chapter 7

TNCs: Their Economic and Social Roles

CONTENTS

Some writers argue that the globalization of economic life has already proceeded to unprecedented levels and is set to intensify. At the heart of these claims is an assessment of the activities of the transnational corporations (TNCs). These ubiquitous bodies can be seen as the Trojan horses, or perhaps the battering rams, of international capital. Such is their power and influence that they are often accused of dictating to rich and powerful states, while completely overwhelming poor states. Is this kind of characterization demonology rather than social science? What are the origins of these organizations? Have they, in fact, escaped their national origins? What is their economic role in integrating the global economy? What are the social consequences, positive and negative, of TNCs' activities?

It is often assumed that TNCs have a wide sphere of autonomy. This is partly true; certainly this tendency might grow. However, to assess their pros and cons, we need to see their activities in three contexts – when acting alone, when acting in combination with powerful nation states, and when acting in the context of newly industrialized countries (NICs). The advocates and detractors of TNCs can each mount good cases for suggesting that their activities are benign or malign. Table 7.1 summarizes some of the issues we will consider in this chapter.

TNCS: THE

Table 7.1 TNCs and their social consequences

Process	*Positive social consequences*	*Negative social consequences*
TNCs expanding	Providing consumer goods, skills and new technology	Exercising power anonymously and without social responsibility
Forging alliances between powerful nation states and TNCs	States and corporations act jointly to develop research and technology at little cost to taxpayers	Diminution of the state's sovereignty and responsibility to its citizenry
Spread of TNCs to the NICs, especially in the export-processing zones	Provide jobs, raise standards of health and safety and pay taxes	Worker exploitation and too much power placed in the hands of local élites

ORIGINS AND CHARACTERISTICS OF TNCS

Conquest and trade were at the heart of the expansion by the European powers and often provided the crucible within which the TNCs were formed. 'Trade followed the flag', was the slogan adopted by the British imperialists. Often the scale of the operation was, at first, modest. Take the case of the British traders who penetrated the mouth of the Niger River in West Africa. They immediately starting trading with the local chiefs and eventually were successful in persuading the British crown to grant them a charter legitimizing their activities. Thus, the Royal Niger Company was founded. A soap manufacturer in Britain, W.H. Lever, bought the company and then amalgamated it with another trading company, the United Africa Company. The giant Unilever, the biggest UK-based transnational, ranking number 12 in the world, was born. The tropical origins of the company are reflected in the names of some of its products and locations. 'Palmolive' soap referred to the West African palm oil that went into its manufacture, while 'Port Sunlight', close to Liverpool, was where the tropical products were unloaded and processed.

Despite what history books in European schools maintain, overseas expansion was not only a European phenomenon. Less visible, but of profound importance, were the trading networks Chinese, Japanese and Indian merchants established all over East Asia – networks that started on a diminutive scale but often ultimately resulted in very large international enterprises. Let us mention as an illustration one of the big international Chinese trading clans, the long-established Teochiu. In 1939, the clan decided to advance a loan to one of its penniless but ambitious kinsmen arriving in Hong Kong as a refugee. This refugee, Li Ka-shing, has recently bought the sprawling 1986 Expo site in Vancouver for a massive expansion of his international property empire. He is reputedly worth $8000 million, having amassed his fortune from a transnational chain of factories making plastic flowers, buckets, toys and other household items. His economic philosophy is disarmingly simple: 'Plastic flowers are better: you can wash them and they last forever', he said (Seagrave 1995).

As with many of their Chinese and British counterparts, Japanese TNCs had their origins in giant trading companies (*sogo shosha*). National orientations are perhaps more decisive for these TNCs than in the Anglo-American case. Although now enormous integrated commercial, financial and industrial conglomerates, the Japanese corporations' initial and fundamental purpose was trade and the organization of trade.

Characteristics

Many of the world's leading TNCs are engaged in the exploitation of petroleum. Texaco, Shell, BP, Exxon, Gulf and Agip are the most notable and conspicuous. Even if you do not see one of these brand names on the forecourt of a filling station, it may still own the company or supply the petrol from its refineries. TNCs in manufacturing are often involved in producing the ubiquitous motorcar, which despite green protests, is still a healthy money-spinner. About one-third of the 30 biggest TNCs are motor manufacturers. Coming up on the rails, with one or two ahead of the field, are a number of information technology companies. The most prominent is the software giant, Microsoft, but computer and chip manufacturers are also prominent runners. (Chapter 14 contains a full discussion of the importance of information technology.)

An important characteristic of a TNC is that it operates in more than one, sometimes many, countries. Branch plants and subsidiaries, sales, research and development take place on many sites. Why do TNCs wish to locate abroad? Where they are involved in extractive industries or agriculture, the answer is obvious. They have to be where the oil is extracted, the gold is mined or the pineapples grown. However, the principal reasons for decentralization are to secure new markets or to stop their rivals getting there first. The movement of capital away from the USA and Western Europe after the 1970s was also partly to do with the difficulties of securing high profits and subordinating the labour force in the industrialized countries.

Many developing countries had abundant supplies of cheap, unorganized labour. The division of labour into more minute skilled and semi-skilled tasks, which was discussed in Chapter 4, allowed untrained or newly trained workers to attain rapidly the levels of productivity in the countries where industry was long established. The poor countries provided freedom from planning and environmental controls, cheap health and safety standards, tax holidays and other incentives. International transport and communications facilities in the form of containerized shipping, cheap air cargo, computer, telex and fax links had improved dramatically. Especially for low-bulk, high-value goods, it was no longer necessary for the site of production to be near the end market. Moreover, world market factories could be staffed by young women who were likely to remain unorganized (Fröbel *et al.* 1980; Cohen 1987: 220–53).

There are six big *sogo shosha* in Japan, two of which, Mitsubishi and Matsui, are household names in the West. They have massive bargaining power. The six top Japanese TNCs account for 8 per cent of world trade. To communicate between one branch and another, Matsui alone has 500 000 kilometres of communication lines, greater than the distance between the earth and the moon. As long ago as 1986, the daily volume of messages amounted to 110 000 dispatches containing 10 million words (Dicken 1992: 357). The *sogo shosha* provide:

- financial services (credits, loans, guarantees, venture capital)
- information services (up-to-date market profiles, national regulations, technological developments)
- risk-reduction services (insurance, buffers for exchange control regulations)
- organizational and auxiliary services (translations, legal contracts, transport, paperwork and wholesaling).

These services are for their own manufacturing plants as well as for other small companies that otherwise would not be in a position to compete effectively internationally. Although many people are aware of the great strengths of Japan as a manufacturing economy, Japanese TNCs are in fact more prominent in the trade in services (finance, commerce, banking and insurance).

Their number of employees outside the country where their headquarters are located can be used as a gauge of the degree to which all TNCs decentralize their operations. Although many TNCs employ a high proportion of their staff outside the country of origin, the most spectacular examples of this phenomenon are shown in Table 7.2.

Table 7.2 Foreign employees of selected TNCs (%)

TNC	*Foreign employees (%)*
Nestlé	96
British American Tobacco (BAT)	86
Ford	53
Imperial Chemical Industries (ICI)	52

Source: Dicken (1992)

As each new market is opened up by TNCs, consumer booms can massively fuel their profits. The great new frontier is China, where by the 1990s the biggest consumer boom in world history had begun. By 1995, China was already the third largest economy in the world after the USA and Japan. It is projected to be 'number one' by the year 2010. One seasoned observer of the contemporary Chinese scene (Seagrave 1995: 279) described how for some residents Beijing has thrown off its image as the drab capital of a drab communist country:

> Chinese yuppies were washing their hair in Procter & Gamble shampoo, starting their day with Nescafé instant coffee, driving to work in new Toyotas with electronic pagers clipped to their shirt pockets, then heading for the *karaoke* bars where they can sing along with music videos and mix Hennessey brandy in Coca-Cola. They bought new jeans and pullovers by mail from Land's End catalogues and ordered Tanga panties from Victoria's Secret... As average earnings passed the \$1400 a year mark, the majority of people in China for the first time were able to buy such basic consumer items as refrigerators... Given a population of over 1.2 billion, this meant that more human beings were escaping from poverty in one brief period than at any other previous time in history.

As can be inferred from the evocation of famous brands mentioned, the TNCs act as a symbolic and practical demonstration of western affluence and 'freedom', even if that freedom is sometimes individualistic, consumer led and often destructive of other people's opportunities. The former communist regimes found themselves particularly vulnerable to the notion that political freedom equated to consumer choice. On the day after the Berlin Wall came down, East Berlin youth celebrated their release from communist tyranny by swaggering down the main streets, cans of Coca-Cola in hand.

Definition

Having described the origins and some of the characteristics of TNCs, we are now in a position to give a more formal definition. In extending Dicken's argument (1992: 47) we arrive at a fivefold definition: TNCs

- control economic activities in two or more countries
- maximize the comparative advantage between countries, profiting from the differences in factor endowments, wage rates, market conditions and the political and fiscal regimes
- have geographical flexibility, that is an ability to shift resources and operations between different locations on a global scale
- operate with a level of financial, component and operational flows between different segments of the TNC greater than the flows within a particular country
- have significant economic and social effects at a global level.

TNCS AND THE NATION STATE

There are two contrasting views on the capacity of TNCs to challenge the nation state. The first lays emphasis on their *globalizing* capacities, a position we associate particularly with the work of Dicken (1992). The second, a more sceptical view developed by Hirst and Thompson (1996), suggests that while TNCs may have continued and fostered the long-established *international* economy, they have not established a global economy and have not superseded the nation state.

TNCs as globalizing agents

Dicken (1992) argues that the TNC is the single most important force in creating global shifts in economic activity. Ever since the 1950s, world trade – the sum of all the imports and exports bought and sold by all the world's countries – has grown significantly faster than world production. Dicken (1992: 16) sees this as 'a clear indicator of the increased internationalization of economic activities and of the greater interconnectedness which have come to characterize the world economy'.

This, in turn, points to the role TNCs play in binding together national economies. Foreigners own an increasing share of the value of many countries' 'national' assets in part or in whole. By the same token, a growing portion of each country's productive capacity, technological knowledge and skills is an organized extension of the capacities located in other countries. The era of nationally competing and separable capitalisms is now long in the past.

Much of the world's economic system is dominated by TNC decisions about whether or not to invest in particular locations. The resulting flows of raw materials, components and finished products, technological and organizational expertise, as well as skilled personnel constitute the basic building blocks of the global economy.

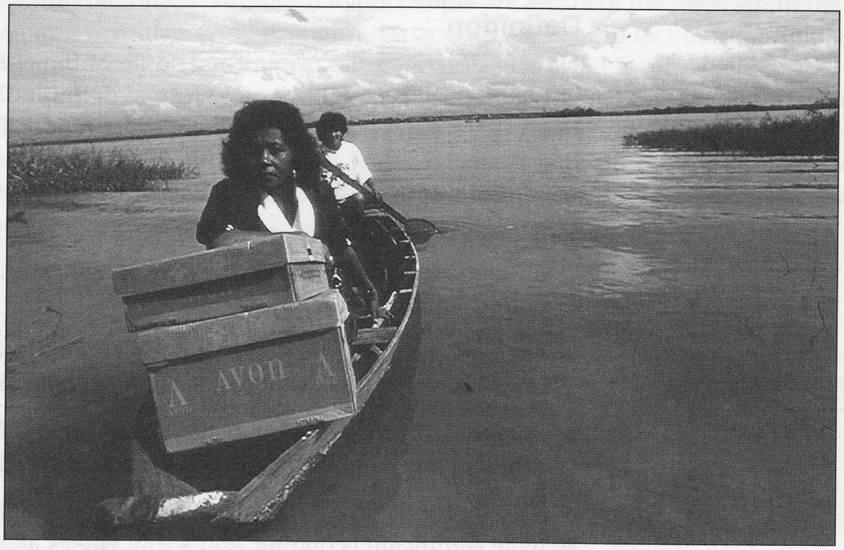


Figure 7.1 Corporate sale: the 'Avon lady' goes up the Amazon with cosmetics

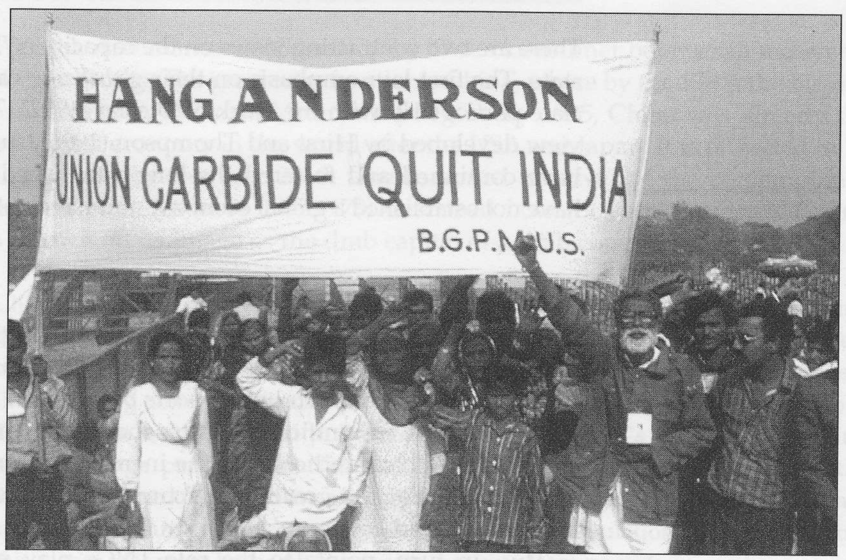


Figure 7.2 Victims of the Bhopal gas disaster demonstrate against the company in New Delhi, India

TNCs are responsible for an important chunk of world employment, production and trade. This is particularly true of production, where perhaps between one-fifth and one-quarter of all production is in the hands of the TNCs. Measuring trade flows is more elusive statistically, but what is clear is that a high proportion of world trade is intra-firm trade – where one section provides components or expertise to another part of the same TNC. More than 50 per cent of the total trade of the USA and Japan is conducted within TNCs. The Ford motorcar provides a good example. The standard car in its range is appropriately called the 'Mondeo' – or world car. It typically contains parts from 35 countries, most of them produced in the company's own branch plants and subsidiaries. The company skilfully mixes and blends to gain maximum benefit from the costs of labour, technical inventiveness, raw materials and transport. It is therefore able to supply all factories with Indonesian-produced brake pads, or Spanish-produced transmissions. Dual or multiple sourcing of a similar component produces healthy intra-firm competition and is a safeguard against labour protest. If country A's plant is threatened with strike action, country B's similar product can swiftly be brought on-stream.

Another way of understanding the global economic importance of TNCs is to take them as equivalent units to countries. In this measurement, of the 100 most important economic units in the world today, half are nation states and half are TNCs. As there are about 180 recognized states of the United Nations, this means that 130 of these states have economies smaller than the first 50 TNCs. Table 7.3 provides some evidence of the relative economic power of corporations, states and regions.

Table 7.3 Corporate, state and regional economic power

Corporate sales	*(US$ billion)*	*Countries/regions*	*(GDP US$ billion)*
General Motors	132.4	Indonesia	126.4
		Denmark	123.5
Exxon	115.7	Norway	112.9
		South Africa	103.6
Ford	100.1	Turkey	99.7
Royal Dutch Shell	96.6	Poland	83.8
Toyota	81.3	Portugal	79.5
IBM	64.5	Venezuela	61.1
		Malaysia	57.6
Unilever	43.7	Pakistan	41.9
Nestlé	38.4		
Sony	34.4	Egypt	33.5
		Nigeria	19.6
Top five corporations	526.1	Middle East and North Africa	454.5
		South Asia	297.4
		Sub-Saharan Africa	269.9

Source: UNRISD (1995: 154) citing 1992 data

Most of the countries listed in Table 7.3 represent a middle level in terms of their economic power. Yet in their case, let alone those of much weaker countries, powerful TNCs can cause extreme disruption to national economic and social plans. Here are some of the ways in which this might happen:

1. Local capital has difficulty competing. Although TNCs often appear to be benign in employment terms, in order to compete local employers have to lower wage costs and sacrifice quality.
2. TNCs have disproportional marketing power, even for an inferior product. When one of the present authors lived in the Caribbean, local outlets served wonderfully succulent and spicy portions of chicken. They were then undercut by a certain US 'brand leader', which subsidized imported chickens and took losses over a two-year period until it could drive the local firms out of business. Needless to say, the prices for its inferior product soon went up.
3. Local politicians are anxious to encourage inward investment and are often willing to accept corrupt payments in exchange for accepting the company's plans, facilitating its operations and allowing the sending of its profits out of the country without tax. Often these plans conflict with national plans. The poor countries are then often sucked into the cycle of further dependence.
4. TNCs are often in a position to influence tastes and consumption patterns in a negative way. We have already alluded to a fast-food outlet. While not perhaps a pleasant sensation, eating the product is unlikely to be lethal. In at least three other cases, this is precisely the problem:
   a. milk powders for feeding babies are offered through extensive advertising by firms like Nestlé. Not only are they less nutritious than mothers' milk ('breast is best' anti-Nestlé campaigners protested), but they can prove lethal if the formula is mixed with unsafe water
   b. corporations such as BAT use glamorous adverts to promote high-tar cigarettes that are banned in the rich market countries
   c. medicines controlled by doctors, antibiotics, for example, are often freely sold in the street markets of poor countries.

Although the issue of corporate social responsibility is discussed again later, we provide these dramatic examples here to show that in certain situations TNCs have the capacity to subvert and undermine the power of even quite large nation states.

International, but not global agents

Hirst and Thompson (1996: Chapter 4) examined data on more than 500 TNCs from five countries in 1987, and compared these with similar material on more than 5000 TNCs from six countries (France, Japan, the UK, the USA, Germany and the Netherlands) for the period 1992/3. They wished to ascertain whether and to what extent the activities of TNCs deepened integration between national economies while becoming largely independent of both their home and host governments.

They concluded that what stands out most clearly from all dimensions of TNC activity – sales, assets, distribution, profits and number of overseas interests – is

Thompson 1996: 95). These and other findings lead them to argue that the world economy may have become 'international' but it is certainly not yet a 'globalized economy' (1996: 8–13). They also suggest that the world's economy may indeed be hardly more 'international' than it was before the First World War.

Box 7.1 Case study of a leading TNC, Imperial Chemical Industries (ICI)

ICI's home base is Britain. It was founded in 1926 by merging the four largest UK chemical companies. Some of its nearest world competitors are Du Pont (in the USA) and BASF and Bayer (in Germany). At the beginning of 1999, it employed nearly 59 000 people worldwide and enjoyed a sales turnover of more than £9000 million. In 1989, it was ranked thirty-third in terms of sales turnover in a global list of industrial TNCs. It is the world's largest producer of paint for domestic and industrial (for example, coatings for vehicles) use. It is also a major manufacturer of explosives, industrial chemicals, soaps, textiles, fertilizers and packaging, as well as of materials used by a wide range of other industries such as acrylics and polyurethane. In 1995, more than 4000 of its employees were engaged in various research and development (R&D) activities distributed through regional centres across the world and linked to the specific research needs of different manufacturing plants.

ICI is clearly global in its operations. In all, it directly owns subsidiaries or has entered various partnership arrangements with local firms involving operations in 55 countries. In 18 of these, its activities are confined to setting up branch offices to co-ordinate administrative activity in that country, mostly linked to local sales promotion of its products. However, it has established at least one manufacturing plant in 36 countries and has set up research facilities in 17 different countries. Its achievements in creating a truly global spread of technology, research and production facilities are thus rather impressive. Moreover, this distribution of manufacturing and research capacity is not confined to the leading triad countries, as is often the case with TNCs, although Britain, North America, the EU and (to a much lesser extent) Japan, figure prominently in its investments. This move into Asia and the developing world generally can be seen in the following table, which shows the percentages of ICI's various investments located in different regions or countries in early 1999.

	Manufacturing plants	Research facilities	Sales admin.
UK	14	33	13
North America	32	26	21
European Union and rest of Europe	22	22	26
Australia/New Zealand	2	0	2
Japan	3	6	3
S, SE and E Asia	17	9	23
South America, Africa and the Middle East	10	4	12

Source: ICI Factbook, 1999

On the basis of these and related arguments, Hirst and Thompson (1996) also stress the political limitations to the mobility of capital. Businesses normally prefer to operate where they feel secure and enjoy a comfortable rapport and familiarity with a supportive local culture and market situation. Similarly, the sphere of the economic often consists in large part of relatively immovable plant, equipment and infrastructure as well as employees 'trapped' at any given time in particular locations by community and family responsibilities, job availability, skill and language capacities and the legal restrictions of citizenship. All this presumably means that we can hardly be surprised at the continuing propensity of companies, large and small, to retain strong roots in their home economies. Nor, for the same reasons, is it possible for even the largest TNCs to be completely foot-loose or free from any national control.

Assessment

Despite its obvious relevance and significance, there are two problems with Hirst and Thompson's analysis: one concerns the nature of the empirical evidence and the other involves a theoretical issue.

At the empirical level, there is room for disagreement over how to interpret the available evidence. For example, Dunning (1993b: 291) observes that the largest TNCs, namely those contributing four-fifths of all global activity by TNCs and with annual sales exceeding $1000 million in 1989, together produced approximately one-third of their total output outside their home countries. This estimate is quite close to that of Hirst and Thompson (1996), but whereas they regard it as evidence only for the existence of an international economy, Dunning sees it as an indication of a growing, real integration of a basically global economy. Carnoy *et al.* (1993: Chapter 3) claim that the foreign content of production among the largest TNCs is higher still – between 50 and 90 per cent. Dicken (1992), Dunning (1993a) and Julius (1990) hold that the TNCs' real links with host economies, with respect both to trade and domestic purchases, are often much stronger than Hirst and Thompson's analysis suggests. Moreover, the global strategy of spatial optimization pursued especially by the larger TNCs – reinforcing their parallel attempt to increase inter-market penetration – means that national economies have become closely intertwined with each other. There are also other indications of rising cross-border integration, especially in the European Union and the North American Free Trade Agreement (NAFTA) area.

The second difficulty with Hirst and Thompson's (1996) analysis is theoretical in nature. Adapting an important insight offered by Lash and Urry (1994: 61–2), we argue that it is necessary to distinguish between two rather different aspects of economic life – the cultural, symbolic and knowledge-based component and the more material or physical one. While the first is indeed inherently mobile and capable of rapid learning and transference across and between places and organizations, the second is necessarily rooted in specific locations at any one moment in time. In short, the first is globalizing, the second is necessarily dependent on existing socio-political formations and institutions. It follows that the world economy demonstrates a certain paradoxical and rather skewed character; in some respects it has become highly globalized while in others there are, and may remain, certain finite limits to this process. Accordingly, in one sense the Hirst and Thompson position is perfectly correct, but perhaps rather misleading in another.

Neo-liberalism is an economic doctrine that insists states should never interfere with or constrain free markets, competition or private enterprise. Influential from the eighteenth century, it was side-lined by Keynesianism after 1945 but revived strongly from the mid-1970s.

Hirst and Thompson (1996) mount a powerful case against the notion that economic globalization has reached a stage when TNCs are truly autonomous and governments have been rendered more or less powerless to act in the face of global economic forces. Such a view, they argue, plays into the hands of national politicians and others who, for ideological reasons, may wish to justify various non-interventionist ***neo-liberal*** policies. It disregards the historical embeddedness of national economies in wider institutions and the supporting role governments until now have always played in furthering national economic development. It also ignores the role only governments can play in initiating modernization in developing countries – perhaps, for example, by taking steps to empower local citizens to tune in more effectively to the growing flows of symbolic knowledge.

The extreme globalization thesis has also been used as a rationale for doubting the possibility or efficacy of joint intergovernmental action – whether led by a hegemonic power, as in the 1950s and 60s, or by a group of leading economies. Can states acting together counter such global problems as rising inequality, joblessness, chronic economic insecurity or the destabilizing effects of floating finance? Hirst and Thompson (1996: Chapter 8) agree that we cannot expect a return to the golden post-war years of US-led, Fordist–Keynesian prosperity, in what was then a much simpler world economy. Nevertheless, they show that successful and concerted attempts by the G7 and OECD countries to regulate the world economy have been evident in recent years. Two examples of international action by states are the co-ordinated interest rate policy to counter falls in global stock markets agreed in 1987 and reducing Japan's huge trade surplus. Much more of the same may be perfectly possible and is certainly desirable. Here, Hirst and Thompson's arguments are refreshing and welcome.

TNCS, NICS AND WOMEN WORKERS

An **export-processing zone** is a free trade enclave where foreign firms producing goods for export are encouraged to locate.

One way in which TNCs have achieved spatial optimization since the 1960s has been through engaging in 'offshore' production located in ***export-processing zones*** (EPZs), mostly in developing countries. Governments offer special inducements – tax privileges, duty-free imports, the promise of cheap labour, limited or non-existent health, safety and environmental regulations and perhaps free or subsidized plant and infrastructure – to encourage foreign firms to locate their labour-intensive, assembly operations in a given country. Most of the labourers – over 90 per cent in some EPZs – are young women. They are said by some employers to have 'nimble fingers', making them suitable for work on electronic circuit boards. Others point to their industrial discipline. In these characterizations one has to distinguish between convenient stereotypes and the reality facing many female workers in poor countries, namely an adverse labour market and a desperate desire to escape from the powerful forms of patriarchy characteristic of many rural societies.

Industries engaged in making garments, shoes, soft furnishings, toys and other low-value consumer products are the most likely to locate in low-wage regions, including EPZs. So too are those engaged in manufacturing domestic electrical goods and in the assembly stage of the production of semiconductors (when the individual microchips are wired together to form integrated circuits ready to be tested and then incorporated into various final products).

Industrial production in such sites has grown rapidly, as has their export potential. Between 1966 and 1972, US imports of manufactured goods from EPZs located in developing countries increased by an annual average of 60 per cent (Harris 1983: 147). EPZs now flourish widely across the developing world. They have long been prominent in Asia, including China, which established four 'special economic zones', similar to EPZs, as part of its economic reforms in the late 1970s with Shenzhen, adjacent to Hong Kong, being the largest. Caribbean countries have also encouraged offshore development, as have African ones.

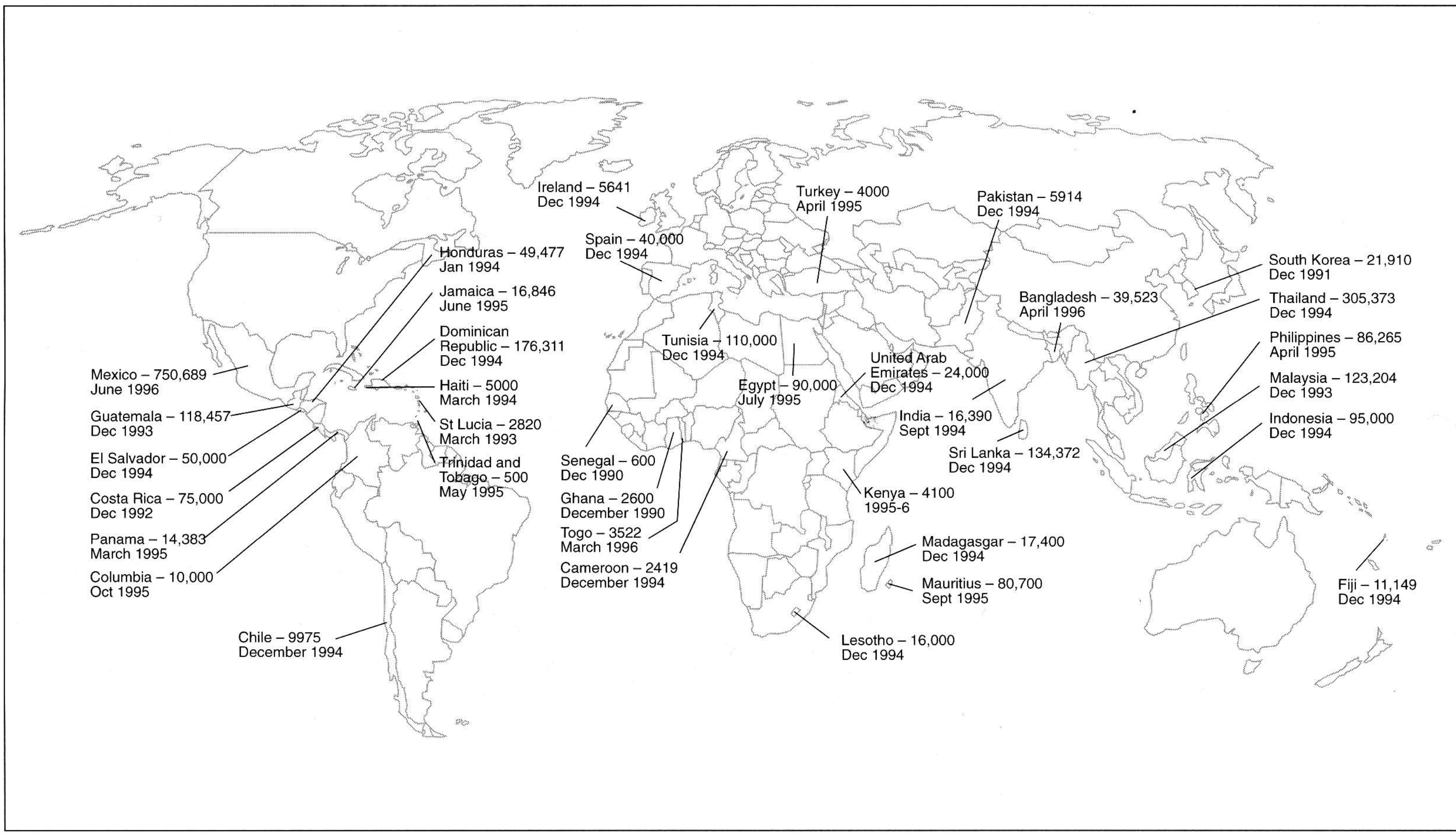
One famous EPZ was created by the Border Industrialization Program (BIP) in Mexico where thousands of *maquiladoras* (labour-intensive assembly plants) are located near the US border. This started in 1965 as the result of a deliberate government policy to create local employment in the depressed regions of northern Mexico by exporting low-value manufactured goods to the US market. The US government was also keen to mop up unemployment in the area in the wake of the collapse of an official labour migration scheme to the USA, the *bracero* programme. The US authorities were hopeful that employment in Mexico would reduce the flow of undocumented migrants north of the border. However, this part of the scheme failed because the jobs mainly went to young women (not to males, who were the most numerous migrants), while unemployed people from other depressed regions of Mexico flooded into the area in a desperate attempt to find work. The attempt to create a dam wall to stop the migrants effectively created a 'honey pot' that attracted them (Cohen 1987). Current reports by trade union representatives continue to talk of low wages, long hours and unorganized workers in the *maquiladoras*.

Despite these negative features, the BIP has officially been regarded as a success. In 1994/5, the numbers employed grew by 13 per cent to reach 743 000, while the value of exports rose from $26 300 million to $33 000 million. This represented 39 per cent of the country's total exports. During 1996, the numbers directly employed (there were spin-off jobs in other sectors) rose to 750 689. Unlike the rest of the economy, the BIP factories registered increases in both output and the value of exports, shrugging off the devaluation of 1995 (*Mexican Bulletin of Statistical Information*, July–September 1996: 83). The inducements have now been extended to all export-oriented firms even if they are not located in specific *maquiladoras* zones (Gereffi 1995: 124). Until recently, most Mexican workers employed in these zones were engaged in assembling electrical goods using imported components or in textile and clothing production. Over the last decade, however, serious efforts have been made to upgrade the *maquiladora* manufacturing region by encouraging new industries engaged in more sophisticated and capital-intensive activities such as producing components for cars and computers (Gereffi 1995: 135).

The North American Free Trade Agreement (NAFTA), of which Mexico is a member, should further enhance the export opportunities available to the *maquiladora* plants.

Another EPZ, on the island of Mauritius in the Indian Ocean, has been an unambiguous success. At its inception in 1971, 20 per cent of the population was unemployed. By 1994, unemployment was under 2 per cent and falling. The next year the government informed the International Labour Office that the island hosted 6205 migrant workers, brought in to offset labour shortages.

Although the economic benefits of the EPZ in Mauritius are evident, the provision of employment, again mainly to women in the 16–22 age group, had



Map 7.1 Distribution of EPZs with number of workers

another benign social consequence. In the 1950s, in the period leading up to independence, British demographers were so alarmed at the rising birth rate in the country that they conjured up images of Mauritians falling off the edge of the island. As we will establish in Chapter 11, increased affluence and more reliable health care generally reduce the need for large families, which has indeed happened in Mauritius. The young women who worked in the EPZ were often grateful for the employment offered and extended their periods of employment, thus reducing the number of years in which they could safely bear children. The result was a massive reduction in the real and projected rise in population.

TNCs: power without responsibility

The primary social criticism of TNCs is that they exercise power without responsibility. In theory, and sometimes in practice, the power of the state is restrained by the due processes of law, by regular elections, and by the capacity of people to organize, demonstrate, advance their views and defend their interests. Although not all states have this degree of democracy, even in the most extreme dictatorships people have managed to bring their rulers to book. Equivalent forms of corporate power rarely have any such constraints on them. The *soga shosha* and other trading companies are often dominated by private, indeed secretive, dynastic families. Other TNCs are supposedly constrained by shareholders, but these are usually large anonymous blocks of shares bought by pension funds, insurance companies and banks with little interest in the company's affairs beyond the central performance indicator – profit.

The international agency UNRISD (1995) argues that the freedoms of TNCs have been significantly enhanced in recent years, especially by generous GATT regimes. For example, they have new rights in international law to enforce patents, trademarks and copyrights, whereas indigenous governments have been unable to enforce demands that local labour be trained or put other conditions on inward investment. UNRISD argues that this corporate power should be accompanied by some social responsibility – to the environment, which is often damaged, to the local community and to the workforce. There are many examples of even respectable, well-known TNCs being blind to their responsibilities in these respects. Let us cite three examples:

1. In 1989, an oil tanker, the *Exxon Valdez*, owned by the then largest petroleum company in the world, struck a reef in Prince William Sound off the Alaskan coast, causing the largest oil spill in history. Nearly 42 million litres of crude oil polluted the beaches, contaminated fishing and destroyed wildlife.
2. Shell in Nigeria and RTZ in Indonesia have continued to exploit natural resources with considerable ruthlessness and indifference to the local communities near which they work and whose land they have appropriated or bought for a song (see Box 7.2).
3. In December 1984, a major industrial disaster took place at Bhopal in central India when poisonous gas leaked from a US plant owned by the Union Carbide Corporation. More than 2800 workers, their families and others in the surrounding community died as a result of the leak. At least 20 000 were injured. Union Carbide has consistently stalled the legal proceedings instituted to gain compensation (Figure 7.2).

Box 7.2 Two cases of corporate blindness in Nigeria and Indonesia

In children's storybooks, the three wise monkeys are said to see no evil, hear no evil and speak no evil. This advice was apparently taken to heart by the oil company, Royal Dutch Shell, and the mining giant, Rio Tinto Zinc Corporation (RTZ). (We also talk about Shell's environmental impact in Box 18.3.)

Nigeria Shell has been pumping oil from the Delta region of Nigeria since 1966. Under the leadership of Ken Saro-Wiwa, an organized opposition group in the Ogoni area sought to get Shell to recognize its social responsibilities. The oil and waste from the plants had been polluting fishing grounds and the villages themselves. Although a few local community projects were supported, the company's principal defence is that it pays its taxes to the federal authorities in Lagos and it is up to them to organize social programmes. Saro-Wiwa was, according to the federal authorities, implicated in the deaths of four Ogoni chiefs who were unfriendly to the anti-Shell movement. Although it was accepted he was not there, he was convicted of conspiracy and executed, despite many calls for clemency from all over the world. On 14 December 1995, against the background of much opposition, Shell announced the continuation of a £2.5 million plant in Nigeria.

Shell claims to have been constrained by the Nigerian government and this cannot be discounted out of hand. However, as political power so often relates to economic muscle, it might be useful to indicate Shell's economic might in relation to that of the Nigerian government (the most powerful government in West Africa) and Ogoniland. In 1992, the company had $96 600 million in total corporate sales, whereas the GDP of Nigeria was less that a third of that, $29 600 million. Limping in at a small fraction of that total was the nominal GDP for Ogoniland at $850 000.

Indonesia RTZ, the world's biggest mining company, thought it would make a financial killing when is invested $1700 million in the Freeport gold mine in Irian Jaya, 2700 miles east of Jakarta, Indonesia. Instead, it has bought into a company that has been accused of killing people. On 5 April 1995, the Australian Council for Overseas Aid issued a report saying that 37 people had been killed or were missing from a village near the Freeport mine. Charges of company involvement in the killings were denied.

As in Nigeria, there is strong evidence of the company polluting the area around the mine. Members of the Free Papua Movement contend that Freeport and the Indonesian government have forced them off their ancestral lands, which they are now polluting. The company owns 2.9 million hectares in the area. The Overseas Private Investment Corporation, a US government agency, provides strong backing for the local people's views. According to it, the mining operations 'have severely degraded the rain forests surrounding the Ajkwa and Minajerwi rivers'. The project 'has created and continues to pose unreasonable or major environmental, health or safety hazards with respect to the rivers that are being impacted by the tailings, the surrounding terrestrial ecosystem and the local inhabitants'.

As in Nigeria, the company insists it is operating within the constraints of the local environmental and security laws. However, it is even more difficult for Freeport and RTZ to distance themselves from the national political context than it is for Shell in Nigeria. Freeport admits that the company provides food, shelter and accommodation to the Indonesian troops guarding the mine. Moreover, the repressive Indonesian regime holds a 9 per cent stake in the mine, which also provides the government with $250 million a year in taxes.

The people of Irian Jaya do not even recognize the Indonesian government's claims to sovereignty, let alone its right to sell their land to TNCs. The Free Papua Movement claims that, to impose its will, the Indonesian government has killed 43 000 natives since 1977. This is water off a duck's back, as far as Jim Bob Moffet, the chief executive officer of Freeport, is concerned. In a classic statement of corporate power without social responsibility he said, 'We are thrusting a spear of economic development into the heartland of Irian Jaya.'

Sources: UNRISD (1995); Moody (1996)

People are, however, capable of opposing corporate social irresponsibility. When, for example, Royal Dutch Shell proposed dismantling an oil rig at sea, which opponents claimed would result in extensive pollution, a mass protest commenced. The company backed down after extensive pressure from consumer and environmental groups in the UK, the Netherlands and Germany – including the commencement of a consumer boycott of Shell petrol.

It is worth noticing that Shell was not opposed by the British or any other government. In the case of the oil rig, social movements such as Greenpeace, which organized transnationally, stopped that particular display of corporate power (see Chapter 18). Equally, in its operations in Ogoniland, Shell was not opposed by the Nigerian government, which was deeply complicit in the company's operations. Instead, a small local protest group was supported by Amnesty International, Greenpeace, PEN (the international writers' lobby) and various other human rights groups. In later chapters, we explicitly deal with the issue of whether global social movements are now counterpoised to global corporations, making the locus of political debate and social contestation a global rather than national matter.

REVIEW

In 1970, there were about 7000 TNCs: in 1992 there were 37 000. Between them, they controlled 200 000 foreign subsidiaries with a combined worldwide sales revenue in 1992 of $5.5 trillion, compared with $2.4 trillion in 1980 (UNRISD 1995: 53). This was the equivalent of almost one-third of total global economic output. Such an amount was considerably greater than the total value of all the goods and services entering world trade through exports by national firms selling directly from their country of origin to a market in another country. TNCs also account for about three-quarters of world trade (Dunning 1993a: 14).

Clearly, economic power of this magnitude will have fundamental effects on the global economy, polity and society. As we have shown, there is a lively debate about whether TNCs have indeed superseded the nation state system both in their political independence and their global economic reach. In their social role, some argue that TNCs do good as well as harm, or do more good than harm. They provide employment, pay taxes that can be used to fund socially beneficial programmes, transfer technology, help industrialize agricultural countries and sell products people want at prices they can afford. Against this rosy view has to be set the evidence that the community, the environment and the company's workers often need protecting from corporate unaccountability and irresponsibility.

If you would like to know more

Easily the most accessible book on this topic is Dicken's *Global Shift* (1992) with its useful information on TNCs, changing patterns of world trade and investment and fascinating studies of key industries looked at in a global context.

Hirst and Thompson's *Globalization in Question* (1996), although more difficult, is worth inspection, for it summarizes the main debates in this area and offers a controversial and thought-provoking alternative to the more usual heady views on economic globalization.

Stallings (ed.), *Global Change, Regional Response* (1995), contains interesting recent material on the various regions of the developing world. Chapters 1 and 11 by Stallings and Chapter 4 by Gereffi are especially recommended but all the chapters are useful.

The book published by UNRISD, *States of Disarray* (1995), contains a hard-hitting critique of corporate irresponsibility.

Group work

1. For the purposes of debate, one group will adopt the view that TNCs are a force for global economic integration, another that they have not fundamentally moved beyond international trade patterns that have existed for a long time.
2. For the purposes of debate, one group will adopt the view that the TNCs are a force for social good, another that they generate malign social effects.
3. Write to the public affairs office of a large corporation requesting their annual report. (Look at adverts in the *Financial Times* or *The Economist* for addresses.) What defence, if any, does the company give as to its social responsibility? Are you convinced?
4. List all the TNCs you know of in the following categories: oil companies, motorcar companies, pharmaceuticals and chemicals. Compare this list with those of your class mates. Why are these companies familiar to you?
5. Why would you like/not like to work for a TNC?

Questions to think about

1. What reasons could be given to support the proposition that the world economy is much more internationalized and integrated than it was before the First World War?
2. Describe the major characteristics of an EPZ. Why did corporations wish to locate there?
3. Evaluate the positive and negative social effects of TNCs in the developing countries.
4. Evaluate Hirst and Thompson's case that economic globalization has not reached a point where TNCs have become truly autonomous agents and governments have not been rendered more or less powerless to act.
5. Examine the origins of the TNCs, noting national differences.