 9-6-95, p. A14. Also see See Murray Weidenbaum, "The Great Confusion: A Conservative's Response to Pat Buchanan's *The Great Betrayal*," Center for the Study of American Business Forum, Number 4, March 1999; Will, George, F., "Buchanan errs on 'protectionism,'" *Tribune Review*, 11-5-95, editorial section; and Lindsey, Brink, "Free-Trade Nationalism," *The Weekly Standard*, 11-9-98, pp. 10–13.

¹¹ Gary Quinlivan, "The Multilaterals," chapter in *Globalization of the Economy: the Effects on Politics, Society and Family*, edited by Lee Edwards, Paragon Press, expected publication date is 2001.

¹² William H. Lash III, "The Exaggerated Demise of the Nation State," Contemporary Issues Series 80, Center for the Study of American Business, June 1996.

¹³ *World Investment Report 1999: Foreign Direct Investment and the Challenge of Development*, United Nations, New York and Geneva, 1999, p. 115.

the driving force in the spread of “green” technologies and in creating markets for “green products.”¹⁴ Market incentives (e.g., the threat of liability, consumer boycotts, and the negative impact on reputation) have forced firms to police their foreign affiliates and to maintain high environmental standards. The UN’s 1999 World Investment Report notes several studies that confirm foreign affiliates having higher environmental standards than their domestic counterparts across all manufacturing sectors. The UN also positively reflected on the efforts initiated by MNCs to assist domestic suppliers (“regardless of ownership”) to qualify for eco-labeling and to meet the ISO 1400 certification-environmental standards currently supported by more than 5,000 MNCs. MNCs have advanced several programs (e.g., Global Environmental Management Initiative, Caux Round Table, and the Global Sullivan Principles) to establish industry codes dedicated to achieving high levels of social responsibility.¹⁵

Multinationals are not siphoning jobs from high- to low-wage countries, in fact, they tend to preserve high-wage jobs in developed countries — in 1998, 75 percent of FDI went to developed countries.¹⁶ Besides, labor costs do not determine where MNCs base their affiliates, other variables are deemed to be collectively more decisive, e.g., political stability, infrastructure, education levels, potential for future markets, taxes, and government regulations.

The biggest threat to the national sovereignty of developing countries does not come from the MNCs but from rent-seeking initiatives to protect special interests under the guise of “level-field” trade agendas. For example, proposals, which seek to impose various enviro-labor standards have the support of or have been submitted as agenda items by the WTO, International Labor Organization, UN Conference on Trade and Development (UNCTAD), and non-governmental organizations such as the Union of Industrial and Employers Confederations of Europe and the International Confederation of Free Trade Unions. These organizations may have good intentions, but policies such as enviro-labeling and world minimum wage or compensation laws prohibit developing countries from fully participating in world trade.¹⁷

Jobs and Capital Formation

In 1998, MNCs had 86 million employees — 19 million in developing countries — and were also responsible for more than 100 million jobs created indirectly through multiplier effects.¹⁸ Indirect job creation is estimated, by the UN, to be 3 to 7 times the jobs directly generated by MNCs respectively in the manufacturing and food industries.

Foreign direct investment (FDI) is the most desired form of capital flow. The MNC is taking a long-term equity position in the domestic country. If the investment does well, both the MNC

¹⁴ Ibid, pp. xxvi–xxvii and Chapter X.

¹⁵ Ibid, Chapter XII.

¹⁶ Ibid., 32–76.

¹⁷ Jagdish Bhagwati and Herman E. Daly, “Debate: Does Free Trade Harm the Environment?” *Scientific American*, November 1993, pp. 41–57. Also see William H. Lash III, “Green Showdown at the WTO,” *Contemporary Issues Series 85*, Center for the Study of American Business, March 1997, p. 8.

¹⁸ *World Investment Report 1999: Foreign Direct Investment and the Challenge of Development*, United Nations, New York and Geneva, 1999, pp. 261–9.

and domestic country are better off — the MNC receives profits and the domestic country receives jobs, an expanded tax base, and capital formation. If the investment does not do well, the MNC may lose their investment and the domestic country does not receive the ongoing benefits aforementioned, but the domestic country owes no restitution. As a result, FDI does not contribute to the external debt problems of developing countries. In 1999, the United States received a record \$277.5 billion in FDI of which \$87 billion was channeled into manufacturing.¹⁹ In April 2000, the United States recorded its lowest unemployment rate (3.9 percent) in 30 years.

External debt problems are portfolio in nature and primarily attributable to loans from multilateral organizations (e.g., World Bank and IMF) and G-7 governments. Private loans are problematic to the extent that the government is involved and has given guarantees to support favored industries. Government loan guarantees cause moral hazard — the market does not correctly assess the risk associated with loans because a government, the IMF, and/or World Bank are expected to bail out the lenders if a crisis occurs.

According to the UN, in 1998, \$166 billion (\$760 billion from 1993 to 1998) or 25.8 percent of the world FDI inflow went to developing countries. Africa, Latin America and the Caribbean, and Asia, received respectively \$7.9, \$71.6, and \$84.9 billion of FDI. Only \$2.9 billion dollars of FDI was obtained by least developed countries (LDC), which are primarily composed of the Sub-Saharan African countries. Given risk conditions, capital flows to where it can earn the highest rate of return. The required risk premium is much higher when a developing country is experiencing civil wars, suffers from over regulation, has a weak infrastructure, is politically unstable, keeps its markets closed to foreign competition, has inflexible labor markets, and imposes high taxes.

The Heritage Freedom Index (HFI) measures the degree of economic and political repression present in developing countries.²⁰ As predicted, FDI is smaller in developing countries that are repressed. Based on the 2000 HFI, of the 18 economies in the Middle East and North Africa, 10 are either mostly unfree or repressed and only Bahrain is free. The results are even more dismal for Sub-Saharan Africa where 35 (make that 36 given Robert Mugabe's policy of land-grab terrorism) of the 42 economies in the region are mostly unfree or repressed.

Poverty

Evidence supplied by the World Bank and the UN strongly suggests that MNCs are a key factor in the large improvement in welfare that has occurred in developing countries over the last 40 years.²¹ In those countries (the LDC) where the presence of MNCs is negligible, severe poverty rates persist and show little sign of improvement.

From 1960 to 1995 for developing countries:²² The purchasing power parity measure of real per

¹⁹ *Survey of Current Business*, June 2000, Table D-52.

²⁰ Gerald P. O'Driscoll, Jr., Kim R. Holmes, and Melanie Kirkpatrick, *2000 Index of Economic Freedom*, The Heritage Foundation and *Wall Street Journal*, 2000.

²¹ *Human Development Report 1998*, Oxford University Press, 1998, pp. 19–106. The data used by the UN comes primarily from the UN's Children's Fund (UNICEF), UNESCO, UNECE, and the World Bank.

²² *Ibid.*, p. 22, Table 8, pp. 148–9, Table 9, pp. 150–1.

capita GDP improved a healthy 3.5 percent per year. While the LDC's growth rate was a mere 1.7 percent per year. Adult literacy rates increased from 48 to 70 percent. Only the Sub-Saharan African and South Asian regions' literacy rates remained stagnant. Overall, infant mortality rates dropped 56 percent. Children born in 1995 were expected to live 16 years longer as compared to 1960 — it took industrialized countries one century to achieve the same results. From 1980 to 1997, life expectancy for low income countries increased from 52 to 59 years.²³ Sub-Saharan Africa and South Asia were only able to increase their life expectancies from 48 to 51 and 54 to 62 respectively. But in developing countries most open to MNCs, the improvement in life expectancy has been dramatic: East Asia and Latin America and the Caribbean regions have achieved a life expectancy nearing that of the industrialized countries.

The daily per capita supply of calories, cereals, fat, and protein and the production of food has, with one minor exception, improved over the last 16 to 25 years at all levels of human development for developing nations.²⁴ The production of food per capita has risen 39 percent from 1980 to 1996. The weakest performance, from 1970 to 1995, in diet improvements and food production per capita occurred in Sub-Saharan Africa, which lost 3 percent of their daily per capita supply of protein and for whom food production per capita dropped 1 percent from 1980 to 1996. From 1975 to 1990-97, malnutrition rates for children under age five plummeted from 40 to 30 percent. Sub-Saharan African rates improved by only one percentage point and in South Asia, 50 percent of children under age five still suffer from malnutrition.

From 1980 to 1998, world child labor rates (i.e., the percentage of children working between the ages of 10 and 14) tumbled from 20 to 13 percent.²⁵ Child labor rates dropped from 27 to 10 percent in East Asia and the Pacific, from 13 to 9 percent in Latin America and the Caribbean, and from 14 to 5 percent in Middle East and North Africa. Regions lacking MNCs had the worst child labor rates and the smallest reductions: Sub-Saharan Africa's and South Asia's child labor rates dropped respectively from 35 to 30 percent and from 23 to 16 percent. The reduction in child labor rates was attributable to increased family income, which has permitted families to improve their diets, to have better homes, and to provide their children with more educational opportunities. As evidenced, enrollment rates for ages 6 to 23 rose for all developing countries from 46 percent in 1960 to 57 percent in 1995. Only Sub-Saharan Africa had an enrollment ratio below 50 percent in 1995.

Finally, following the financial crises of the 1980s, mobility case studies revealed increased economic and social mobility in Latin America and the Caribbean, especially in Peru and Chile.²⁶ As expected, almost all the contributing authors in Birdsall and Graham's book point out that education has been the principal reason for the increase in mobility over the last century. Once again, the improvement in education is conditional on increased real income and, thus, positively affected by the presence of MNCs.

²³ Ibid, Table 8, pp. 148–9.

²⁴ Table 9, pp. 150–1.

²⁵ *World Development Report: Entering the 21st Century*, Oxford University Press, 1999/2000, Table 3.

²⁶ Nancy Birdsall and Carol Graham (EDs). *New Markets, New Opportunities? Economic and Social Mobility in a Changing World*, Brookings Institution Press, Washington D.C., 2000.

Summary

The role of MNCs is underappreciated — they have provided developing countries with much needed capital, jobs, and environmentally friendly technologies. Through free market initiatives, MNCs create wealth, which provides the income flow necessary for welfare improvements. If the desideratum of developing countries is to escape severe conditions of poverty, they need to privatize, deregulate, protect private property rights, and establish a rule of law — the MNCs will then provide the capital.