

## Transactional Corporations in Developing Countries

### INTRODUCTION

Developing countries, also referred to as third world countries, may be described as those having low levels of economic development including income levels and industrialization. Over the years, transnational corporations have diversified their operations to developing countries causing various effects, both positive and negative. For instance, the economic development and technological orientation have been accelerated through transnational corporations. According to Dunning (1992, p. 263), the role that transnational corporations play in developing countries will depend on the internal structures of the host nation, including the government policies, as well as the corporation's specific characteristics and the industry in which the given corporation operates.

In most cases, transnational corporations prefer to extend their investments to developing countries because of various factors including availability of cheap labor, presence of raw materials (most developing countries are net raw materials exporters), limited competition, and flexible investment policies. However, in their investment endeavors, multinational corporations have to survive in conflicting environments in the developing countries, restricted by political factors, changes in global competition, government regulations, location factors (culture, strategic orientation and location conditions) and the corporation-related factors (changing face of global firms, types and forms of investment, and firm's origin).

Transnational corporations may be described as large multinational enterprises with immense influence in the global market. In addition, transnational corporations are industrial powers that have controlling effect on globalization of trade and investment. According to United Nations Conference on Trade and Development (2002, p. 291), TNCs may be viewed as corporations that has affiliates

in various countries and cooperates with the parent enterprise based in the country of origin controlling assets (more than 10% of equity, as UNCTAD (2002) assures) in other enterprises located in different countries other than the home country. Although the TNCs have effect on the overall global economy, in the given paper its impact on the developing countries will be considered. In addition, the aim of the research is to track the economic development and technological progress or, on the contrary, environmental degradation that can be observed in the given countries.

#### IMPACT OF TRANSACTIONAL CORPORATIONS ON ECONOMIC DEVELOPMENT

Developing countries differ from developed countries in the fact that they have low per capita income, high rate of consumption as compared to production, low investment, low saving, high rate of unemployment, high illiteracy levels, strained infrastructural development and limited capital for industrialization.

Transnational corporations have had strong influence on the economic growth/development of the developing countries for many years through foreign direct investment. In this case, they provide the much-needed capital flows for establishing production facilities. With much endowment of raw materials, TNC finds it easy to invest directly to these countries creating an atmosphere for industrialization (Ray, 2005, p. 17). For instance, the rapid development witnessed in the Far East Asia countries (commonly referred to as emerging markets) has been a direct influence of TNCs' direct investment initiatives. However, the rate of capital flow to developing countries has not been equitable as some of countries, especially in Asia, have a lion's share of foreign direct investments; meanwhile, in Africa, the Northern countries plus South Africa and Nigeria have benefited more than other African countries – thus justifying why these countries are always ahead in development (Schaub, 2004, p. 33).

The creation of global economy has seen the development of market efficiency despite the dominance of the transnational corporations. For the developing countries, the presence of TNCs inspires productivity and modernization as well as provides the market development for these countries to enter the world of the global economics. For instance, it is more likely to find rice from Pakistan, tea from Kenya, coffee from Brazil, cocoa from Ghana and so on competing favorably in the global market. This is a positive contribution to the developing countries that are always on the run to catch up with the pace of progress in the developed countries.

However, this trend of over reliance on TNCs for infrastructural development seems to have eroded and suppressed the advancement of the informal and small micro enterprises (SMEs) in the developing countries. Although the TNCs may be claimed to have advanced specialization, the significant role that SMEs play in uplifting the standards of living of many households can not be ignored. For instance, most of the less developed countries economies (such as Sub-Saharan Africa) depend heavily on the informal sector as a major contributor to the national economic growth. However, TNCs have overlooked the contribution of SMEs in the production grid, pointing some weakness inherent in SMEs, such as lack of sufficient capital flow, inefficient production capacity, management instability, inefficient logistics lack of marketing knowledge, lack of specialization and rigid organizational structure (Giroud, 2003, p. 73). Moreover, these limitations have made the SMEs to be voiceless in the market pricing model leaving the ground to the oligopolistic TNCs to dictate the tune of the game in the market, whose immense power has gone even further to dictate demands to the host nations that are favorable for their (corporation's) growth (Sunkel, 1985).

Developing countries are less endowed with production efficiency than it is exhibited by the TNCs. In this regard, the presence of these TNCs in the developing

countries tends to provide a viable economic route for local industries (such as light industries, insurance, freight organizations and so on) to develop thereby enhancing income flow to the host country's households. In addition, being export oriented economies, developing countries are able to adequately find market for their raw outputs, thus, eliminating the hassles of searching for international markets; and reducing the risk of loss emanating from the mostly perishable raw materials (because market delivery time is saved as well as logistical costs). Moreover, the finished products produced in developing countries by these TNCs are likely to offer affordable prices to the households owing to elimination of extra costs that could otherwise have been incurred, should the products have been imported.

Most of the developing countries have been lagging behind in the fight against poverty, mainly due to low or no income to households, knowledge, and poor government policies. Poverty has contributed significantly to lack of education, poor health, unemployment and marginalization. The gap between the poor and the rich has always been wide due to inequality in resource endowment. The establishment of production hubs in the host countries plays a vital role in providing employment opportunities for the local community and the process raise the purchasing power of the households. According to Ahiakpor (n.d.), TNCs contribute to the development of communities in which they operate through employment and offering wages that are otherwise elusive in developing countries, not forgetting additional income received from land and property rentals. This is despite the wide claim that the wages offered are exploitative when compared to wages offered in developed countries.

#### IMPACT OF TRANSACTIONAL CORPORATIONS ON TECHNOLOGICAL PROGRESS

The level of technological advancement in developing countries has been on an upward trend the recent years. TNCs have taken the advantage of the technological

development opportunity to transfer various devices to the developing countries, at the same time encouraging the industrialization growth (Fatouros, 1994, p. 276). This has led to efficiency in production especially due to the fact that there is high output per hour, reduced or eliminated idle capacity and high quality output. According to Giroud (2003, p. 75), technology transfer goes hand in hand with knowledge transfer, and in this case skills and knowledge in production, management and marketing to the local labor force, thus, uplifting the overall economic performance. In addition, since the trade has become global, technological transfer ensures real time flow of information through information technology as well as an opportunity to trade online. However, the technological efficiency witnessed in developing countries differ from that can be observed in developed countries, since Mankiw (1995, p. 284) claims that the developing countries have been unable to adopt the more efficient technology due to lack of skilled labor.

Even though the rate at which this technological transfer is being implemented caused some resistance from certain countries, mainly due to conversion of production process from labor intensive to capital intensive, a scenario that was witnessed in the East African countries seems to be the paradigm for the future Asian market development. Counting on cheap working force and fast mass production means that the economical, ecological and social standards have not been accepted in the world trade yet.

The powerful operation of TNCs has witnessed major critics from both developing countries' governments and human rights activists. For instance, some TNCs have employed their immense power to avoid tax by creating tax havens that are beyond the reach of poor countries, and, therefore, undermining democracy in these countries. In addition, developing countries find themselves on the receiving end when they try to outplay the TNCs in research or innovation. Another example

was that, lobbying the US to impose sanctions, TNCs played an influential part in denying South Africa the opportunity to manufacture cheaper AIDS drugs (Shah, 2009).

#### IMPACT OF TRANSACTIONAL CORPORATIONS ON ENVIRONMENT

The current business environment has witnessed an increased call for corporate social responsibility as organizations urged to employ the triple bottom line concept. However, the rapidly increasing investment in developing countries has raised concerns over the rising environmental degradation. To a considerable extent, TNCs is to blame for the deteriorating environmental conditions, particularly revolving around pollution and greenhouse gas emissions (that cause global warming). According to Rojas (1997), Transnational Corporations have been regarded as the cause of soil degradation through their intense use of pesticides, fertilizers and chemicals in large commercial agriculture. Disregarding the criticism, TNCs have been lobbying for 'green' corporate operations tailored around ensuring the environment in which they operate is habitable.

In their pursuit of profits, TNCs have found themselves in collision with environmental activists over their effect on environment. For instance Shah (2009) highlights that, TNCs extraction of oil in Nigeria caused major environmental problems; the trend that has also extended further to bully and even kill communities that protest against adverse environmental and social effects of these corporations. The effect of greenhouse gases on global warming has been witnessed in the recent years with climatic conditions being affected, posing a threat to lives of many, especially the developing countries who are mainly dependent on agriculture. The climatic disturbance of these emissions gave rise to the famous 1997 Kyoto Protocol where the strength and power of TNCs was clearly witnessed when the US

vehemently refused to sign the protocol – with some sources claiming that large corporations were politically involved in that refusal (Shah, 2009). The question remains on whether the US was really committed to bailing third world countries out of this environmental mess.

The transfer of technology may be viewed as positive impact on developing countries, but the side effects are worrying. According to Francioni (2001, p. 65), TNCs may transfer destructive technology to developing countries due to less restrictive environmental legal systems. This may be in the form of obsolete technology or prohibited product. For example, these can be old motor vehicles that cannot be accepted in the developed countries and are being transferred to the developing countries, causing huge emission of gases to the detriment of the local community; prohibited production of pesticides may find their way to developing countries without much concern, the result of which will be health hazards for the recipients. Because of the lack of knowledge or finances, developing countries are more prone to dumping than developed countries; they are also more interested in attracting investment and, therefore, environmental issues come second in their rank of priorities.

The so-called industrialization has led to unabated pollution of the environment. According to Transnational corporations liability for environmental harms (2009), the lack of steadfast 'hard' law to regulate TNCs (some of which are more financially endowed than developing countries) makes it possible for these corporations to pollute the environment through poor waste management causing health and physical risk to people.

## CONCLUSION

In their pursuit of profits, transnational corporations have been the cause of the major positive and negative effects on global economies. For instance, they have been the force behind violation of human rights, environmental degradation, and child labor among other vices. From the positive viewpoint, they have had certain influence on the society, encouraging the creation of democratic nations, economic development (capital flows and reducing unemployment), technological advancement, and poverty and illiteracy eradication. The level of development witnessed currently in developing countries has been largely influenced by TNCs through technological transfers and FDI.

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