Multinational Corporations: Savior or Saboteur

–Suneel Sheoran

In last week of February 2016, news of hepatitis C patients protesting outside India's patent office in New Delhi was splashed across all major national newspapers in India. The patients were protesting against the American multinational pharmaceutical major Gilead Sciences and the United States government for pressuring the Indian government "to blindly and speedily grant patents" to Gilead's exorbitantly priced drug named Sovaldi, whose generic versions manufactured by pharmaceutical companies in India are used by millions of hepatitis C patients across the world. So who are these multinational corporations that can even influence sovereign governments and impact millions of lives in the process? The term 'Multinational Corporations' (or MNCs) refers to companies that have operations and offices in multiple countries even though headquartered in only one or few of them. Even though the term itself may be of modern origin, such MNCs have existed at least for the past four to five centuries. East India Company, the English trading company that grew its influence in India in the 17th century and laid the foundations of English rule in India, can easily be classified as one.

In today's globalised and increasingly interconnected world such companies are only increasing their tribe. Exchange of goods, services, ideas, labor etc. are being encouraged worldwide; specialization is being touted as the need of the hour and increasingly more and more companies are spreading their influence outside their country of origin. While one country may be specialized in manufacturing of certain types of goods using patented technology, others may have abundant supply of qualified human resources or cheap labor along with market for selling the finished goods. Therefore such difference in availability of resources, skills, markets etc., caused not only by geo-political reasons but by historical reasons like imperialism and colonialism, has meant that companies today are increasingly looking to have a global footprint. Most of the major MNCs today are headquartered in the industrial or developed countries. These companies, armed with the latest technology and surplus capital, are mainly looking towards the markets in less developed and developing economies to expand their operations. A number of MNCs are operating all over the world today. In India, MNCs like Standard Chartered, HSBC, Colgate-Palmolive, Castrol etc., to name a few, have been operating for decades now. However such multinational corporations can be both, a boon as well as a bane, especially for the less developed or developing countries and for a number of reasons which we will be discussing.

Multinational corporations bring with them capital to invest in developing countries. Such capital can be of utmost use in developing economies where capital is scarce and where tremendous growth opportunities exists. Therefore it becomes a win-win situation for both the MNCs and the developing countries as MNCs can deploy their surplus capital for good returns, whereas, the receiving country can expect a boost to its economic growth. However, quick and mass repatriation of such capital in volatile times can be equally harmful to the economy of the developing country. The East Asian crisis of 1997 caused due to such flight of foreign capital from Thailand, South Korea, and Indonesia etc is a good example. Similarly, usage of tax havens to avoid payment of taxes and 'transfer pricings' are also major sources of financial loss caused by MNCs to the developing countries. In recent studies it was also found that majority of the Foreign Direct Investment (FDI) being received from developed world was only a reinvestment of profits by the MNCs and their investors and not a deployment of fresh capital. According to the United Nations Conference on Trade and Development (UNCTAD), the share of reinvested earnings is reported to have accounted for as much as four-fifths of total outflows in 2014 for select developed countries. UNCTAD also underlined the large amount of losses to the exchequer of developing countries ($100 billion a year) due to the routing of FDI through tax havens.

Another way in which these MNCs can boost the economy of developing countries is via the introduction of state-of-the-art technology that can increase productivity and efficiency while making available better and cost effective products to the customers. However, at the same time, danger persists of some companies bringing in obsolete technology and flooding the market with low quality and potentially harmful goods. If proper care is not taken to enforce modern regulatory standards, poor technology can even lead to industrial accidents, environmental degradation etc. causing severe loss of lives while impacting future generations. India has been on the receiving end of such a disaster in the form of the Bhopal gas tragedy of 1984 where leakage of methyl isocyanate from a pesticide plant of Union Carbide, an MNC, caused tremendous loss of lives, and scarring even the future unborn generations of Bhopal.

MNCs may also seek to exploit weak intellectual property laws in developing countries leading to the patenting of hitherto freely available technology or methods, which may cause an increase in price of related goods and services. MNCs are also reluctant to allow technology transfer to local partner companies in developing countries, rendering it forever reliant on expensive import of such technologies. Recent struggle by pharmaceutical companies to fight against compulsory licensing norms in India and attempts for ever greening of licenses even with slight variations in drug properties are examples of MNCs only caring for their bottom lines even when millions of lives are at stake.

By allowing MNCs to operate in its markets, a developing country may also benefit by increased competition in such sectors that can mean increased efficiency in domestic firms and better service or increase in choice of goods for the customer. However at the same time, this can destroy the domestic companies leading to the demise of domestic industry and large scale loss of employment in the domestic labor market. Big MNCs with their surplus capital, backing of private equity funds and better technology can sustain the ensuing losses for longer while wiping out the domestic competition who can’t match their deep pockets. A good contemporary example can be the e-commerce companies in India like Amazon, E-bay etc. which being backed by big private equity can cause losses to domestic offline retail business by offering huge online discounts to its customers.

Most of the developing economies also have relatively higher unemployment ratios as compared to the first world. MNCs can help by providing employment as they hire the comparatively cheaper labor in emerging economies to produce the required goods and services at low prices. However, an unregulated labor market can only mean exploitation via low paid manual work in harmful conditions.

With an increase in productivity, efficiency, employment etc. the developing country can potentially see an increase in its gross domestic product (GDP), average per capita income, as well as increase in living standards of its people. However, at the same time it can also be a drain on its precious natural resources in the form of neo-imperialism and lead to gross inequality in growth with the majority of capital getting concentrated in the hands of a few ‘haves’ at the cost of the ‘have not’s and the underprivileged sections of population.

Multinational Corporations can also harm sovereign interests of a developing country by dragging its government to international arbitration over policies that the MNC perceives harmful to its own interest. In most of these cases, it is a case of the domestic government protecting its poor population over the contractual rights of an MNC. Also, by forming lobbies and associations in the first world countries and then by pressurizing the developing nations to allow concessions; is another way in which MNCs can employ their arm twisting tactics. For e.g. the pharmacy association of the United States has been pressurizing India via the offices of the United States Trade Representative (USTR) to have softer or more lenient IP regime for foreign pharmacy companies.

Therefore, clearly, MNCs have their merits as well as demerits, especially for a developing nation. On one hand with their surplus capital, cutting edge technology, management expertise etc. leads to increased production, productivity, efficiency, employment and better living standards, whereas on the other hand they can also harm by quick flight of money leading to volatility, obsolete technology, exploiting poor regulatory environment, killing indigenous industries etc. However the demerits can be restricted or avoided altogether by having tough yet encouraging regulatory environment in the field of finance, intellectual property, competition laws, labor laws, framing of contracts etc. and by ensuring speedy and just reddressal of grievances and disputes. India has been reasonably successful in its liberalization attempts since 1991 mainly due to carefully opening up only specific sectors to foreign investments on a case-by-case basis and in a phased manner and not allowing full Capital Account Convertibility. India has

been able to benefit from the dynamicity of MNCs while at the same time allowing enough space for its domestic firms to grow. This is the reason why India today boasts some of its very own home grown MNCs in the form of Tata, Infosys, Reliance, Wipro etc. who are now operating not only in the emerging countries of Africa and South Asia but also in the First World countries of North America and Western Europe.

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