

## **Transnational Corporations: Has their power caused hardship for the poor in developing countries?**

### **Introduction**

John Madeley, in his article about transnational corporations (TNCs) in developing countries, argues that TNCs have abused their power and caused hardship and poverty for millions in developing countries where they are sited in. He raises many arguments that indicate how the profit-maximizing stance of TNCs has directly or indirectly disadvantaged the poor in various ways. It is my belief that in general TNCs have caused significant suffering amongst the poor in the developing countries with their power, but with the right measures and attitudes TNCs can also bring about benefits to the poor.

In the following sections I shall detail, with reference to Madeley and other references, how TNCs have abused their power to impart hardship on the poor. I shall also briefly mention how TNCs can also make use of their power to benefit the poor in developing countries, instead of causing suffering.

### **Have TNCs Abused their Power to Inflict Hardship?**

Madeley mentions that TNCs have significant clout in the World Trade Organization (WTO) to influence the WTO agenda, and several of WTO's trade agreements reflect positions biased towards TNCs. For instance, the Trade-Related Investment Measures (TRIMS) agreement requires countries to offer the same support they give to local companies to TNCs, placing trade above local development and possibly hampering the development of the local industry, which will not be good for the local economy. This is supported by Greer et al (2000), which mentions how TRIMS, established during the

Uruguay Round of the General Agreement on Tariffs & Trade (GATT), specifically advantage TNCs. TRIMS has prohibited actions by developing countries that persuade cooperation between TNCs and local firms. This might cause local firms to lose out, disadvantaging the industry as well locals employed by local firms.

In addition, Madeley highlights how the WTO's Trade-Related Intellectual Property Rights (TRIPS) awards TNCs rights to patent protection in WTO member nations, which could be disastrous for developing countries that need the use of patent products, in industries like the healthcare and food industry. Madeley exemplifies with an example of the agriculture industry where farmers have to pay royalties for crops that have been patented by TNCs despite having grown the crops for many years. Vahlsing (2003) supports by elaborating further: Thai jasmine rice has been genetically engineered to be grown in Florida by researchers and thus patented, resulting in impoverished Thai farmers having to compete with the TNCs in selling jasmine rice in the US. These farmers are heavily indebted to the government and do not already earn much from the rice. With the TNC's entry, the farmers' livelihoods are at stake, as unemployment looms.

The huge powers and economic potential of the TNCs also mean that governments of developing countries have to do more to draw TNCs to their countries and give in to their demands. In this process, Madeley says, the governments have to allocate resources that could have been used in other sectors of the economy, like in healthcare and education. This will then

disadvantage those who could originally have benefited from the spending by the government on the particular sector, thus trapping the poor in poverty.

Also, TNCs making use of their corporate power to influence negotiations with the governments tilt negotiations in favour of the TNCs, thus benefiting them. This would not allow for convergence of the objectives of the government and the TNCs, which are often different. With reference to Dicken (2003:274,299), the objectives of TNCs (like to maximize profits and investor value) will be most probably fulfilled rather than that of the government's (like to maximize employment opportunities). The ultimate loser will most probably be the poor, as the government's aim to alleviate poverty amongst the poor through employment opportunities by TNCs might be derailed eventually.

### **How the Power of TNCs can Benefit the Poor**

Nevertheless, the power of TNCs can also be capitalized on to allow the impoverished of developing countries to benefit from their presence. According to Potter et al (2004:351), TNCs offer hope to developing countries through assistance in technical, managerial and economic resources, which can lay the ground for future infrastructure and capital development. TNCs may sometimes abuse their power to their advantage (hence inflicting suffering on the poor), but the presence of TNCs in developing countries do not always cause poverty and hardship. When TNCs are present in the country, they do generate economic growth through greater output produced, which can affect the people in the country as their income might increase.

Madeley is right in his assertion that regulations on corporations at the international level will allow their power to be harnessed to help the poor. Many of the current WTO rulings inherently favour TNCs, and perhaps it is time for a truly independent body to govern trade dealings between TNCs and governments. This will allow a balance of benefits towards both TNCs and governments, and in future allow the poor of the developing countries to really benefit from the presence of TNCs in their country.

Another change to the current situation Madeley proposes is to focus on “corporate public accountability”, where political and legal institutions in the government and internationally will scrutinize and endorse its practices, as opposed to “corporate responsibility”, where TNCs pay lip service to self-regulation. This will ensure that TNCs do not abuse their power or pressurize governments to give in to their demands, especially where the government’s objectives (to create employment, for instance) are concerned.

### **Conclusion**

Essentially, the power TNCs wield is undeniable, and often they have used this power to their own means. Thus, it must be said that as TNCs base themselves in developing countries, it would be good for the TNCs to use their power to contribute to the country’s poor and not be motivated purely by profit-maximization. This will create respect for the TNC, and will foster good relations between TNCs and countries, whereby both parties engage on win-win cooperation that benefits everyone. If all developing countries are firm against “bullying” by the TNCs, TNCs will then have no choice but to play fair.

*(Word count: 988)*

**Bibliography**

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