118 Globalisation and multinational companies

What is globalisation?

Over the past 50 years, the rate of growth of exports and imports has been faster than the rate of growth of output round the world. The UK, along with almost all other countries in the world, is becoming ever more integrated with the world economy. This is the process of GLOBALISATION.

Globalisation means, for example that

- most of the clothes we buy are made abroad;
- the Chinese buy financial and legal services from the City of London;
- letters from a British hospital might be typed in India before being emailed back to the UK and printed out to be sent to patients.

There are three important aspects of globalisation.

Increased trade in goods and services The volume of trade in both goods and services is rising at a faster rate than the output of individual countries. Barriers to trade, from taxes on imports to transport costs, are coming down. In today's economy, a British firm in Birmingham might as easily buy supplies from a company in Germany or China as one in London. This is leading to the ever greater integration of the world economy.

Increased movements of labour from country to country Increasing numbers of workers are leaving their country of origin to find work in richer countries. For example, an estimated 600,000 workers from Eastern Europe arrived to work in the UK following the accession of countries like Poland to the European Union. Equally, there are an estimated 2 million Britons living abroad. Some have gone to work. Others have retired, for example to Spain and France. Just as migration within a country has increased over the past 50 years, so too has international migration.

Increased movement of financial capital Globalisation has led to increasing movements of financial capital across national boundaries. Each year, US and EU companies are buying up British companies. Equally, British companies are buying up US and other EU companies and expanding abroad. British companies are building factories in China. Japanese companies are building factories in the UK. UK savers are lending money to borrowers in Germany. China is lending money to the United States.

Most of the movement of goods, labour and capital is between the rich, developed countries of the world. But the fastest growing economies are in poorer developing countries. China, with a population of 1.1 billion has been doubling its output every 7 years for the past thirty years. India, with a projected population of 1.4 billion by 2050, is moving towards achieving the same level of economic growth. These EMERGING MARKETS have already had a profound impact on the UK businesses. The UK textile industry, once one of the largest employers in the country, has been almost wiped out by foreign competition. In contrast, China represents one of the UK's fastest growing markets for a wide range of goods and services. Over the next 100 to 200 years, the economies of the largest emerging countries including China and India will far overtake that of the EU in size. The UK, in 2008 the world's 4th largest economy, will inevitably slip down the world's league tables as emerging countries catch us up.

Factors affecting globalisation

It could be argued that certain factors have contributed to the growth of globalisation.

Technological change has played an important role in globalising the world's economy. More powerful computers and communications technology have allowed the easy transfer of data. The Internet has revolutionised the way in which consumers purchase products.

Cost of transportation The cost of transportation has fallen. The single most important factor in the falling cost of transportation has been the revolution in the use of containerised transport. The standard containers in use today were first seen in the 1950s. The ability to load a container at a factory, take it by road or rail to a port, transport it by sea and then deliver it to a customer at the other end has considerably reduced the cost of transport. Today, 90 per cent of all non-bulk cargoes worldwide are moved by container.

Cost of communication The cost of communication has fallen. The cost of making a phone call has fallen over time. Communication has also been revolutionised by the Internet and email which allow very low cost written communication to take place.

Deregulation The deregulation of business. Throughout the 1980s, 1990s and early twenty first century many businesses were privatised in countries throughout the world. In the UK the privatisation of former state owned monopolies allowed competition. The removal of restrictions on foreign businesses operating in eastern European and Asian countries also increased the ability of businesses to operate globally. New markets were opened up to foreign competition.

The liberalisation of trade Trade protection has been reduced due to the operation of organisations such as the World Trade Organisation (WTO). For example, reduction of restrictions on

Question 1.

Goodyear in Wolverhampton was once a major employer in the city. In 1998, it still employed 2,200 workers and the site contained the UK national headquarters offices of the company. By 2004, only 550 workers remained and the UK national headquarters had been moved to Birmingham.

Workers at the site blame the 1998 acquisition by Goodyear of a stake in the Sava Tires in Slovenia in Eastern Europe: Goodyear purchased the rest of the company in 2004. The world's biggest tyre company said at the time that the move was 'to further strengthen its position in the rapidly expanding central and Eastern European market, as well as consolidating its low-cost sourcing capabilities'. Following the acquisition, Goodyear invested more than £55 million in modernisation at Sava Tires. The international company also has another three plants in Eastern Europe and the Middle East: in Debica, Poland; Izmit in Turkey; and Adapazari, also in Turkey. The four plants between them produced around 40 per cent of the 84 million tyres last year. Workers in Eastern Europe are paid a fraction of the wages in the UK. Although wages will eventually catch up, there will be many years to come in which the wage gap will remain substantial.

The security of the remaining 550 jobs at Goodyear Wolverhampton was questionable. All that was left was retread work, storage and the mixing and calendering of tyre ingredients for 'export' to other Goodyear Dunlop factories in the UK. In 2006, another 40 jobs were lost when Goodyear's plant at Wearside in the North East of England was shut due to competition from Eastern European producers. In 2007, however, the now 350 people still employed at the plant received a boost when a new multi-million pound machine, the size of a four storey building, was installed. Gerard Coyne, from the Transport and General Workers' Union, said the investment would give some security for the future.

Source: adapted from the *Express & Star*, 8 April 2004; news.bbc.co.uk 5.4.2006 and 15.3.2007.

(a) Explain why moving production from Wolverhampton to Eastern Europe might improve Goodyear's productive efficiency.

(b) Discuss what might persuade Goodyear to retain remaining production at Wolverhampton.

trade in textiles is likely to have opened up markets in Asia and the West.

Consumer tastes Consumer tastes and their responses have changed. Consumers in many countries are more willing to buy foreign products. Examples might include cars from Korea and Malaysia which are now purchased in Europe. It could also be argued that consumers around the world increasingly have similar tastes. Some food products are sold in many countries with little difference to their ingredients.

Emerging markets The growth of emerging markets and competition. New markets have opened up in countries that have seen a growth in their national income. Examples might include countries in South East Asia and the more successful countries in eastern Europe. As businesses in these countries have become more successful, they have been able to compete in western economies.

The effects of globalisation on business

Globalisation has had many effects upon businesses throughout the world. The impact of globalisation has not been evenly spread. Some businesses, for example those in telecommunications, have witnessed dramatic changes. Others, such as small businesses serving niche markets in localised areas, may have been little affected by globalisation.

There is a number of effects of globalisation upon businesses. Some provide opportunities whilst others present threats.

Competition The impact of globalisation on many larger businesses has been to dramatically increase the level of competition which they face. There is a number of reasons for this.

- Foreign competition has increasingly entered markets previously served mainly or exclusively by domestic businesses.
- Deregulation has meant that many businesses which previously had little or no competition are now opened up to the forces of global competition.
- Globalisation has provided opportunities for new, innovative businesses to enter markets and compete with all comers, including well established industry leaders. For example, Microsoft, Intel, Compaq and Dell, once relative newcomers to the computer industry in the past, were able to compete effectively against the market leader at the time, IBM.

Meeting consumer expectations and tastes Competition by businesses seeking to meet customer needs in increasingly effective ways has raised customer expectations in many markets. Businesses must now meet ever greater consumer demands about quality, service and price. They must also provide the greater choice of products expected by purchasers. The global market has made predicting consumer preferences more difficult. For example, few businesses predicted the huge rise in the popularity of mobile phones or the speed with which consumers would accept the internet.

Economies of scale Businesses able to build a global presence are likely to enjoy a larger scale of operations. This will enable them to spread their fixed costs over a larger volume of output and reduce unit output costs. A larger scale of operations also allows businesses to exercise power over suppliers and benefit from reduced costs. For example, global hotel chains such as Holiday Inn and Marriott are in a position to benefit from volume discounts from catering supply companies.

Choice of location Businesses with a global presence can choose the most advantageous location for each of its operations. When locating its operations, a business may consider:

- reduction of costs. For example, Nike's decision to locate its shoe manufacturing operations in countries such as China and Vietnam was perhaps based on cost reduction factors. Low cast labour has also resulted in some UK businesses locating call centres in India.
- enhancement of the business's performance. Production and service facilities are located in parts of the world which are likely to improve factors such as product or service quality. For example, Microsoft may have taken this into account when deciding to locate its research laboratories in Cambridge.

Mergers and joint ventures Businesses are increasingly merging or joining with others, often in other countries, in order to better provide their goods or services to a global market. Both manufactures and retailers are operating on a global basis. A manufacturer, for example, may merge with another in order to make products in the country in which they will be sold. A DIY retailer may merge with a supplier of toilet seats in another country in order to distribute its products more easily to customers in that country.

Multinational companies

Multinational companies have come to play an increasingly important role in world trade. MULTINATIONAL COMPANIES (or MULTINATIONAL CORPORATIONS or TRANSNATIONAL CORPORATIONS) are companies which have significant production or service operations in at least two countries. These could be primary product companies such as Geest, Exxon Mobil or BP. They could be manufacturing companies like General Motors, Ford, Toyota or Sony. Or they could be service sector companies like Vodafone, Starbucks, the coffee shop chain, Wal-Mart, the world's largest supermarket chain which owns Asda.

Most multinationals operate largely in developed countries. This is where their shareholders, their headquarters, their markets and their production facilities are located. Mergers and takeovers tend to take place between companies in developed countries. A few multinationals, particularly in the primary sector, have large operations in developing countries. Examples are oil companies like Exxon Mobil and Total, and primary food companies like Geest. Many multinationals are seeing growing sales into countries like India and China.

A recent trend is for multinationals owned and controlled in developing countries to take over companies in developed countries. For example, the world's largest steel company in 2007 was Mittal Steel, an Indian company, creating by a series of takeovers of steel companies in the developed world by Mittal Steel. One of the world's largest cement manufacturers is the Mexican company Cemex, which in 2007 had operations in 50 countries across the world and owned 66 cement plants. As the developing world increases its income, more and more multinational companies will be owned by shareholders in the developing world.

Reasons for multinational companies to exist

Why do multinationals exist and what advantages does their size give them? Why are multinational companies growing in size as the world economy grows?

Economies of scale There are many industries where only the largest firms with world wide access to both production facilities and markets can fully exploit economies of scale. Examples of such industries include the oil and motor manufacturing industries. Typically, the amounts of capital needed are so large that small firms find it difficult to compete.

Knowledge and innovation Many multinational companies are storehouses of accumulated knowledge and powerful players in the field of innovation. For instance, it is difficult to imagine how any small enterprise could exploit oil from miles below the sea bed in the deep waters of the North Sea, or produce the technology to put a man on the moon. Genetic engineering or microchips are two examples of where multinationals are in the forefront of bringing new products to the market. Some large retailers have a more successful knowledge of what their customers want to buy than their competitors and have developed highly sophisticated logistics systems to get products from manufacturers to customers.

Branding and marketing Some multinational companies use very little technology. Instead, they rely for their world presence on branding and marketing. At some point in the past, they have produced a highly successful product in a local market. This is then rolled out into other national markets. Coca Cola or McDonald's are two examples of this. Each brand is protected from competition through patents, and heavy use of advertising and other forms of promotion.

Market and political power Some multinationals exploit market power in individual national markets to create a global business. They might have legitimate patents or copyrights or own key resources. Equally, they may build on these by **anti-competitive practices** which attempt to force existing firms out

Question 2.

Martin Winterkorn, the chief executive of the German car manufacturer, speaking at VW's annual press conference, said that the days of building one car for the whole world were 'dead and buried'. For 20 years, the dream of the world's major car manufacturers had been to build a car which could be sold into all national car markets. The car manufacturer to achieve this would, so the thinking went, be able to gain a competitive edge over its rivals because it would be able to get costs down due to economies of scale in production. Selling 30 million vehicles a year of one model would have lower costs per unit than selling 6 million vehicles but in five different models each.

Martin Winterkorn announced that Volkswagen would be introducing 20 new models in the next years, including vans and pick-ups. The plan was to sell 8 million cars a year by 2010, up from 6.2 million in 2007. With Toyota now the world's largest car manufacturing company by sales volume, he said he hoped to beat Toyota in sales and profitability, customer satisfaction and quality. 'In the coming years, we will make the VW group the world's most international carmaker.' It could only happen if customers were offered vehicles appropriate to their needs, which included affordability. 'Our customers in China or India expect us, as a global player, to offer entirely different solutions than we do in the US or Western Europe' he said.

VW's desire to beat Toyota is made more difficult by its extremely weak position in the key US market. It is weighing whether to construct a new factory there to build a mid-sized saloon. A decision on this matter would be made in the summer, executives said.

Source: adapted from *The Financial Times*, 14.3.2008.

(a) **Why is motor car manufacturing dominated by multinational companies such as Volkswagen and Toyota?**

(b) **Explain why a customer in India or China might have to be offered an 'entirely different solution' in terms of model of car than a customer in the UK or the USA.**

(c) **Volkswagen wants to overtake Toyota as the world's largest car manufacturer. Evaluate ways in which it could gain a competitive advantage over Toyota.**

of the market and prevent new firms from entering it. Multinationals also have a long history of subverting and corrupting governments to achieve their aims. They are so large that they have considerable financial resources to be able to use either in bribing government officials and politicians, or maintaining powerful lobby organisations.

Possible advantages of multinational companies to individual countries

Multinational companies can give a variety of benefits to the individual countries in which they operate.

Home countries Individual countries gain international competitiveness if they are the national base for a multinational corporation. This is because a disproportionate amount of spending by the multinational will take place in its home country. Moreover, the resources employed are likely to be the most sophisticated within the organisation. For instance, the multinational will almost certainly have its headquarters in its home country. A disproportionate amount of research and development is likely to take place there. The home country is likely to be used as a production base, with a disproportionate number of production facilities there or with inputs being sourced from other firms in that country. One of the reasons why the developed world traditionally dominated world markets was because hardly any developing countries created successful multinationals. This is now changing with countries such as Taiwan, South Korea, China and India developing their own multinational companies which are outcompeting western companies.

Transfers of capital When Tesco sets up a new chain of supermarkets in Eastern Europe, or Toyota builds a new car plant in the UK, there is a transfer of capital from one country to another. This is called **foreign direct investment (FDI)**. FDI leads to an immediate increase in the resources available within a country. In most cases, they will in the short term lead to a multiplier effect. Construction workers for a new supermarket will spend their wages in local shops and on local produce, boosting national income. In the longer term, an increase in investment pushes the production possibility boundary of an economy outwards, which should lead to higher growth.

Transfers of knowledge With foreign direct investment comes a transfer of knowledge from one country to another. In some cases, industrial secrets are well kept. For example, despite operating in most countries in the world, no one but a few at headquarters knows the formula for Coca Cola. But Coca Cola does transfer knowledge to the local companies it works with about how to operate a bottling and distribution company. When Nissan and Toyota built plants in the UK, their production techniques were widely copied by other car manufacturers operating in the UK. Multinationals with plants in China know that Chinese entrepreneurs and companies will constantly seek to copy and imitate what they see and then pose a real threat to their markets.

Employment Multinationals create jobs wherever they set up operations. They are sometimes criticised for only creating low level jobs for local employees whilst importing more highly skilled labour from abroad. A French hotel chain in the UK, for example, may employ local British labour for cleaning but in practice always has a French worker as the manager of each hotel. However, increasingly multinational companies recognise that creating an international employment base leads to greater productivity. Training local workers to take high level jobs within the company is an investment which strengthens the company. Training given to employees also spills over into the local economy. It raises the level of human capital. Employees leave multinationals to take jobs elsewhere in the economy and sometimes to set up their own businesses.

Taxes Multinationals pay taxes to national economies. This can then pay for government spending in areas such as health and education. Multinationals are often accused of paying as little tax as possible and seeking out locations where taxes are low. A common technique to avoid tax on profits is TRANSFER PRICING. Assume a multinational company has to make a product in country A, a country which charges high taxes on profits. The company will therefore want to make as little profit as possible in country A. The company also has operations in country B, a country which charges low taxes on profits. By selling the product made in country A at an artifically low price to its operations in country B, it can minimise its profits in country A. It then sells the product from country B at the market price, perhaps even back to customers in country A. But then it makes high profits in country B because it has bought the good at an artifically low price from country A. It still has to pay taxes on profits in country B, but its overall tax liability in countries A and B is much lower because of transfer pricing. Inevitably, because multinationals are profit seeking companies, they will seek to minimise their tax liabilities. If Slovakia offers lower taxes than the UK, this will be one factor which a US multinational will take into account when deciding where to put a new plant in the EU. Governments therefore need to weigh up

the benefits of attracting investment by offering low taxes against loss of tax revenues. They also need to be robust in their dealings with multinationals to ensure that they pay their fair share of taxes.

Consumer choice Multinationals can bring greater consumer choice to a country. For example, Toyota and Nissan set up manufacturing plants in the UK to sell more cars into the UK market, Coca Cola and McDonald's set up in many countries to sell their products.

Exports Multinationals may increase a country's exports. This then increases the resources available to purchase imports. If it is an energy company like Exxon Mobil, exports of oil may be the main export for an economy.

Economic growth Multinational companies are a key component of the world trading system. By allocating resources in an efficient way, they help promote world growth. For example, multinational companies are one of the elements which explain why China and India are currently growing so fast. Without multinational companies, trade would be reduced and so too, almost certainly, would world GDP.

The possible disadvantages of multinational companies

Some argue that multinationals have a negative impact on individual economies.

Lack of accountability The size of multinationals can make them seem unaccountable to anyone. In practice, multinationals are accountable to many bodies. They are answerable, for instance, to their shareholders. Increasingly, though, they have had to account for their actions to other stakeholders. They have to obey the law of the countries in which they operate, unless government is so corrupt or weak that multinationals can evade the law. They are also subject to scrutiny by pressure groups, such as environmental groups.

Loss of national identity Multinationals are often accused of leading to lowering living standards by destroying native culture. McDonald's, for instance, has encountered opposition in some countries which see US burgers as a threat to national cuisine and eating habits. Globalisation inevitably means that there is a blurring of national identities as standards are accepted throughout the world. Standardisation can give rise to considerable benefits, though, because they allow people and firms to use common equipment, common ways of thinking and doing things, as well as helping in the purchase of products.

Footloose capitalism Multinationals have the power to move production from country to country, creating and destroying jobs and prosperity in their wake. They do this to maximise their profits. For instance, they might close a production facility in a high cost country like the UK or the USA and move it to a

Question 3.

Louis Vuitton and Chanel will this week be competing for the limelight as both open stores in Hong Kong. Louis Vuitton and Chanel are luxury fashion houses, selling very expensive luxury goods to the very rich. Louis Vuitton is re-opening a store that it has over-hauled and expanded. The outlet will be its second-largest worldwide, after its flagship Champs Elysees store in Paris. Louis Vuitton's event will close on Friday night with a party for 2,500 guests held in a golden tent.

Asia is a fast growing market for the luxury fashion market. With a population of 1 billion, and a growth rate which is seeing incomes double every seven years on average, it only needs the smallest fraction of this population to want to shop at a luxury fashion house for it to be a highly lucrative market. The luxury fashion houses are moving from having outlets in 'first tier' cities like Beijing and Shanghai, to 'second tier' cities, large provincial cities which still have a rich elite.

Growth, however, brings its own challenges. Simply taking what works in Paris or London to an Asian city is not necessarily going to be successful. The brand needs to adapt to local culture whilst at the same time retaining its distinctive image. Thibault Villet, President of Coach, the US maker of handbags and other accessories, for example says: 'We are clearly a New York brand and so need to communicate an image in accordance with our DNA. But the right way for us to go local is when we do events, where we certainly want to be working with the local celebrities.'

Another challenge for Asia's fashion development is a shortage of skills. Customers expect sales staff to be knowledgeable, friendly and yet deferential. Inexperienced sales staff can drive customers away. There are likely to be fewer repeat customers and fewer introductions by word of mouth.

A key question is whether image-conscious fashion houses will join the outsourcing bandwagon by shifting production to Asia. Last year, Louis Vuitton made its first manufacturing move outside of Europe by establishing a shoe production venture in Pondicherry, India. About 100 people are employed in its workshop there but the company has no plans to go further. After all, part of the brand image of a luxury Paris or Milan fashion house is that its goods are made by highly skilled craftsmen in France or Italy. No one will pay hundreds of pounds for a handbag if they think it has been made in a sweatshop in Thailand. So the fashion houses have to be ultra-cautious about what functions they outsource to low cost locations.

Source: adapted from *The Financial Times*.

(a) Evaluate the advantages and disadvantages to Louis Vuitton of outsourcing production to a country like India.

(b) To what extent might (i) Hong Kong and (ii) India benefit from having a Louis Vuitton store or production facility located in their country?

low cost country like India or Thailand. Globalisation is inevitably leading to a shifting of production from the developed world to the developing world. This is one key way in which the poor developing countries of the world can increase their living standards. However, multinationals are not the prime cause of this shift in production. Rather, they are responding to market forces in exactly the same way that national companies are so doing. Over the past 30 years, domestic UK companies have increasingly sourced goods from overseas to take advantage of better prices. They have closed their own manufacturing operations, or forced previous UK suppliers to close down through loss of orders.

Destruction of the environment A number of multinationals dominate world extraction industries such as oil or gold mining. These industries are inevitably particularly destructive of the environment. Other multinationals, such as motor manufacturers or even service companies have also been accused of destroying the environment for instance in the way in which they source their raw materials. However, any form of production could be argued to be undesirable from an environmental viewpoint. Moreover, multinational companies often have better environmental records than smaller national companies. They not only have the financial resources to be able to minimise their impact on the environment; they also have the technical knowledge and ability to innovate which can lead to minimising environmental problems.

Exploitation of poor countries The anti-globalisation movement portrays multinationals as exploiting poor countries to increase their own profits. Multinationals pay local labour the lowest wage possible. They employ child labour. Conditions of work are very poor. Natural resources are extracted and sold with hardly any compensation going to the local country. Taxes paid are minimal. Goods are sold which show no sensitivity to local culture. As little as possible is put back into the country because this would reduce the amount of profit that can be transferred back to the rich developed home country. It is correct that some individual multinational companies can be severely criticised for their historical record. It is also true that some multinational companies today are more aggressive in their pursuit of profit whatever the consequences than others. However, other multinational companies have an excellent record of dealing fairly with individual countries, local workers and local consumers. It should also be remembered that most activities of multinational companies are focussed in the developed world. So criticism of multinational companies needs to be focussed against individual companies rather than multinational companies as a group.

Corporate social responsibility

Many multinational companies have responded to criticism by implementing **corporate social responsibility (CSR)** procedures. Typically, a member of the board of the company is given responsibility for corporate social responsibility. Targets are drawn up on a wide range of issues such as the environment, employees, suppliers and customers. Policies are then put in place to achieve those targets. Data is gathered to monitor whether targets have been achieved. Sometimes, outside auditors are used to audit results in the same way that outside auditors are used to audit company accounts.

Corporate social responsibility is a way of recognising that a company has a variety of stakeholders, each of whom have different goals. Maximising profit at the expense of the environment or workers' safety is not necessarily the goal for a company to pursue.

Critics of corporate social responsibility argue that targets set are typically arbitrary and are too low to make a substantial impact on the issue concerned. They often argue that only government regulation will force multinational companies to become socially responsible. The answer to issues about, say, illegal logging of forest in Indonesia, is for government to ban the purchase of this product. Otherwise, whilst some multinationals will not buy the timber because of their corporate social responsibility policies, other multinational companies will buy it.

The verdict

Multinationals can be easy targets for those who dislike global capitalism. Individuals are relatively powerless when factories are closed and production is shifted thousands of miles away. New products, such as genetically modified food, can also raise important questions about whether such technologies should be exploited. On the other hand, without multinational companies, there would be far less trade and innovation. World output would almost certainly be considerably lower, arguably leading to lower living standards.

Free market economists would argue that the focus of any debate about multinationals is not whether they should be allowed to exist but about how government, representing all stakeholders in society, can set up regimes which can regulate the activities of multinationals for the benefit of all. For the

anti-globalisation movement, multinationals are a symbol of all that is wrong with a world where profit and private greed control how resources are distributed.

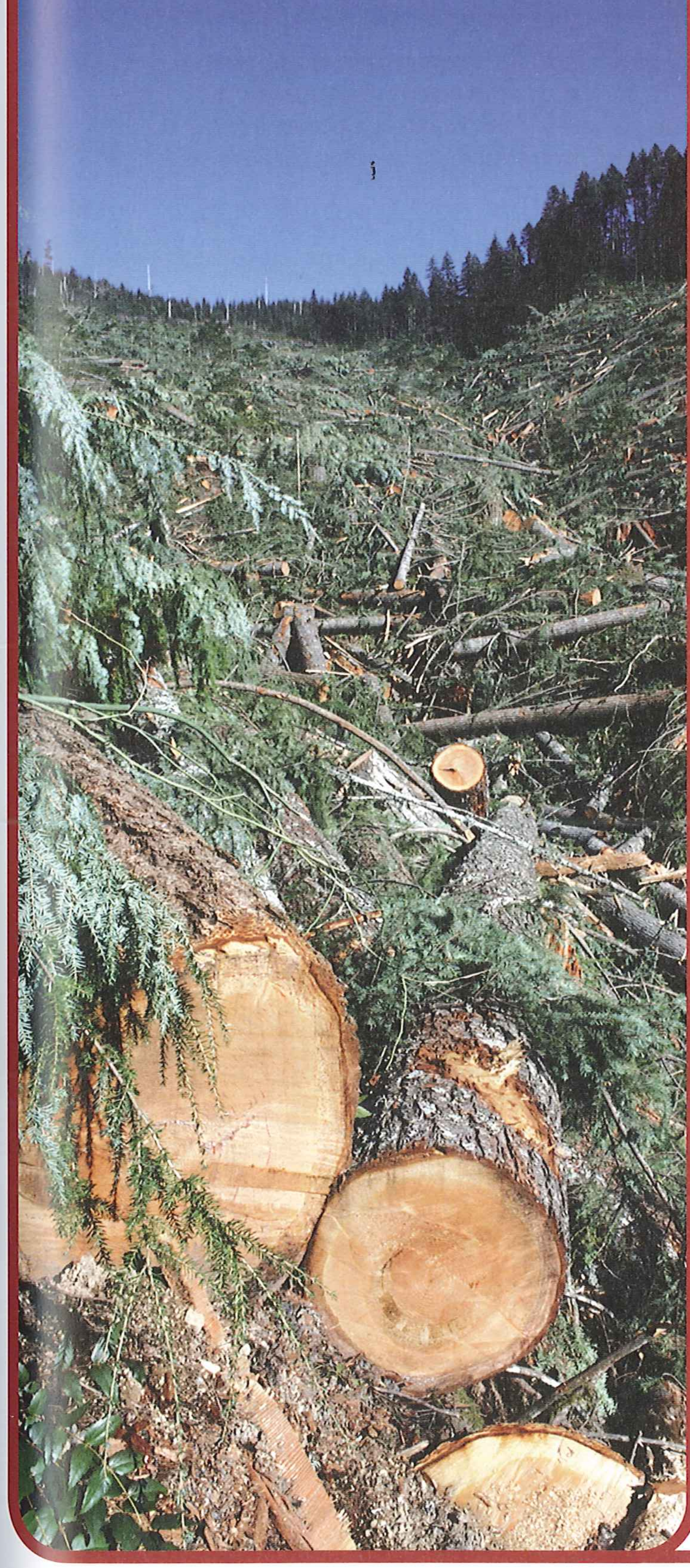
KEYTERMS

Globalisation – the integration of the world's economy.
Hypercompetition – the disruption of existing markets by flexible, fast moving businesses.
Multinational – a company which owns or controls production or service facilities outside the country in which it is based.
Transfer pricing – a system operated by multinationals. It is an attempt to avoid relatively high tax rates through the prices which one subsidiary charges another for components and finished products.

KNOWLEDGE

1. What is meant by a global market?
2. State three important aspects of globalisation.
3. Suggest five factors which have contributed to the growth of globalisation.
4. How might globalisation affect the location of a business?
5. Why might globalisation increase competition for businesses?
6. Explain briefly why the following businesses might become a multinational company: (a) an oil company; (b) a mass manufacturing car company; (c) a fast food chain.
7. Outline briefly the role of multinational companies in (a) international trade; (b) transfers of knowledge between countries; (c) creating employment; (d) increasing choice for consumers.
8. Why might a country not benefit from the activities of multinational companies?

Case Study: Bilateral trading



Corporates

Friends of the Earth is a charity which campaigns for solutions to environmental problems. In January 2008, the following was posted on their website about multinational companies.

The balance of power has shifted. Governments are losing control to huge multinational corporations. This process is putting basic human rights and vast areas of the natural world in serious danger. It's time to challenge the rise of corporate power.

Each time we visit the supermarket, pay our taxes or fill up our car we fuel the growth of big companies. Behind the public face of corporations:

- Democracy is eroded. Companies often have more power than governments. They threaten to move their business to get what they want.
- Environments are destroyed. Rainforests are cleared to grow products on our supermarket shelves. Demand for palm oil has decimated forests in Borneo.
- Human rights are abused. People have no say on changes ruining their lives. Communities are thrown off their land or forced to live next to leaking oil pipes.

By law, public companies have to maximise profit and keep investors happy. This means economic growth comes before people and the planet. Did you know that 51 of the world's biggest economies are now corporations?

You shouldn't have to worry about all this when you do your weekly shop. Unfortunately some companies try to claim they are greener than they really are. Corporates have too much power and too little incentive to care about communities and the environment. To head off such accusations, many businesses are adopting voluntary Corporate Social Responsibility (CSR) policies. CSR promises to do more than the legal minimum to protect people and the planet. But CSR is failing because it:

- Doesn't make a difference. Companies don't deliver on promises ....
- Ignore the real problems. Reports gloss over impacts of core business ....
- Is voluntary. There is no enforcement ....

Companies hide behind lobbying groups that fight on their behalf for less regulation. For example, the Confederation for British Industry (CBI) lobbies on behalf of business against laws that would benefit people and the environment.

Corporate power is out of control. The current systems are failing the planet. Governments need to regain control of big business to give rights for people and rules for big business.

Source: adapted from www.foe.co.uk.