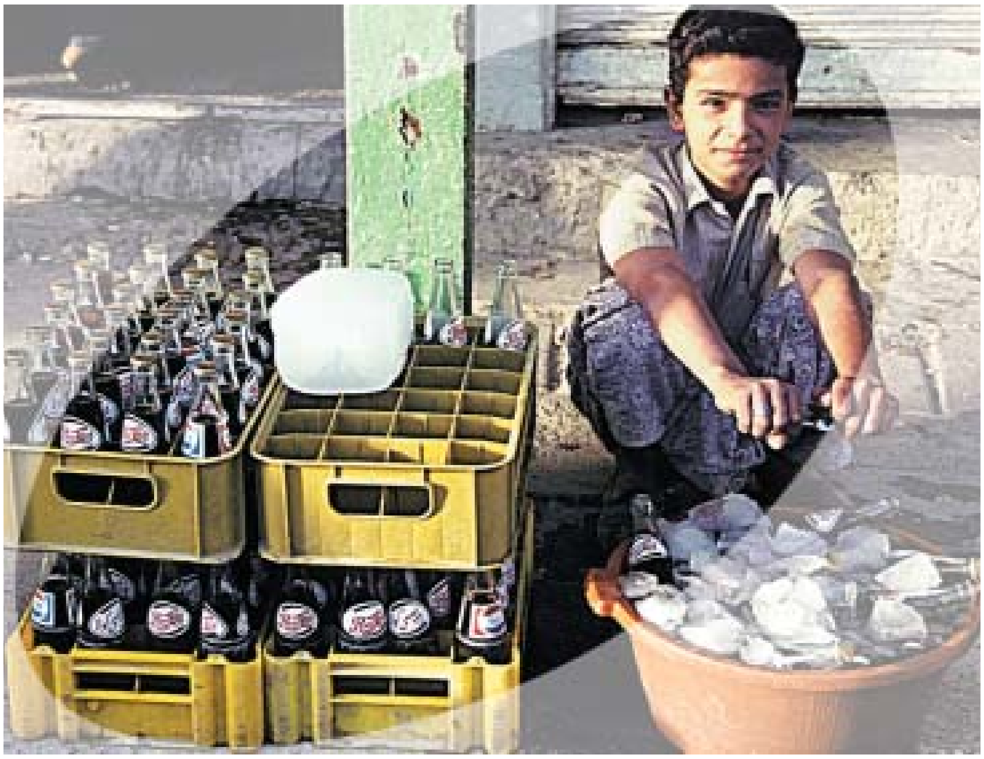
Do Multinational Corporations Hurt Poor Countries?

BY JAGDISH BHAGWATI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There is a fierce debate today between those who consider globalization to be a malign influence on poor nations and those who find it a positive force. This debate focuses not just on trade, but also on multinational corporations. The hard evidence strongly suggests that the positive view is more realistic. There are many reasons to believe that multinationals in particular do good, not harm, in the developing world.

If any conviction strongly unites the critics of multinationals today, it is that they exploit workers in poor countries. Ire has been aroused by the assumption that rich, deep-pocketed corporations pay "unfair" or "inadequate" wages overseas. More generally, companies are condemned for violating "labor rights."

The typical critique asserts that if a Liz Claiborne jacket sells for $190 in New York, while the female worker abroad who sews it gets only 60 cents an hour, that is obviously exploitation. But there is no necessary relationship between the price of a specific product and the wage paid by a company. For starters, for every jacket that sells, there may be nine that do not. So the effective price of a jacket one must consider is a tenth of the sold jacket: $19, not $190. And distribution costs and tariff duties on apparel almost double the price of a jacket between the time it arrives at the dock or airport in New York and finds its way to a Lord & Taylor display.

It is often assumed that multinationals earn huge monopoly profits while paying their workers minimal wages, and that these firms should therefore share their "excess" profit with their workers. But nearly all multinationals such as Liz Claiborne and Nike operate in fiercely competitive environments. A recent study of the profits performance of 214 companies in the 1999 Fortune Global 500 list showed a rather sorry achievement—about 8.3 percent profit on foreign assets. Where are the huge spoils to be shared with workers?

Let's look at the facts on wage payments. Good empirical studies have been conducted in Bangladesh, Mexico, Shanghai, Indonesia, Vietnam, and elsewhere. And these studies find that multinationals actually pay what economists call a "wage premium," that is, an average wage that *exceeds* the going rate in the area where they are located. Affiliates of some U.S. multinationals pay a premium over local wages that ranges from 40 to 100 percent.

In one careful and convincing study, the economist Paul

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Glewwe, using Vietnamese household data for 1997-98, was able to isolate the incomes of workers employed in foreign-owned firms, joint ventures, and Vietnamese-owned enterprises. About half the Vietnamese workers in the study worked in the foreign textile or leather firms that are so often criticized. Contrary to the steady refrain from the critics, Glewwe found that workers in foreign-owned enterprises generally make almost twice the salary of the average worker employed at a Vietnamese company.

As Glewwe points out:

> The data also show that people who obtained employment in foreign-owned enterprises and joint ventures in Vietnam in the 1990s experienced increases in household income (as measured by per capita consumption expenditures) that exceeded the average increases for all Vietnamese households. This appears to contradict the claims that foreign-owned enterprises in poor countries such as Vietnam are "sweatshops." On the other hand, it is clear that the wages paid by these enterprises…are a fraction of wages paid in the U.S. and other wealthy countries. Yet Vietnam is so poor that it is better for a Vietnamese person to obtain this kind of employment than almost any other kind available in Vietnam.

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But there remains the accusation that global corporations violate labor rights. Many damning charges are made, and anti-globalization activists are not beyond trumpeting the occasional lie, much like the corporations, politicians, and bureaucrats they excoriate. Only after IKEA was accused of exploitative child labor by its suppliers was it discovered that the German film documenting the abuse was simply faked by activists.

Another recent example, much-repeated by critics of multinationals and picked up by many sympathetic reporters, was the claim that the chocolate sold in rich countries relies on slave labor by children in the cocoa plantations of the Ivory Coast. Let me quote from Norimitsu Onishi's story in the *New York Times* uncovering the falsity of these charges.

> Many accounts in British and American news media last year spoke breathlessly of 15,000 child slaves…producing the chocolate you eat. The number first appeared in Malian newspapers, citing the UNICEF office in Mali. But UNICEF's Mali office had never researched the issue of forced child laborers in Ivory Coast…. Still, repeated often enough, the number was gladly accepted by some private organizations, globalization opponents seeking a fight with Nestle and Hershey, and some journalists…. This month, the results of the first extensive survey of child labor in cocoa plantations in Ivory Coast and three other African nations were released by the International Institute of Tropical Agriculture, a non-profit organization…. The survey found that almost all children working in cocoa fields were children of the plantation owners, not forced laborers…. None reported being forced against their will.

Unfortunately, as Onishi observes, "politics is sometimes more influential than precision…. Since they were released early this month, the institute's findings have received little attention—perhaps only 1 percent of what the '15,000 slaves' figure received."

Sometimes when critics of multinationals attack, it is not egregious violations of local laws that are at issue. It is rather the claim that the companies do not meet the demands of "decency," or Western norms, or perhaps international law. This route to condemning multinationals is quite problematic, however.

For one thing, developing-world regulations may be less demanding than international ones (just as American standards are often below those of Europe and even Canada) for good reasons. Take the case of working hours, which can be quite long in some poor countries. As Nicholas Kristof and Sheryl WuDunn have pointed out in the *New York Times Magazine*, the young Third World workers who toil long hours at multinational factories generally do so voluntarily. Why? Because they want to make money as quickly as possible so they can return to their rural homes. Like many of us who work long hours, they are not being exploited, they drive themselves.

Kristof and WuDunn quote workers in a leather-stitching factory in the Chinese boomtown of Dongguan, who tell them they all regard it as a plus that the factory allows them to work long hours every day. Indeed, some had sought out this factory precisely because it offered them the chance to earn more. "It's actually pretty annoying how hard they want to work," said the factory manager, a Hong Kong man. "It means we have to worry about security and have a supervisor around almost constantly."

Not only are multinationals wrongly accused of exploitation in the developing countries, but economists have also noted a number of good effects they bring in their wake. Perhaps the chief good effect is what economists call spillover. This refers to the fact that domestic firms learn productivity-enhancing techniques from foreign corporations with better technology and management practices. Production workers often learn better techniques while employed by foreign firms. Managers may learn about better practices by observing, or by having previously worked at multinationals themselves. And increased competition pushes all companies in an area where multinationals are operating to become more productive.

In the movie *Manhattan,* Woody Allen's character talks about the hotel where the food is dreadful, and there was not enough of it, either! The critics of multinationals often make similar complaints. After arguing that multinationals must be condemned for exploiting workers and harming host countries wherever they go, critics sometimes inveigh against these same corporations for bypassing countries that need them, thereby widening the gap between the rich and the poor.

If multinationals avoid some poor countries, that is surely not surprising. They are businesses that must survive by making a profit—no corporation ever managed to do sustained good by continually posting losses. If a country wants to attract investment, it has to provide an attractive environment. That generally implies having political stability and economic advantages such as economical labor or useable natural resources. In the game of attracting investment, some countries are going to lose because they lack these attributes. The truly unfortunate countries are those experiencing acute problems of governance, as in the African countries ravaged by war.

It is unrealistic to expect multinationals to invest in these countries and "save" them. Instead, the international community has to help them put their paralyzing conflicts and inadequate governance behind them over the long haul—a truly heroic task. In the meantime, the answer to such nations' pressing humanitarian and developmental needs must be public aid, technical assistance, and altruism from corporations and civil society groups. The World Bank ought to concentrate more on these problem states and should correspondingly turn away from lending to countries such as India and China, which now have the ability to develop by themselves. But, of course, the World Bank leadership seeks to maximize influence by distributing largesse to all; even altruistic institutions will occasionally be run by men whose private ambitions, rather than the social good, are the primary determinants of their policies.

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America in the 1970s to Germany and France today, the worst cases of political decomposition have come at times of economic weakness.

At a minimum, a robust, growing economy will be essential for financing a "generational commitment" to military action that will be largely ours to pay for. In addition, great economic limberness will be required of the U.S. as we finance and manage the introduction of economic and technological modernity to former Middle Eastern enemies like Iraq.

These circumstances suggest a more profound relationship between economic policy and security policy. Our initial tactics have consisted of hunting down terrorist groups, reforming or replacing terror-supporting governments, and, at home, imposing new government surveillance and controls over communications, transportation, finance, and other aspects of commerce. These tactics, while essential, will almost certainly be less important over the long run than piling up our natural advantages—our market-driven capacities for continuous innovation, spontaneous adaptation to changing circumstances, and resilience in the face of unexpected reversals. Our success at promoting the institutions of political freedom and economic opportunity in the homelands of terrorism will depend to a significant degree on our maintaining those institutions in our own nations, both as exemplars and as engines of economic power.

It is often said that the Islamist radicals hate America not for its sins but for its virtues—the virtues of freedom, prosperity, and cultural dynamism. They fear as well as hate us for these virtues, and we should take them seriously. To the long list of good reasons for confronting the many wasteful and counterproductive policies that are holding our economy far below its potential, we may now add urgent reasons of national security.