



European
Youth
Debate
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Road to zero poverty

Do the multinational enterprises bring development in the poor countries?

Nowadays many European multinational enterprises play a significant role and have dramatic impact on the economy and populations of developing countries of South America, Asia and Africa. Is this new wealth compatible with the conditions for a sustainable development with a particular attention on human rights, labour protection, health and environment and produce actual welfare for the people?

Considering the recent declaration of Oxfam at the Conference of Addis Abeba that denounces the phenomena of tax avoidance, are these companies operating in a fair way or is there the necessity of a reform of the global fiscal system?

The two positions under debate reflect two different perspectives on the theme:

Position A *supports the thesis that Multinational enterprises are fundamental means for development and that the EU should therefore support their expansion in underdeveloped countries.*

Position B *supports instead the thesis that MNEs are a threat for the populations and states in which they operate. Hence the EU should act to disincentive their expansion and control their operations in order to defend the rights of the inhabitants of the underdeveloped states.*

Position A: MNEs are a mean for development

The level of investments of European multinational companies has a significant relevance in the underdeveloped countries of Asia, Africa and South America. This leads to the creation of a great deal of advantages for both the population of the underdeveloped country in which the MNEs operates and for the same company.

The MNEs can operate in a large number of countries and in very diversified business activities. Furthermore, multinational corporations enable the movement of private foreign capital around the world, hence becoming an important source of Foreign Direct Investment (FDI). Finally, it is through multinational corporations that modern high technology is transferred to the developing countries

A large number of macroeconomic indicators show that the presence of MNEs is an important component of the GDP of the poor countries as MNEs increase the level of wealth and employment, thus improving the general level of welfare. Moreover, balance of payments of countries with many MNEs tends to be more balanced as

net exports increase. An example of the effectiveness of MNEs is the rapid expansion in China's exports in recent years, which is mainly due to the large investment made by multinational companies in various Chinese industries.

Another positive feature of multinational corporations is that they transfer high and sophisticated technology to developing countries. This can lead to an increase in productivity of labour, and makes starting a new productive venture requiring high technology much easier.

Whenever, multinational firms set up their subsidiary production units or joint-venture units, they not only import new equipment and machinery embodying new technology but also skills and technical know-how. Local labour can learn how to use the new equipment and machinery, leading to faster accumulation of knowledge; MNEs also liberalize the markets, breaking up monopolies and creating a more competitive and efficient market.

For instance in India, the corporate public sector spends a small amount of resources on Research and Development (R&D). It is the giant multinational corporate firms who spend a lot on development of new technologies, ensuring that the country can benefit from this transfer and creation of new technologies. Therefore, MNCs can play an important role in the technological up-gradation of the Indian economy.

Furthermore, investments in infrastructure give a boost to industrial growth and help creating income and employment in the underdeveloped economies. The external economies generated by such investments by MNCs crowd in investments by the indigenous private sector and will therefore stimulate economic growth.

The particular and favourable conditions of taxation permits at the MNEs not only to survive in an aggressive market but also to obtain a higher margin of revenues and thus to expand the company and the network. This increase in strength improves the cooperation between the MNEs and the local supply chain and the contracted suppliers. This causes a further growth of the GDP and general of the wealth of people.

Some organizations accuse MNEs to not respect the standard work's conditions and underline the tragic phenomena of exploitation of women and children underpaid and obliged to work often for long shifts in unhealthy environments. While it is true that there have been in the past some scandals regarding child labour and involving some of the most popular western MNEs, now more severe sanctions are applied to prevent these violations of human rights and a higher public awareness is present.

It is important to underline that in underdeveloped countries, the conditions of workers employed in national firms is similar to the conditions of workers employed by the MNEs. Indeed, the lack of the most basic human rights is not created from MNEs but is a political problem regarding the singular States. In fact, is them who repress, also with the use of extreme violence, any kind of work strike and disagreement and to solve these issues, the ONU and supranational institutions must be present.

Position B: MNEs are a modern form of imperialism

The presence of MNEs in the third world countries can be seen as a new colonialism policy: the MNEs infringe upon the sovereignty of the third world countries, seek to gain control over their natural resources, impose unequal agreements upon them and impede the development of their independent national economies.

They exploit the developing countries under the excuse of developing different manufacturing units in the developing State itself. Their assets are growing at a fast rate. In addition, it has been found that these multinational corporations spend major portion of their foreign exchange in importing raw materials from their parent concerns abroad at exceptionally high prices.

A relevant example of decrease in sovereignty is the case of OGM products: OGM products like crops are patented which allows a few multinational companies to control the entire GM food chain. The multinational companies that patent and produce GMO seeds control the majority of the seed market and often also produce herbicides and fertilizers. Patenting genetic material has shifted the balance of economic power towards big business in their aggressive pursuit of profit.

GM crops displace the role of farmers, who have always improved and selected their own seeds. GM seeds are owned by multinationals to whom the farmer must turn every new season, because, like all commercial hybrids, second-generation GMOs do not give good results. It is also forbidden for farmers to try to improve the variety without paying expensive royalties.

They have reduced biodiversity, polluted landscapes, threatened the future of small-scale farming and reduced the food security of the world's poorest people. They have not fed the world, but rather concentrated profits and power into the hands of a few ruthless companies.

The MNEs activities pertain also dangerous industries as metals extraction, heavy engineering, petroleum, fertilizers and chemicals. Indeed, according to the World Health Organisation, over five people became victims of pesticide poisoning in countries like India, Pakistan, Sri Lanka and Indonesia and despite of persistent reports of poisoning they continue to push pesticides into the atmosphere.

All of this is possible because of the lack of standards of safety and pollution control. Moreover, regarding investments, MNEs do not undertake research and development to promote local technologies; they concentrate R&D within their headquarters and hence do not contribute in improving the economic and social development as there are exclusively direct investments to increase the power and relevance of the company.

The drain of resources of the developing countries does not concern only raw materials but also the tax system: there are consistent phenomena of tax avoidance. Companies use a range of tax avoidance schemes, tax havens, shell companies and intergroup structures to avoid taxes in order to boost profits and capital. These schemes result in a loss of tax revenues which undermines government legitimacy and prevents economic and social development policies, such as social welfare policies, from having a significant amount of resources.

In the last few years the effects of such tax schemes on the poorest people in the world have been considered by various bodies, including charities such as Oxfam and there have been calls for reform to prohibit MNE's to use these schemes. According to UNCTAD, developing countries lose an estimated US\$100 billion a year through just one kind of tax avoidance scheme involving tax heavens.

Oxfam (July 2015) denounced the phenomena of tax avoidance at the Conference of Addis Abeba against poverty. Furthermore, Oxfam proposed a global reform of the fiscal system but the negotiations are currently at a standstill because rich countries are vigorously opposing the establishment of an international tax body that would clamp down on corporate tax dodgers.

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