Chapter IV

TECHNOLOGY TRANSFER AND ITS SOCIAL IMPLICATIONS IN INDIA
Industrialization of the economy was the main goal of newly emerged nations of Asia and Africa. It offered a hope for solving the problems of poverty, insecurity over the population and was thought to be necessary for preserving the hard-won political freedom. Bryce had attempted to call this quest for industrial and economic progress "one of the great world crusades of our time". Political leaders, business men as well as intellectuals thought that foreign private investment through MNCs, was an essential element in the strategy for industrial growth. Hence, in the initial stages, there was an open-arm welcome to foreign private investment, and various incentives were offered to MNCs in the form of tax holidays, tariff protection, duty free imports of capital goods and similar other facilities.

The MNCs not only facilitated the movement of the factors of production and products across the national boundaries but also the underlying ideas, philosophies, values, consumption and behaviour patterns. In fact, some social scientists have theorized that MNCs had transmitted the "business culture" to the host developing countries.

Besides, the MNCs in communication are partly responsible for the transnational diffusion of the music, artistic values, literature and films of the developed nations. They had also promoted the consumption patterns and a consumption oriented value system in the host developing countries. The contribution of the USA and UK based MNCs in the promotion of English in trade and commerce is now widely recognized.\textsuperscript{3} The masses and the elite in the developing countries had come to idealize the life styles, beliefs, value systems, world views and the arts of the developed nations; they began to accept them uncritically and develop a feeling of inferiority about their own cultural systems. Their own self images were shaped by the images of them held by people in developed countries. Fanon,\textsuperscript{4} Freire,\textsuperscript{5} and Ryan have argued that the subjugated people internalize the values, beliefs and prejudices of the dominant nations. The cultural dependence, it can be pointed out, sheds some light on the ambivalent attitudes of the dominant elites in developing countries towards the operation of multinational corporations. On one hand, they want them as transmitters of not only capital and technology, but also of "modern" values and behaviour patterns of the developed nations.

\textsuperscript{3} Sauvant, n.2, p.56.
\textsuperscript{4} Franty Fanon, \textit{The Wretched of the Earth} (New York, N.Y., 1965), p.72.
IMPACT ON ENVIRONMENTAL PROTECTION

The preoccupation of few developed countries with the environmental issue in the late 1960s and early 1970s was greeted with suspicion by the developing countries. They regarded that the environmental protection was a plot to keep their countries under-developed. Growing fears emerged in the developing world that a developed country's environmental concern could affect them adversely in the fields of trade, aid, growth and the transfer of technology. In the subsequent years the importance of environment had increased with a result that today one finds a much "increased acceptance of the view that environmental considerations are an essential and integral part of sustainable national and even global economic development". It became very much apparent to the planners of the United Nations Conference on the Human Environment (held at Stockholm in 1972) that the relationship of environment and development would be a sensitive issue in the international debate. At the initiative of the secretariat for the Conference a panel of Experts on Development and Environment was convened at Founex, Switzerland, in June 1971 to grapple with this problem. Out of this came the Founex report considered to be the

first comprehensive document on the development - environment issues. The panel noted that:

The developing countries would clearly wish to avoid, as far as is feasible, the mistakes and distortions that have characterized the patterns of development of the industrialized societies. However, the major environmental problems of developing countries are essential of a different kind. They are predominantly problems that reflect the poverty and the very lack of development of their societies. They are problems, in other words, of both rural and urban poverty. In both the towns and in the countryside, not merely the 'quality', but life itself is endangered by poor water, housing, sanitation and nutrition, by sickness and disease and by natural disasters.

These are problems no less than those of industrial pollution that clamour for attention in the context of the concern with human environment. They are problems which affect the greater mass of mankind... developing countries must view the relationship between development and environment in a different perspective. In their context, development becomes essentially a cure for their major environmental problems. For these reasons, concern for environment must not and need not detract from the commitment of the world community-developing and more industrialized nations alike to the overriding task of development of the developing regions of the world. A further


8. Ibid., pp.10-11.
importance on the debate occurred at the Symposium on Resource Use, Environment and Development Strategies, was held at Cocoyoc, Mexico, in 1974 during the midst of calls in the United Nations General Assembly for a New International Economic Order. In the Cocoyoc Declaration it was noted that, "the failure of World Society to provide a safe and happy life for all is not caused by any present lack of physical resources. The problem today is not primarily one of absolute physical shortage but of economic and social distribution and misuse; mankind's predicament is rooted primarily in economic and social structures and behaviour within and between countries". The international group of social scientists, natural scientists and economists attending the symposium also declared that "one basic strategy of development will have to be increased by national self reliance".

During the mid-1970s, the concept of "ecodevelopment" emerged based on the motion that, "...development at regional and local levels should be consistent with the potentials of the area involved, with attention given to


11. Ibid., p.9.
the adequate and rational use of the natural resources, and to the application of technological styles (innovation and assimilation) and organizational forms that respect the natural ecosystems and local socio-cultural patterns".  

One of its leading spokesmen, Ignacy Sachs defined eco-development in 1977 as an approach to development aimed at harmonizing social and economic objectives with ecologically sound management in a spirit of solidarity with future generations; based on the principles of self-reliance, satisfaction of basic needs, and a new symbiosis of man and earth; and as another kind of qualitative growth, not zero or negative growth.

In the late 1970s and early 1980s the normative character of the ecodevelopment concept made it controversial and general concepts such as "development without destruction", "rational use of resources" and "sustainable development" phrases had been used. The growing realization in the developed world is that, poverty itself exacerbates environmental problems and that the destruction or deterioration of the environment in many developing countries is, in turn, in danger of destroying the very basis for their economic growth. The ministers for Environment of the Organisation for Economic Cooperation

and Development (OECD) countries concluded in 1979 "that in the long run environmental protection and economic development are not only compatible but interdependent and mutually reinforcing". 14

The developed as well as developing countries realize that the dilemma of environment versus development is a false issue - the real problem for countries is how to redefine the objectives, forms and ways of development. Despite much lip-service to the concept of sustainable development, however, we still often find a continued emphasis on "short term ad-hoc gains that may not be sustainable over a longer period of time". 15 Mostafa K. Tolba, Executive Director of United Nations Environment Programme recently noted, "The world now desperately needs skilled manpower and money to move the ideas of sustainable development into meaningful action". 16 According to some critics the MNCs are turning the developing countries into a sort of "ecological shelters" because the developing countries are relatively indifferent to environmental standards and are lax in implementing the rules. 17

magnitude of the hazards in such a situation was illust-
rated by the accident at Bhopal, India, on 2-3 December
1984, when more than 2500 people were killed and an
estimated 200,000 injured as a result of an accidental
leak of Methyl Isocyanate (an intermediate chemical used
in the manufacture of pesticides) at a facility operated
by an affiliate of Union Carbide Corporation of the USA.

A report\textsuperscript{18} reveals that the Canadian Government in
1972, had asked the Union Carbide to close down its Methyl
Isocyanate (MIC) Plant on the grounds of pollution and
danger to public life. The same plant was then dismantled
and installed in Bhopal in 1980 by the parent company.
Several objections were raised over the construction of
the MIC plant, but the then Chief Minister of Madhya
Pradesh, Mr. Saklecha overruled them.\textsuperscript{19} On 21 December
1982, when the possibility of disaster was raised in the
Assembly the then Labour Minister dismissed the suggestion
for a shift of the plant.\textsuperscript{20} Prior to the December
disaster the Union Carbide Plant had had a very bad record
of several accidents.\textsuperscript{21} It is evident that the Bhopal Gas

\textsuperscript{18} V.R. Krishna Iyer, "Union Carbide's 'Bhoposhima' and
Khan and S. Bhatt, ed., \textit{Law, Science and Environment}
(New Delhi, 1987), p.196.

\textsuperscript{19} Tania Midha, "The Guilty Men of Bhopal," \textit{Telegraph}
(Calcutta), 9 December 1984.

\textsuperscript{20} Iyer, n.7, p.195.

\textsuperscript{21} \textit{Surya India} (Delhi), December 1984, p.6; see also
Midha, n.8.
Tragedy has taken place due to the negligent complacency, culpable licensing policy and the failure by the MNCs to provide proper safety measures.

According to Hufschmidt and others, some specific problems that the developing countries face in the planning and management of natural systems and environmental quality include:

(a) Inadequacies in monitoring and enforcement of existing environmental protection laws and regulations;

(b) Extensive poverty that puts a premium on current income-producing activities to the detriment of long-term protection of natural systems;

(c) Scarcity of financial resources in relation to current needs, which constrains the willingness to protect natural systems;

(d) The often perverse distributional effects of environmental quality plans and programmes, which may worsen the existing inequitable distribution of income;

(e) Difficulty in controlling the environmental effects of private sector and public sector development activities, which limits the effectiveness of public programmes for environmental quality management;
(f) Inadequacies in the technical, economic, and administrative expertise available for the planning and implementation of environmental management programmes;

(g) Widespread market failures, which require extensive use of shadow prices to replace market prices;

(h) Minimal participation in environmental quality planning, either by the general public or by many affected governmental agencies, which reduces the effectiveness of implementation;

(i) Inadequacies in environmental, economic and social data, including difficulties in data collection and processing and lack of knowledge of past trends and baselines, which limit the quality of analysis;

(j) Wide diversity of cultural values, which increases the difficulty of social evaluation of environmental quality effects. 22

Due to these problems the developing countries remain poorly equipped to protect and manage their environments. In many countries environmental awareness and regulations are still non-existent and even where environmental agencies exist they lack financial resources

and do not have enough trained personnel to carry out the programmes. Many developing countries have passed laws and regulations on environmental protection. Such legislation is often not enforced due to the lack of sufficient administrative and technical resource and the leverage of powerful vested interests groups working against its implementation. With regard to toxic substance, most of the developing countries have neither the technical ability nor the institutional capacity to assess the potential health and ecological problem associated with such substances, nor, the regulatory frameworks or monitoring capabilities to keep a close surveillance over the industrial activities. 23

Holdgate and others have noted four major world trends in attitudes towards the environment over the period from 1972-82. The first deals with the process of development of environmental thinking in terms of scientific and environmental initiatives. The conservation movement developed a global dimension which included all the aspects of natural environment, as well as relationship between man-made and natural environment oriented towards the need to provide communities with a quality of life. Later the concern over the environmental matters by the media "brought environmental matters to the attention of a ever-widening public and directly

stimulated the development of political environmental movements including ecology parties". 24 The second trend concerns the rapid growth in available data concerning the environment. The third trend is a rapid advance in our understanding of the nature of the environmental system, particularly with regard to the unity and interdependence of biogeochemical cycles and the role of uncertainty of many of them. The fourth trend is concerned with the changes in our understanding of how the human and social political system's response to the environmental issues - "it has become apparent that the lack of social organisation, education, training and political will, are commonly the limiting factor in environmental improvement, rather than shortage of scientific knowledge". 25

Host Country Environment Regulation

The MNCs operate in a heterogeneous world of environmental problems and policies. Sovereign countries have been going about the business of environment and health protection at different speeds with different degrees of rigour using different technique. 26 The developing countries are more concerned with the actual


differences in pursuing the environmental policies. In an international labour office report issued in 1979, researchers interviewed planning executives in 317 American enterprises and learned that these executives believed that pollution abatement was not as important a cost item in other countries as it was in the United States; that operating and product costs had increased more dramatically in the United States due to pollution control than elsewhere, and that pollution control regulations were more stringent in the United States and Western Europe than elsewhere with Latin America having the most lax controls. They also learned that American Corporate executives had a stronger awareness of where environmental regulations were tight around the world as compared to where they were weak.\(^{27}\) The developing countries remain poorly equipped to protect and manage their environment. Environmental awareness and regulation are still non-existent in many parts of the world. Many developing countries have passed laws and regulations on environmental protection. Such legislation is often not enforced due to lack of sufficient administrative and technical resources and leverage of powerful interest groups working against its implementation. Many environmental agencies lack financial resources and do not have enough trained personnel to carry out programmes. With regard to toxic

\(^{27}\) Anthony Y.C.Koo, Maureen Kallick, James Morgan and Soo-Yong Kim, Environmenta Repercussions of Trade and Investment (East Lansing, 1979), chapter V.
substances, in particular, most developing countries have neither the technical ability nor institutional capacity (such as laboratory facilities) to assess the potential health and ecological problems associated with exposure to such substances, nor the regulatory frame works or monitoring capabilities to keep a close surveillance over industrial activities.  

IMPACT ON ENVIRONMENTAL PROTECTION: INDIA'S ENVIRONMENTAL POLICIES

The United Nations set up a Scientific Advisory Committee in 1968 to consider the question of holding a conference on human environment which was later held in Stockholm in June 1972. The industrialized countries showed enthusiasm for it, while most of the developing countries remained sceptical about its value, believing that the problem was largely an affliction of the industrially developed societies. Reports produced by environmental group in industrialized nations, predicted doom for mankind and suggested "no growth" policy as a viable approach to protecting biosphere. This was considered by some developing countries as a conspiracy by the industrialized countries to control the process of industrialization, thus decelerating the efforts of the developing countries to remove poverty. These sentiments were

generally shared by the developing countries present at the 1972 Human Environment Conference at Stockholm. The then Indian Prime Minister, the late Mrs. Indira Gandhi, while addressing the Conference stated:

The environmental problems of developing countries are not the side effects of excessive industrialization but reflect the inadequacy of development. The rich countries may look upon development as the cause of environmental destruction, but to us it is one of the primary means of improving the environment for living or providing food, water, sanitation and shelter, of making the deserts green and the mountains inhabitable.  

A National Committee on Environment Planning and Coordination was established in 1972. The Committee was involved in a number of activities leading to important policy decisions, laying down standards and guidelines to safeguard the environmental quality. The research programme of NCEPC has been implemented through Man and the Biosphere Committee (MAB) and the Environmental Research Committee (ERC). The general areas of environmental pollution and its impact, environmental aspects of human settlements, rural environment and other related subject areas are covered by the Environment Research Committee. The Man and the Biosphere Programme is in unison with the international effort initiated by the UNESCO. Under this programme, the primary objective is to

study the impact of human interference on the natural ecosystem. In addition several other agencies such as University Grants Commission, CISSR and Department of Science and Technology have funded a number of research proposals in various sectors of environmental concerns.

The National Committee on Environmental Planning and Co-ordination (NCEPC) has been in close contact with the Planning Commission in evolving a mechanism for assessment of environmental implications arising out of development projects and in providing necessary safeguards.

30. cf: The research programme of the National Committee on Environmental Planning and Co-ordination (NCEPC) has implemented through Indian National Man and the Biosphere Committee (MAB) and the Environmental Research Committee (ERC) focuses on certain ecological aspects of environment:

i) Ecological effects of increasing human activities on tropical and sub-tropical forest ecosystems.

ii) Ecological effects of different land use and management practices on temperate forest landscapes.

iii) Impact of human activities and land use practices on grazing lands.

iv) Impact of human activities on the dynamics of arid and semi-arid zone ecosystems, with particular attention to the effects of irrigation.

v) Ecological effects of human activities on the value and resources of lakes, marshes, rivers, deltas, estuaries and coastal zones.

vi) Impact of human activities on mountain and tundra ecosystems.

vii) Ecology and rational use of island ecosystems.

viii) Conservation of natural areas and of the genetic material they contain.

ix) Ecological assessment of post management and fertilizer use on terrestrial and aquatic ecosystems.

x) Effects on man and his environment of major engineering works.

xi) Ecological aspects of urban systems with particular emphasis on energy utilization.

xii) Interactions between environmental transformations and the adaptive, demographic and genetic structure of human populations.

xiii) Perception of environmental quality.

xiv) Research on environmental pollution and its effect on the biosphere.
Pursuant to its interaction with the Planning Commission, the NCEPC prepared questionnaires for environmental impact assessment for (i) industrial projects, (ii) construction of roads and railways, (iii) mining projects, and (iv) hydro-electric power generation and irrigation projects. Environmental appraisal committees have also been set up for indepth examination of environmental aspects in respect of projects that are referred to the NCEPC by the concerned authorities (Planning Commission, Central Electricity Authority/Central Water Commission).

Since its inception, the NCEPC was engaged in evolving institutional mechanisms. It strongly felt the need for setting up nodal agencies at the state levels and that of the union territories for incorporating any environmental concerns in the development planning of different regions. High level environmental boards have been constituted and emphasis placed on programmes for stimulation of environmental awareness through formal and non-formal means. Besides, it also organised seminars and workshops on subjects of environmental concern. On the advice of the NCEPC, a National Fellowship Award on Environmental Science has been instituted, and the Pittambar Pant Award, as it is named after the first chairman of NCEPC is intended to promote excellence in environmental research. A Source Book on Environmental Activities containing details of the environmental
information from various sources in the country has been brought out. The Source Book has been useful to those who are seeking specific information on matters relating to environment. The NCEPC also advised the government on programmes for co-operation in the field of environment with international agencies such as UNEP, UNESCO and IUCN, as well as through bilateral and multilateral agreements.

**Legislative Measures and Administrative Machinery**

*In accordance with the Directive Principles (articles 48 and 51-A) of our constitution, protection and improvement of the natural environment (including forests and wildlife) is an obligatory responsibility of the state and every citizen of India.*

The overriding concern for ecological security has also been stressed in the National Policy for Economic Development. The constitutional directives and development policy have provided a strong base for enactment of legislative measures as required for environmental protection. There are several laws enacted from time to time which are directly or indirectly related to environmental protection. Among them, the more recent ones are the Insecticides Act, 1968, Wildlife Protection Act 1972, Water (Prevention and Control of Pollution) Act 1974, Water Pollution Cess Act 1977, Forest Conservation Act 1980 and the Air (Prevention and Control of Pollution) Act
1981. Some of the older laws such as Indian Forest Act of 1927 are recently under review.

In recognition of the need for a fresh comprehensive look at the administrative and legislative aspects of environmental protection, the Government of India constituted a high powered committee headed by the Deputy Chairman of the Planning Commission. The committee in its report (September 1980) recommended that a Department of Environment should be set up to provide explicit recognition to the pivotal role that environmental conservation must play for sustainable national development.

IMPACT ON ENVIRONMENTAL PROTECTION IN DEVELOPING COUNTRIES

The international transfer of technologies involving potentially hazardous products and processes through foreign direct investment, joint ventures, licensing and other arrangements to the developing countries generally

31. cf: The functions of the Department of Environment were identified as:
   (a) 'Nodal' agency for environmental protection and eco-development in the country.
   (b) Carrying out of environmental appraisal of development projects through other ministries/agencies as well as directly.
   (c) Administrative responsibility for:
      i) Pollution monitoring and regulation;
      ii) Conservation of critical ecosystems designed as biosphere;
      iii) Conservation of marine ecosystems.

involves MNCs. Most of the charges levelled against MNCs center on the notion that they use outdated, cheap and highly polluting technology in the developing countries where the respective government control is lax.

A recent report by the UN Center on Transnational Corporations (UNCTC) and the UN Environment Programme (UNEP)\textsuperscript{32} estimates that world-wide there were some 2,00,000 industrial accidents during the period 1970-85 involving health or environmental damages of which, fewer than 5 per cent were apparently deemed sufficiently significant to be reported in relevant industry publications. For the 5000 accidents or incidents cited in industry publications during the period were reviewed with the followed findings:

(a) It was estimated that MNCs were involved in 30 to 40 per cent of the accidents.

(b) Of these it was further estimated that 60 to 70 per cent of the accidents occurred in the home country of the MNCs and that therefore, an estimated 30 to 40 per cent of the accidents examined involved MNC operations in foreign or host countries.

(c) Some of the more severe industrial accidents in recent years have involved national enterprises rather than MNCs.

(d) Finally, approximately 90 per cent to 95 per cent of the accidents occurred in the developed market economy countries, and only around 5 per cent to 6 per cent of the industrial accidents involving affiliates of MNCs occurred in the developing host countries.

Also cited were the results of a study of major accidents worldwide in the chemical industry. It was found that during the 1950s, 100 per cent of the reported major accidents occurred in the developed countries, while during the 1970s, these countries accounted for 86 per cent of such accidents, the developing countries 10 per cent, and the centrally planned economies 3 per cent. This study also found that the number of persons killed in such major accidents have been arising exponentially, reflecting the growth of the chemical industry and particularly, the increased global use of hydrocarbons. A listing of major industrial accidents during

the period 1975-85 shows that 10 out of the 21 occurred in developing countries. 34

An UNCTC/UNEP 35 survey found that environmental management policies of MNCs tended to be decentralised, with an accent on accommodation to local practices in host countries. Since the 1970s hazardous products have become a much more politically sensitive issue - it is possible to identify many more corporations which maintain a centralised environmental office to coordinate standards through out functions and subsidiaries eg., Shell and Union Carbide. The UNCTC/UNEP study also found that environmental Research and Development and technology tended to be concentrated in the home country operations of multinationals, indicating their potential for spreading improved environmental practices to affiliates. The survey nevertheless noted various examples of actions which indicated the limitations of national environmental controls on the MNCs, which were found to be exporting products banned or restricted in home countries to other markets, or hazardous wastes to areas with less restrictive environmental policies. Also, some multinationals

34. ICFTU-ICEF, Paper prepared for the UNCTC/UNEP Informal Seminar to further international co-operation for the environmental management of industrial process safety and hazards, November 1985.

were seen to be taking advantage of different national standards on occupational health and safety. The survey investigated whether there was evidence of a shift in the geographical location of pollution, away from the home countries to developing countries, particularly to "pollution havens" with lax environmental regulations. The shift was also due to the growth of local domestic enterprises in developing countries. But there was also relocation by MNCs. Other examples of relocation due to environmental considerations were found in densely populated nations such as Japan, Denmark and the Netherlands. Some Japanese MNCs were found to have relocated pollution-intensive industries through direct investment in developing countries in Asia and Latin America. The major recipients of FDI flows in the late 1970s and early 1980s, however, have been the USA and much of this has been in pollution-intensive industries (such as chemicals, metal and certain natural resources). The UNCTC/UNEP Survey noted that opinions vary about whether environmental standards should be internationalised in a uniform manner or adjusted to varying local conditions. It was suggested that in dealing with hazardous products and processes, (particularly in the chemicals industries) being introduced in developing countries, all efforts to promote environmental protection in terms of the highest corporate standards in an internationally uniform way
should be made. The MNCs through communications among their own parent and subsidiaries, along with national host authorities, are in a key position to help promote the process. The results of a 1985 UNCTC Survey on product safety information, covering 61 multinationals and trade associations in the chemical and pharmaceutical industries are viewed as preliminary, because the response rate was not complete. However, information from 21 MNCs and two associations responding indicated a trend towards a more uniform approach on safety issues, though variations in national regulations can make this difficult.

A recently published survey by the World Resources Institute of environmental practices of MNCs found that most large corporations have institutionalised environmental concerns within their corporate structures, although the focus and responsibilities may vary widely and change over time. While MNCs may have global statements of environmental policies, these would still allow different standards to be followed in different locations. Different pollution abatement standards by MNCs in developing and developed countries could probably


be explained by differences in technologies used and the age of facilities. The survey also noted that the environmental performance of MNCs in developing countries may be better than that of local companies and state owned enterprises, that MNCs are often held to higher implicit standards than local domestic companies and that MNCs tend to respond strongly to existing or anticipated public pressures.

While increased anxieties on both longstanding and new hazards to environment will continue to provoke tighter governmental controls over industrial processes, the nature of the new problems is such that inter-governmental or international agreements are generally essential for any real progress to take place. The European Community Directive of 24 June 1982 (the Seveso Directive) began its First Phase of implementation in 1985. Companies with facilities containing any of the hazardous substances are required to notify the competent national authorities that they have identified major accident hazards, adopted appropriate safety measures and provided employees with information, training and necessary equipment. Similarly in 1985, the OECD Committee on Investment and Multinational Enterprises issued a clarification of its guidelines on environmental matters.
Initiatives Through United Nations Agencies

The resources available to governments of developing countries to devise or enforce such programmes are relatively limited. This makes the activities of UN agencies particularly important. UNEP is the agency most directly concerned together with UNCTC, the ILO and WHO and UNCTAD. Most of these agencies have programmes of research and advisory services, and have produced a variety of guidelines and codes of conduct, especially on chemicals and pesticides. The World Bank has also produced in 1985 guidelines for "identifying analysing and controlling major hazard installations in developing countries," based on EC Directive, which provides a framework for those who undertake World Bank Supported Industrial Projects.

The United Nations Industrial Development Organization (UNIDO) has launched and expanded a comprehensive environmental programme to help developing countries build up their abilities to assess the environmental and social impact of their industrial development projects. This was announced by UNIDO Director General Domingo L. Siazon, Jr., in a message on World Environment Day.

Envisioned is an all-encompassing and innovative environmental programme which would systematically integrate a broad range of environmental measures into all levels of UNIDO operations," Mr. Siazon said. Through technical co-operation, pre-investment work, promotion and transfer of technology, information networks, studies,
research and training, "future industrial activities would be made compatible with the concept of sustainable development." 

Mr. Saizon said that UNIDO specialists were hard at work on developing an environmental data base to allow a thorough screening of projects for possible harmful environmental and health effects of industrial processes, products and wastes. UNIDO staff were also accelerating efforts to promote risk management technologies and to apply environmental impact assessment in technologies that were being transferred to developing countries.

**MNCs Responsibility**

MNCs operate in a world of diverse national environmental and safety policies and regulations. These differences can often be traced to differing physical conditions and differing perceptions or preferences as to what constitutes adequate regulations and to what extent scarce resources should be allocated for such programmes. As a UNCTC report noted, however, many developing countries have severe institutional and technical weaknesses in the area of environmental, worker and consumer protection. Where agencies exist, they often lack financial and technical resources to carry out their programme. This situation can mean that multi-

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national corporations may have a greater understanding of aspects of environmental protection and safety measures relevant to their operations in many host countries. They, therefore, have the potential for contributing to progress in these areas in many countries and to increasing international co-operation towards improving and standardising regulations worldwide.

IMPACT ON CONSUMER BEHAVIOUR AND STYLE OF LIFE

The structuring of social consumption patterns by MNCs in the developing countries is the alarming example of their socio-cultural influence. The consumer logic being promoted by the MNCs are particularly relevant frame of reference for the overall process of extroversion by the MNCs own interests, a process which tends to accentuate the cultural destructuring of the Third World Nations and seriously jeopardizes any changes of a national endogenous transformation of economic, social and cultural structures.

Consumer Patterns and Cultural Identity

Consumer patterns cannot be dissociated from the systems of values and norms, whether social or individual or both, that characterize consumer profits. Although they may be channelled and guided by influences from various sources, especially foreign, the consumption
choices of Third World peoples undoubtedly reflect their representation of an order of priority and their mentality. The consumption of goods and services is in fact also the consumption of signs charged with meaning by codes inherent in the societies in which individuals live, whatever their degrees of economic and social development. In this respect, consumption is a crucial area for the shaping of attitudes and values brought about by MNCs activities, since the symbolic implications of consumption or the codes implicit in the object consumed are one among other possible expressions of a cultural state or a cultural identity.40 By their access to particular commodities, individuals identify their position not only in society according to its criteria and standards, but also in relation to themselves. The object becomes a comment on one's self and on other individuals, fulfilling a social distinguishing and discriminating function, for a distinction based on objects serves to establish or reflect social differences which classify individuals and imply a social hierarchy. This symbolic dimension is to be found at all levels in society, albeit according to different

codes, and is by no means confined to any particular social class (Veblen's 'leisure class').

Consumption patterns consequently reflect outlooks and aspirational models, traditional and/or modern, inherited and/or imported. The influence of MNCs on consumption pattern is two fold. In the first place, the MNCs help to develop in the developing countries the consumer patterns already prevalent in the developed countries. Secondly, the MNCs seek to substitute new products, some more sophisticated than others for the traditional ones. In doing so, their commercial success affects the whole structure of consumption in the developing countries. MNCs are instrumental in drawing the developing countries increasingly into a mercantile economic system in which personal status depends to a great extent, on the goods and services the individual has access to, and on the social status attached to them. For instance in the communication sector, the messages disseminated by the media (television, cinema, advertising)

41. 'Whether a house is large or small, as long as the houses surrounding it are the same size, it meets whatever can socially be expected of a dwelling'. (K.Marx, *Wage, Labour and Capital*).

42. Which does not mean that it is the only form of expression of that culture. It is reflected in other spheres such as metaphysical or religious behaviour and beliefs, e.g., attitudes to death. But in societies in which the social division of labour has separated man from the creation of the products he consumes and the mode of consumption is an important reflection of the psycho-social basis of a society and a culture.
play a significant part by 'displaying' the advantages of the consumer society and structuring both forms of representation and systems of norms. The spectrum widens, encompassing a large number of goods that had never been heard of before, or had never been thought or even imagined to be useful. At the same time, there is a growing tendency to initiate western life-styles and goods that go with them, and the individual's demand increasingly resolve around access to mercantile consumption. To a great extent traditional values are discredited and this alters individuals' representations of their own society and of their role in it. This destructuring process carries within it the seeds of new structures and new social codes which cause the individual to direct his attention outside his own society and turn him into the epitome of home consumers. To use H. Schiller's expression, MNCs tend to shape consumer habits in a manner that will be to their own advantage and therefore to see to it that their products replace traditional ones or again seek to introduce a regular commercial demand for certain goods or services (their own) for which there was none before. The MNCs thus channel certain needs or wants towards particular brands. More broadly speaking, there is evidence of a process of extraversion whereby tastes are redirected outside the individual's own society, and this process directly connected with the MNCs business
interests, justifies us in seeing them as active agents in a veritable reorientation of choice. Advertising and sales promotion policies are undoubtedly one of the most effective channels of MNCs influence and are instrumental in modifying individuals basic needs and directing them towards particular products or brands. Clearly such transfers of tastes are the result of massive scale marketing policies and their influences on representations and standards. According to M. Godfrey and S. Longdon, in 1973, 80 per cent of the commercials on Swahili radio in Kenya were produced by MNCs, which included Brooke Bond, Nestle, Colgate-Palmolive, Cocacola, Unilever, Glaxo and Sterling Winthrop. In India, for instance, the Unilever relies for its sales on ambitious, worldwide advertising campaigns which very often make people lose all interest in local products. For instance, the process of substituting the local butter product like ghee by its rival, Margarine, Vanaspati with the probability that ghee would disappear altogether in the domestic market. The same Unilever has succeeded in creating a need and subsequently a market for chemical washing powder and detergents in


44. See Counter Information Service (London), Soma (Amsterdam) in co-operation with the Transnational Institute, Unilever's World (London, 1977).
Indonesia and has also developed its sales of ice-cream, sausages and frozen foods in the inland regions of Sierra Leone and Liberia, which can scarcely be described as places where 'discretionary incomes' are the rule, and where supplies often have to be brought in by air. In Latin America, the power of advertising is such that even very poor people in rural areas feel practically compelled to drink beverages like coca-cola or pepsi-cola, even if it means selling their own natural products. R.Ledogar had demonstrated, that in Mexico and Brazil the MNCs had been successful in creating a need for soft drinks. For instance in Mexico, the annual consumption of these beverages has reached the incredible figure of 14,000 million bottles, i.e., nearly five bottles a week per person. Commercial brain washing is so effective that the inhabitants of some Mexican villages for all their low incomes, are convinced that they cannot do without such drinks which have to be drunk every day. The MNCs were very much successful in convincing the Latin Americans through their advertisements that traditional eating

45. Ibid.

46. Ibid.

47. R.Ledogar, Hungry for Profits: US Food and Drug Multi-

48. Ibid., p.113.
habits (millet, rice, beans, maize, water) are inferior to Western products which are more sophisticated (fancy packaging and artificial distinction through different brands).

In the African continent especially in Kenya, the MNCs had spent nearly 6 per cent of its price in advertisement and marketing of the soap as against 1 per cent for comparable products from local firms. They were successful in channelling local demand towards sophisticated products (toilet soap, detergents). One of the best known examples of foreign influence on consumer patterns is Nestle with its policy to develop its sales of powdered milk for babies.

Nestle launched an energetic campaign to promote its food products as a substitute for breast-feeding.

Multinational business can thus lead to a full scale transfer of consumer patterns and in the process needs are redefined in terms of brands and sophisticated and often expensive products substituted for simple, cheap and traditional ones. At the same time, advertising by MNCs causes their products to become rapidly obsolete since it makes artificial distinction between them and


encourages their constant renewal.\textsuperscript{51} For instance in Mexico, more and more people in rural areas are buying white bread instead of their traditional bread even though the latter is cheaper and richer in protein.\textsuperscript{52}

The process of substituting MNCs products for local ones has been very marked in cigarettes consumption, being a highly concentrated sector\textsuperscript{53} and dominated by eight MNCs in the developing country. These MNCs were responsible for making people turn to foreign cigarettes reducing the demand for locally made ones. For instance in India, the beedies are being dislodged by mild Virginia type cigarettes and in Sri Lanka, by the Delti and in Indonesia the Kretck.

The advent of transnationalism thus coincides exactly with the upheaval in consumer patterns which had remained unchanged for centuries in developing countries. Due to the high strategic planning, advertisement and marketing of products, the MNCs were successful in creating effective demand within the local elites of most of the developing countries who are very much

\textsuperscript{51} Sauvant, n.2, pp.37-42.


\textsuperscript{53} See on this subject, World Confederation of Labour, Les entreprises multinationales du secteur tabac, Brussels, WCL/CMT, 1977.
attracted to western lifestyles and products. The compelling example they set causes the influence of these needs and commodities to percolate right down through society. The MNCs created new markets for their products in the developing countries which are soon adopted by the local elites, and their example is in turn followed by the rest of the population after the time it takes to become familiar with the new products. R.Nurkse rightly referred that the consumption in the developing countries did of course depend on the level of income, but also on the difference between that level and the level of those in the high test income bracket. Social attraction has the effect of promoting the least well off sectors of the population to imitate the highest income groups and hence, in particular, members of MNCs.

MNCs exert their influence in various ways (intentionally through advertising) but the aggregate effect is to direct consumer patterns towards the goods and services produced by the MNCs. The structure of supply is largely responsible for determining the demand. The fact is that such products are put on to the market


regardless of the basic needs of the population concerned not because the MNCs have no social consciousness, but because it is their normal way of doing business.57

Finally, the MNCs have the power to channel people's wants and needs towards their own products or services. Consumer pattern reflects attitudes and to a great extent individual aspirations, and by the same token the structuring of consumer patterns epitomizes the socio-cultural extroversion of the developing countries, severing them from their roots and their traditional ways of thinking. In this way the MNCs may be contributing actively to a form of social change which causes deculturation and pays little heed to what is necessary to bring about an autonomous and national transformation in the developing countries.

One of the important aspects of the operation of MNCs in the developing countries is the consumer behaviour and their life style of the host countries. Due to the operation of the MNCs it is now widely recognised that people in general, or the elite in particular in the developing countries, are becoming more and more accustomed to the goods and services available in the developed countries. Several scholars have examined the role of MNCs with regard to the use of a specific commodity

57. Sunkel and Fuenzalida, n.55.
MNCs generally introduce new products and product innovations in their home nations in the developed countries where they have large markets and effective sales organisations. The early consumers often come from


61. Ledogar, n. 47, pp. 107-35.


65. Sauvant, n. 2, pp. 27-33.
the upper socio-economic class for they are in a position to take the necessary risks whereas others prefer to wait. Gradually the low income class start using the new products. Due to the market along with demand the MNCs subsidiaries start to manufacture the goods in the developing countries. The MNCs are very eager to introduce the goods since they have already been in the manufacture of goods and technical know how, and they succeed in marketing the goods to the "elite class" of the developing countries. The pattern of adoption repeats once again in the developing countries. The upper socio-economic class are the first users followed by middle and low middle income groups in developing countries. The products that are developed by the MNCs generally do not meet the basic bare necessity of the developing countries. This is due to the socio-economic milieu of the developing countries which are different from that of the developed countries. The urgent need of the people in the developing countries is for food, clothing and shelter and not the consumption of goods and gadgets which a tiny minority requires in the developing countries. This makes the social utility of the consumer products manufactured by MNCs in developing countries more doubtful.

Several studies have been made to illustrate the unsuitability of the consumer products of MNCs in developing countries, not necessarily because of their
intrinsic properties but because of the different socio-economic contexts in which they are consumed. Ledogar\textsuperscript{66} has presented some interesting data about soft drinks in Mexico and Brazil which show that people, especially the poor, spend disproportionate amounts of their income on soft drinks produced by MNCs which have very little nutritional value. Several MNCs produce baby foods and aggressively promote them as alternatives to breast feeding in the developing countries. However, the majority of their customers are often too poor to purchase them in the required quantities, nor do they possess adequate refrigeration facilities. The result is that bottle feeding has often contributed to malnutrition, leading to in fact diseases and even mortality, especially among the poor in the developing countries (Muller).\textsuperscript{67} Jelliffe,\textsuperscript{68} a nutrition expert, has used the expression "Commerciogenic malnutrition" to refer to the starvation and death caused by the baby food industry among the poor. Barnet and Muller\textsuperscript{69} have cited studies in rural areas of Mexico, indicating that subsistence farmers purchase white bread instead of their traditional bread,

\textsuperscript{66} Ledogar, n.47, pp.111-26.

\textsuperscript{67} Muller, n.62.


\textsuperscript{69} Muller, n.62, p.183.
which costs less and is at the same time rich in proteins. Girling\textsuperscript{70} has given the example of the break fast cereals in Jamaica, where most of the people used to consume fish and bananas for their breakfast which were cheap and plentiful. However, through advertising, the idea has been sold that "breakfast cereals" are better than the traditional foods, with the result being that people now consume Kellogg's products while "large quantities of bananas spill for want of markets". Ledogar\textsuperscript{71} has documented the fact that pharmaceutical MNCs in Latin America manufactured and marketed drugs considered unsafe in their home nations. Often the necessary warnings were missing in the case of drugs that had significant side effects.

In August 1972, at the Seventh International Organisation of Consumers Unions (IOCU) Congress in Stockholm, the IOCU called for the application laws "not only to the home market but also to exports and the activities of Multinational Companies". As the first response to this call, IOCU member organisations cooperated in a case study covering 21 countries. It was probably the first international consumer survey of its kind. The study illustrated in detail how a MNC can and

\begin{itemize}
\item\textsuperscript{71} Ledogar, n.47, pp.6-51.
\end{itemize}
does market a drug abroad without such warning of its dangerous and even fatal side effects as are mandatory in the home country. The drug was Chloramphenicol, also known by its other brand name of Chloromycetin and the company primarily involved was Parke Davis. The results were shocking. You could by Chloramphenicol over the counter in many countries. Of the 55 brand packs that were examined from 21 countries, not one warned against all the conditions in its use was contraindicated. Many failed to warn against serious and possibly fatal side effects. Most extraordinary of all, there were wide variations in the warning given with the same brand produced by the same company in different countries. IOCU interests and position in the subject of Multinational Corporations were first fully articulated on 5 November 1973, when Peter Goldman, the then President of IOCU, made a statement before a United Nations appointed "group of eminent persons". His statement analysed some inherent contradictions between the global interests of MNCs and those of consumers. "Of more intimate concerns of IOCU is the world wide influence they may be exerted by


multinational companies in shaping or distorting consumption patterns. They are normally held to offer advantages to consumers through increased choice and availability of products. Sometimes these goods have been developed less because the consumer needs them, than because he can be induced through excessive and wasteful advertising outlays to buy them. In the most industrially advanced countries this is not desirable. In the less developed countries, the positive disutilities, economic and social, can be grievous."\"74 The concerns expressed in 1973 in the above paragraph about distortion of consumption patterns in the developing countries by MNCs is proving truer every day as it is seen in the case of smoking. Smoking has increased dramatically in the developing countries, according to the World Health Organisation (WHO). In a global review of its 1980 campaign, "Smoking or Health - the choice is yours", WHO blames the "emulation of life styles practised in 'industrial countries deliberately promoted by tobacco companies". Smoking-related diseases are on the rise as a result, the study says.

The world's tobacco market is dominated by seven companies. Between them they spend around $2,500 million

a year on advertisement. Faced with tougher controls on advertising in Western countries, the companies are turning to the Third World, where controls are lax. People in developing countries are being persuaded to advertise which implies that affluent people normally smoke which is not true in the West. WHO points out that non-smokers outnumber smokers in Britain, United States, Sweden, Norway, and other Western countries. In the United States 30 million smokers have kicked the habit since 1963 and only one in three Americans now smoke. Nonetheless, an estimated 350,000 people a year die in America from the effects of smoking.75

In 1979, the IOCU Regional Office conducted a survey on the promotion of Sweetened Condensed Milk (SCM) in eight Asian countries. It was found that SCM was widely promoted as a suitable infant food and Friesland Holland (a Multinational Co-operative), the Australian Dairy Corporation (a Multinational Government Corporation), Nestle and Carnation Company, USA, were directly or indirectly involved in its promotion. The survey found that all of these MNCs practised double standards promoting its use as infant food in one country

75. See a write-up by John Madley under the caption "Tobacco Giants Move to the Third World," published in the Sunday Review, The Times of India (New Delhi), 1 February 1981, p.v. This write-up was published by arrangement with the London Observer service.
and warning against such use in another. It is significant that as a result of this IOCU campaign, changes to the labels have already been made by a number of the companies. The issue was a major controversy in Australia, where an IOCU member, the Australian Consumers' Association, campaigned on this issue basing its campaign on the IOCU findings.76

MNCs are the carriers of cultural values and attitudes of their home country. "They can also influence for good or ill the mode of life, the socio-cultural fibre and political development within a country, as well as relations among countries." These values may have a good or bad impact on the culture of the host country. For instance in India, the advertising industry is seven decades old. It was introduced by British firms for marketing their products which they imported in the beginning, but which they started later manufacturing locally.78 Commercial advertisements for branded goods in India generally aimed at people with high standards of living and concentrated in the major cities. Centres sometimes maintain that until the basic needs of the


77. UN Department of Economic and Social Affairs, The Impact of Multinational Corporation on Development and on International Relations (New York, 1974), E/5500/Rev.1, ST/ESA/6, p.45.

people in a country like India are first fulfilled, the commercial advertisements are useless. Dharam Bir Sinha, the then Union Deputy Minister for Information and Broadcasting in one of his speeches said, "India with its millions of people starved of goods and services. Logically there should be no need for advertisement". 79 He also complained against the section of advertisement "which falsifies human needs in search of market". 80 In the absence of a strong consumer movement the instances of exaggerated, deceptive and dishonest claims made by advertisements result in misguidance of the common man. Though statistics on the impact of advertisement over the sixty or fifty per cent of people in the Third World are meagre, it can be said that "...the by-product of advertising campaigns is to give families without the bare necessities of life a spurious feeling of being middle class". 81 Peter Drucker says in the Age of Discontinuity that, "the factory girl or the sales girl in Lima or Bombay (or the Harlem Ghetto) wants a lipstick.... There is no purchase that gives her as much true value for a few cents". 82 That she is in all probability malnourished

80. Ibid.
81. Barnet and Muller, n.52, p.176.
and without a decent place to live does not matter. "She is spending foolishly," advertising specialists like to argue. "Who are we to say that she should be spending the money on proteins for health if she wants to spend on lipstick and coke." 83

Advertisements use symbols which are foreign to Indian people. For instance, the use of women as a sex symbol in advertisements is alien to Indian culture and a direct encroachment on the Indian traditional way of living. A.G. Sheorey, President of Indian and Eastern Newspapers Society, deprecating this tendency said that, "other cultures may have different concepts about women but in India, the concept of womanhood is associated with sanctity. After all woman is the mother of man and anything that hurts her dignity by making her an instrument of commercial selling has to be discouraged." 84 The consumer is often misguided by exaggerated, deceptive and dishonest claims made in advertisements in Indian press. 85

The Hathi Committee which investigated the drug industry in India was faced with various views. According to its view:

In India, in spite of the efforts to plan socio-economic growth, the drug and pharmaceutical industry like several others operates on the principles of free market

83. Barnet and Muller, n.52, p.110.
84. The Statesman (New Delhi), 22 October 1975.
economies. The Drug industry is dominated by the foreign units which set the pattern in this industry. The drug needs of any country are characteristic of the climatic, conditional, social behaviour and economic conditions in each society. The foreign units which evolve their policies for the rich countries in temperate climates, with radically different socio-economic conditions operating in free market systems, promote the same systems in India which are adversely detrimental to our national interest. Even in the Western European and North American countries it is widely realised that the drug firms exploit the socio-psychological factors to reap high profit. It is said that the firms have reduced life to a disease to be cured in those countries by their sales propagation techniques. The experience of the last one quarter of a century in India in the operation of the multinational drug units reinforces these fears.

There have been protests against this tendency from time to time. The Consumer Council of India protested against the widespread abuse of the drug advertisements. In a letter to the Health Minister the Council urged that, "advertisements on Vitamins and other drugs are rampant although none of these is necessary for human well being unless prescribed by a qualified doctor". 87

IMPACT ON LABOUR AND INDUSTRIAL RELATIONS

International Labour Movement

The Trade Union Movement is increasingly concerned


regarding the economic and political force of Multinational Corporation and its role as an employer worldwide. Thus, a large part of the Trade Union Movement not only advocates measures on the part of the public authorities to control Multinational Corporations on a national and international basis, but is also concerned with organising itself better to deal with these corporations on a bilateral basis. The Trade Union views are expressed by their national and international organisation in various policy pronouncements. There exists specialised international trade union bodies covering a particular industry or a group of more or less related industries. Certain International Trade Secretaries (bodies composed of national trade unions of given industries) which are associated with the International Confederation of Free Trade Unions (ICFTC) have been particularly active, especially those covering industries where Multinational Corporations are in operation. The other two major international trade union organisations, the World Federation of Labour (WFL) and the World Federation of Trade Union (WFTU), have equally close relationships with their respective international industrial groupings namely Trade Internationals and Trade Unions Internationals. There also exists regional groups of all the international confederations and federations as well as trade union bodies within regional economic organisations.
In its Ninth World Congress in Brussels in July 1969, the ICFTU (International Confederation of Free Trade Unions) adopted after having discussed with various of its ITSs (International Trade Secretaries), a resolution which while recognising that the international organisation of product can play an important role in spreading new technical know-how and in giving an impetus to economic growth and social progress, provided that trade union action is brought to bear upon Multinational Corporations so as to safeguard the interests of the workers and the public. Nevertheless it calls attention to a number of possible dangers and points out in particular, that by concentrating vital and financial decisions at their international headquarters and establishing worldwide employment and industrial relations policies, Multinational Corporations may undermine established industrial relations system, restrict the rights of the workers to organize in defence of their interest (a right which the resolution affirms, have often been denied to them as part of a systematic anti-trade union policy), limit their right to enter into co-ordinated collective bargaining at whatever level it is appropriate, and exploit international labour cost differentials in order to increase profits.

(a) The ICFTU resolution calls for international solidarity of the workers and co-ordination of trade union efforts to take up the Multinational challenge, and it demands the recognition of the right to organize and bargain collectively.

(b) It urges the Multinational Corporations to negotiate wages, working conditions and fringe benefits with trade unions, in keeping with their high corporate profit level and the need for social progress, and to abide by all ILO conventions and comply with existing social legislation, collective agreements and established conditions and rights.

(c) It draws attention to the need to ensure that the priorities of national economic and social planning are respected and in particular, the company mergers be subject to the approval of public authorities; and that all measures are taken in good time to avoid hardships caused by structural change and plant closure.

(d) It insists that any new law governing the international, regional or national operations of multinational corporations must include the principles set forth in the resolution; and it emphasises the need for adequate measures to establish democratic control at each level of decision in multinational corporations.
In December 1970, the ICFTU Executive board Meeting in Brussels adopted a resolution on freedom of association and MNCs. This resolution refers to the concerns felt by the trade union organisations, especially in developing countries, at the activities of MNCs, particularly in so far as these engender government restrictions on trade union rights and objectives, and to the alleged practice on the part of some governments of offering anti-trade union measures, among other inducements in efforts to attract foreign investments. The resolution calls attention to the moral responsibility of governments of capital exporting countries to ensure that MNCs offer satisfactory conditions of employment, including recognition of trade union activities in their overseas subsidiaries. It emphasises that restriction on trade union freedom in developing countries may lead to increased pressure in industrialised countries for protectionist measures. Finally, it calls for a United Nations Conference to lay down a code of conduct for MNCs. Many of these points are included in a statement adopted by the ICFTU World Economic Conference of the Free Trade Unions held in Geneva in June 1971.

89. ICFTU Economic and Social Bulletin (Brussels), January -February 1971, pp.21-22.

In its Tenth World Congress held in London in July 1972, the ICFTU adopted another resolution on MNCs in which it reiterated its appeal made the year before through the World Economic Conference of the Free Trade Union, for closer cooperation within the whole international free trade union movement in order to meet the challenges of these companies. The resolution proposes a more vigorous effort through the establishment of a joint ICFTU-ITS working party, which should workout guidelines for a common research programme concerning the following aspects:

(a) The position and development trends in the process of Multinational concentrations.

(b) The publication of information on the decision-making structures of Multinational concerns, their internal organisation, their accounting systems and the basic features of their investment policy.

(c) The effects of the spread of Multinational concerns on national economic policy and the execution of democratic reforms.

The World Confederation of Labour (WCL) in a resolution adopted in October 1971 by the Trade Internationals affiliated to its European Organisation voices many of the same fears. The resolution proposes an

91. Ibid., July-August 1972, pp.16-17.

extensive information campaign among workers as well as international trade union action, to ensure that the technical progress achieved through MNCs is of benefit to the entire society. It recommends all the organisations affiliated to the European Organisation of the WCL, to equip themselves with the necessary structures and means of action to mobilise workers and their representatives at the enterprise and industry levels, and affirms that it is for the trade union organisations to see to the effective defence of the interests of workers employed in MNCs. The resolution calls upon the international organisations to make every effort to promote effective democratic control of MNCs and direct workers' influence on the policies of these corporations. It urges the co-operation of all the democratic trade union movements at the European level as well as the Trade Internationals to study the problems of MNCs.

The World Federation of Trade Unions (WFTU) in its issue of May-June 1971 review, also stresses the need for exchange of information and co-ordinated action among trade unions in respect of given MNCs to meet the threat of "Capitalist Concentrations" which is growing because of the increased internationalisation of capital in the search for a maximisation of profits. The review also

contends that the mobility of the MNCs leads to activities against "international monopolies" undertaken by the Trade Union Internationals of the World Federation of Trade Union.

Later, the WFTU Bureau adopted a resolution\textsuperscript{94} calling for co-ordinated action by the workers on an international scale in response to the level of organisation achieved by the managements of MNCs. It states that such co-ordination is an urgent necessity for the WFTU, the ICFTU and the WCL as well as for independent national and regional trade union centres, and it suggests that as regards Europe, it would be desirable to establish between all trade union organisations flexible forms of consultation, cooperation and coordination, ranging from more or less regular ordinary meetings to flexible co-ordination structures, in which each trade union body would maintain its independence, particular outlook and freedom to act.

Evolution of Indian Trade Unions

Trade Unionism in the developing countries are born out of different types of social and political forces.\textsuperscript{95} In principal the trade union stands for

\textsuperscript{94} Ibid., April 1972, pp.1-2.

the social and economic transformation with regard to the expectations of the working class in the developing countries. They favoured democracies to regulate every aspect of social and economic development. But in the democratic process the social-economic dissatisfaction requires its solution through political means. In this process trade unions became a powerful instrument of political parties. In practical sense, political unionism came from politicians rather than from trade unionists. In order to perpetuate the influence of leaders over working class, they organise trade unions according to their political ideology. Harold Crouch remarked that in the underdeveloped countries, the inseparable link between political parties and trade unions are as much given factors in the situations as are the workers' poverty and social backwardness. With the help of unions, the workers can stand and fight back for their rights and they may gain a new sense of importance and the erect posture of something like a human being. The emergence of unions in developing countries signify the belief that the workforce dare not place its faith in


management. The actual functioning of the trade unions are considerably influenced by the parent political parties which operate at a national level. During the freedom struggle the trade unions extended its co-operation with Indian National Congress (INC) to fight against the British power. The development of trade union movement in India shows its political character and its movement which was led by political parties. Historically speaking, trade union movement in India was born in politics and gradually changed its goal from trade union movement into political movement. The process was steadily nursed by the liberal democratic ideology imported from the West as well as inspired by the nationalist movement in India.

Most of the trade unions during the early 1920s were strike-sponsoring machinery. The nationalist leaders at that time realized the necessity of nation-based labour organization. In order to have a strong central organisation they started guiding the activities of the individual unions. Accordingly, the All India Trade Union Congress (AITUC) was established in 1920. It received impetus from the International Labour Organisation (ILO). The Indian Trade Union Act 1926, was designed to grant legal status to trade unions. Resentment and disintegration had started in trade unionism in 1929 at Jharia Session of the AITUC between the communists and the moderates. Under the leadership of Messers N.M. Joshi,
V.V.Giri, B.Shivarao, R.R.Bakhala and Diwan Chamanlal, a section seceded from the AITUC and formed a new federation of labour known as the "Indian Trade Union Federation" (ITUF). Later again there was a split in 1931 at the Calcutta session, where the extreme left wing members, seceded from the Congress under the leadership of Messers S.V.Deshpande and B.T.Ranade and formed another Central Organisation of labour known as the "All India Trade Union Congress" (AIRTUC). Sardar Vallabhbhai Patel, who was the President of the Hindustan Mazdoor Sevak Sangh, had convened a conference. As a result another Central Organisation known as "Indian National Trade Union Congress" (INTUC) was formed on the ideology of the Indian National Congress in 1947.

In 1948 the left wing moderates seceded from the Congress party. In Nasik on 22 March 1948, the socialists created a new All India Labour Organisation known as Hind Majdoor Sabha (HMS). The Indian Federation of Labour which was headed by late Mr.M.N.Roy reorganized itself with HMS to establish a socialistic state in India. In 1949, there was a split among the socialists and a new political organisation known as the Republican Socialist Party came into existence, which tried to bring Indian Labour classes into the fold. In 30 April 1949, at Calcutta, a new organization known as the United Trade Union Congress (UTUC) was formed. Towards the end of the
fifties there existed four major central Trade Union Organisations namely, AITUC, INTUC, HMS and UTUC which were based on parent political party's ideologies.

In 1955 a labour wing of Jana Sangh Party was formed known as Bharatiya Mazdoor Sangh (BMS). There had been another ideological split in 1970 which had resulted in the formation of the Centre of Indian Trade Union (CITU) on the basis of division and further splits. The working class was always under the shadow of ideological and political influence of various political parties. 99 In this manner the trade union movement in India grew up. The subsequent split and following of different ideologies damaged their own bargaining strength with the MNCs. Indian Trade Unions had acquired additional political dimensions, as they have been to a very great extent, dominated and controlled by political parties. 100

Industrial relations is an art, the art of living together for purposes of production. 101 Industrial relations involves attempts at workable solutions between conflicting objectives and values between incentives and economic security; between discipline and industrial

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democracy; between authority and freedom and between bargaining and co-operations. The Indian industrial relations model consists of legislative framework provided by the Trade Union Act 1926, the Industrial Dispute Act 1947 and the Industrial Employment (Standing Orders) Act 1946. The Indian Trade Union Act 1926 enabled the unions to undertake and discharge normal legitimate union functions. It did not have any provisions for compulsory recognition of a union by the employer and for penalising any unfair labour practices. The pattern of labour management relations in India has been increasingly structured by the Government. The Industrial Dispute Act 1947 is the basic labour law which permits government's intervention in labour disputes. The Act provides for settlement of disputes through conciliation and adjudication. The Government of India did not encourage collective bargaining as suitable to the socialistic pattern of planned economy. The studies made on the industrial relations in India indicate the predominance of 'stressful, suspense-prone and suspicion-ridden' bargaining relationship between the parties, and the essential prerequisites for real collective bargaining are substituted by compulsory arbitration and adjudication.


At present there are more than 110 labour laws enacted by the Central and State governments which cover practically all important aspects of labour conditions, payment of wages and bonus, labour welfare, social security measures and employment and training. In the case of plantations it has also been made obligatory for employers to provide housing, medical, educational and recreational facilities. All these laws were designed to meet the expectations of the working class under the

directive principles of state policy and the Articles of the Constitution. As regards to their impact on Labour and Industrial Relations, they had to a certain extent reduce appreciably the areas of conflict by conferring on workmen such rights as to organise themselves, receive statutory minimum wages, minimum bonus, leave with wages, benefits covering social risks like maternity, sickness disablement, old age, premature death, and lay off and retrenchment, providing machinery for settlement of disputes without trial of strength, restricting the employees to strike and employer's right to lock out, by abridging the right of employers to hire and fire without any just cause, retrench and lay off workers without any compensation; and lastly by laying down minimum standards of working and service conditions to be observed by all establishments covered by the legislative.

Labour and Industrial Relations in India

The first piece of legislation on industrial relations in India was the Employers and Workmen Act of 1860. It was aimed at the speedy settlement of disputes and contained the obnoxious feature (to labour) that it made breach of contract a criminal offence. Followed by another major piece of industrial legislation passed at Independence called the Industrial Disputes Act (1947),

105. Ibid., p.345.
labour was guaranteed the right to organize and provisions were made for the compulsory recognition of trade unions, non-discrimination against trade-union officials etc. The compulsory settlement of industrial disputes introduced during the war was included in the Act, and a regular government machinery comprising industrial tribunals was set up. Another legislation was passed by the Government of India with regards to the job security, social security and welfare. The Industry Policy Resolution of 1956 includes the following aspects: "The maintenance of industrial peace is one of the prime requisites of industrial progress. In a socialist democracy like India, labour is a partner in the common task of development and should participate in it, with enthusiasm". 106 During the process of economic development the Government of India was not that particular to the wage increases. The prospects of labour participation in management etc., was never dealt with and no measures have been undertaken to implement it. In the draft document on the Fourth Plan, industrial relations are only mentioned in one of the few pages. 107


107. "In the Field of Industrial Relations, priority will be accorded to the growth of a healthy trade union movement, the promotion of collective bargaining and the raising of productivity through labour-management co-operation". (India Planning Commission, Fourth Five Year Plan), p.341.
Trade Unions and Negotiations

For obvious reasons, trade unionism did not flourish before independence. In 1947 the total number of trade unions in India doubted from 1,000 to 2,000. In 1966 there were 14,000 registered unions.108 In India, the trade unions are usually not very strong. "Weakness is the dominant trait of the trade union movement in the modern sector of manufacturing industry." The main reason for this weakness is the relative inexperience of trade unions and collective bargaining on the part of labourers and employers. The trade unions in other countries built their strength by fighting for the recognition of unions, job security and welfare measures. In India many of these issues have been settled by legislation, which narrows the scope of trade union activity. Another source of weakness has been the political affiliations of trade unions. From the very beginning trade unions in India were started and dominated not by workers but by politicians, unsuccessful lawyers and careerist and opportunist outsiders.109 Outside leaders have used the trade unions for their own political aims, and the trade union movement has been a projection of Indian politics. "The fact that trade unions in India


109. Ibid., p.103.
derive strength from their political affiliations is the biggest obstacle in the way of the development of independent unionism," says Pant.110

In 1947, the Industrial Disputes Act was passed, which provided among other things, an adjudication machinery to solve industrial dispute. In the same year an Industrial Truce Resolution was accepted by management and labour, and peace was restored. Since 1947, the labour market has been relatively calm, except for a period starting in 1966-67, when the recession in Indian industry and political events in West Bengal produced a wave of strikes. Before Independence the predominant cause of industrial disputes was wage issues. Since 1947, disagreement about wages has still accounted for 40 per cent of the disputes, but other causes, like retrenchment and personnel questions have assumed increasing importance. The average duration of strikes has been reduced since 1947.111 Since 1947 about two-thirds of all strikes have been successful. This is usually attributed to the workings of the government adjudication machinery.112 The

110. Ibid., p.105. To advocate the development of strong labour unions is perhaps the second best choice. The Indian workers may in the long run further their interests better by working instead through their political affiliations and thereby making the state work for them. But in the present situation, strong independent unions are probably necessary to safeguard the interest of labour.


112. Ibid., p.122.
attitude of the government has, on the whole, been pro-labour, and the industrial tribunals have interpreted the law in that spirit. In 1967, about 70 per cent of the awards from industrial tribunals were in favour of the workers. 113

Labour-management relations in general are often said to be better in foreign subsidiaries when compared to local domestic firms. According to Myers, there is a consensus between labour leaders and government officials in India, that foreign firms are in the forefront in their willingness to deal with unions and in their whole approach to the labour management relations. 114 One reason given for this is that the activities of foreign firms are followed closely by the government and that trade unions often single out foreign firms for special attention. In the opinion of Myers, the positive labour management relations in foreign subsidiaries are mainly due to better organization. 115 In the foreign companies the management is often interested in good relations, and more money is usually spent on the personnel department, when compared to local domestic firms, which makes it possible for foreign companies to have a flexible

113. Ibid., p.212.
115. Ibid., p.102.
labour policy. Foreign managements unlike the Indian managements, are also not burdened with old attitudes and traditional views on labour. Overall the wage bills are much higher to the workers when compared to the local domestic firms.

Concerns of Labour in Industrial Relations

1. Transfer of Operations and Power Relationships

(a) One of the important problems as seen by the trade unions is the power of MNCs to shift production or operations, provisionally or permanently, from one country to another due to the absence of stiff resistance from the trade unions. This possibility can constitute a significant power factor in union-company relations. In collective bargaining the threat of a transfer of production spoken or implicit, can seriously weaken the union's position and reduce the effectiveness of strike action.

(b) Another related factor which the trade unions see as weighing against them with regard to the bargaining power, is the financial ability of the MNC to withstand a strike. Where production at the plant effected by a strike, is not necessary for continued operations in the plants of the corporations in other countries, the actual loss of revenue resulting from the strike may be relatively insignificant in terms of the total turnover of the MNCs.
While the trade unions maintain that transfer of production has occurred in practice, in reality the MNCs have to face lots of obstacles in the transfer. For instance, in the case of temporary transfers during the strike, there would have to be other plant facilities capable of producing the same goods for the market in question. Doubts have been expressed whether transfers are possible at short notice, since investments are subject to long term production plans. Further, the plants to which production might be transferred, may not in fact be near enough, and may not have sufficient excess capacity to take on the production. The shut down of a plant in one country and the transfer of its production to another can moreover, be problematical quite apart from considerations of loss of the company's fixed investment and the liability of the employer in certain countries for extensive severe payments and other financial charges in the event of plant closures. When considering a transfer of production, a MNC will certainly take into account not only labour relations and labour costs in the new location but also such factors as the degree of inflations in the country, its political stability, the possibilities of capital repatriation, tariff regulations, the amount of government intervention, and so forth.\footnote{116}

In the developing countries, the existence of industrial courts and similar tribunals to which disputes may be referred, with or without the consent of the parties concerned, can make the relative power of each party a somewhat academic issue. The ultimate decision on a dispute may be made by a court, or in the course of some other arbitration procedure.

2. Locus of Management Decisions

Trade Unions are concerned that, in the case of a MNC's subsidiary, the locus of managerial decision making particularly as regards matters arising in collective bargaining, is not always where the confrontations between management and trade unions take place. Rather, it is contended that the relevant decisions are made at the headquarters of the MNCs beyond the reach of the trade union concerned. It is argued that not frequently, when the demands, claims or grievances are submitted to local management, the reply is that such a matter can only be decided at headquarters. This means that the trade union negotiators do not have the opportunity of personally presenting their case to those who ultimately take the decisions.

117 Trade Union Strategies on Multinational Companies, Notes on Report of Daniel Benedict, Assistant General Secretary of the International Metal Workers' Federation to the Conference on Multinational Corporations of the Queen's University of Belfast, New Castle, Northern Ireland, 31 May-2 June 1971 (Geneva, IMF), p.3.
The MNCs adopt different practices depending upon the type of economic activity in which they are engaged and upon the question of issue of management, MNCs affirm that on many issues, and in any even on those related to collective bargaining, the greatest decentralisation in decision making prevails mainly because collective bargaining policy cannot be isolated from the legal and social environment of the locus of operation, and this of course, differs greatly from one country to another. It has been asserted, however, that owing to the very nature of the bargaining process, it may not make very much difference when the decisions are made. The business interests of the MNCs will result in the same response to a trade union, whether the response originates at parent headquarters or at the subsidiary.

3. Financial Practices and Company Data

The size and far flung operations of the MNCs can make it difficult for the national trade union representing its workers in a given country to obtain what the union deems sufficient information, for purposes of its relations with the local subsidiary, and in particular, for collective bargaining purposes. Both the aspects are discussed below:

(a) Transfer Pricing: While the pricing practices in regard to sales, transfers and other transactions within
the corporation itself is usually discussed in terms of tax avoidance, trade unionists point out that it can also have an effect on collective bargaining. Transfer pricing for instance, can give a misleading picture of non-profitability, which can be used by management of a subsidiary to argue against wage claims and other demands made by trade unions in local negotiations. However, the possibility of showing low profits as an argument against meeting trade union demands may become less attractive to the subsidiary in the same host country, since tax rates are so low that it is advantageous for tax purposes to show relatively high profits.

(b) Another aspect of the relationship of financial information to collective bargaining is the availability of detailed financial data on the MNCs as a whole and on its various subsidiaries. The argument of non-profitability used by a subsidiary might then be countered by a reference to the overall profitability of the MNCs. Conversely, however, management would be in a position to counter claims of the local trade unions based on the subsidiary's profitability by citing the poor overall the financial position of the Corporation.

IMPACT ON INTER-GROUP RELATIONS

Social impact refers to the effects on social structures and processes. Ideally for analyzing social impact, one should list all the major social classes, institutions and inter-group relations, on the basis of theoretical and empirical grounds, whether they are directly or indirectly affected by the operation of the MNCs. Due to the complexity of the inter-group relations and the impact of MNCs on them, we confine ourselves to only four groups.

Entrepreneurs

It is often argued that the growth of a local entrepreneurial class can be inhibited by MNCs in several ways. The most obvious is that LDC entrepreneurs find it difficult to compete with them. MNCs possess enormous technological resources and are in a position to introduce new production technologies and products more rapidly and economically than domestic national enterprises. Since the MNCs can raise capital nationally and internationally, they do not suffer from shortage of capital. In contrast, local entrepreneurs generally find it difficult to raise the necessary capital, nor are they in a position to take risks. MNCs have the advantage of familiar brands, trade marks and patents along with reputation. Before they establish a manufacturing subsidiary in a developing
country, their products are well known to the potential consumers. The local entrepreneurs, on the other hand, have no such visibility and do not have access to assured markets. They are further hampered by the fact, that consumers in the developing countries, prefer foreign brands over the domestic ones. The net result is that, as a result of operations of MNCs, the position of local entrepreneur is constantly undermined and potential competitors are discouraged.

According to a study, the growth of MNCs in a sector is often marked by the decline of small, local or family enterprise in the local domestic host country. Brundenius has shown that the domination of the mining sector by MNCs in Peru has inhibited local entrepreneurs. According to him the domestic entrepreneur has been confronted by two unpalatable choices either to collaborate with MNCs or face extinction by being outthrown. Weinstein also observes, that Japanese joint ventures in the textile industry have been responsible for the closure of a large number of indigenous domestic firms in


Indonesia. These effects are confined to only sectors in which there is a scope for competition between MNCs and local domestic firms. The colonial subjugation which had shaped their self-image and identities and has created a kind of dependency on the former colonial powers along with a widespread feeling of inferiority and inadequacy among the developing countries. This had created a continuous look out and dependency for guidance and support. In the post-colonial era, the labels of "LDCs", "Third World", "traditional", or "developing", which have been indiscriminately applied to these nations, have hardly helped to improve their self-image. Under these prevailing conditions the widespread operations of MNCs in developing countries had only increased the feelings of inferiority and inadequacy instead of eradicating them. The potential domestic entrepreneurs are branded and discouraged because they tend to assume that they cannot be as "sufficient", "innovative", or "successful" as the foreigners. Some social scientists have suggested that MNCs by virtue of their being "outsiders", are not in a position to remove or control the prevalent institutional impediments to entrepreneurial behaviour. They cannot press for the necessary reforms. As Hirschman

has pointed out, "the trouble with the foreign investor may well be not that he is so meddlesome but that he is so mousy! It is the foreign investors mousiness which deprives the policy makers of the guidance, pressures and support they badly need to push through critically required decisions and policies amid a welter of conflicting and antagonistic interests".

There have been positive continuous effects of MNCs on local entrepreneurship. MNCs have backward, forward and lateral linkages with the economy though their volume and extent differ in time and place. Hence, MNCs create new entrepreneurs by generating demands for those goods and services used as inputs by them. The local producers or contractors gradually gain expertise and confidence and begin to move to other sectors of the economy as well. Moreover, the goods and services produced by MNCs enter as inputs in other industries. For instance, MNCs involvement in steel, chemicals, heavy machinery and tools, electronics and the like have opened new opportunities for local entrepreneurs in several sectors. In addition, they create new national and international markets for local products. Above all, MNCs also provide skills, often unknowingly, which are necessary for entrepreneurial behaviour. In the past, foreign investment has contributed to the growth of entrepreneurs in
several countries. Vernon has mentioned that the Mexican mining and railway building boom in the nineteenth century helped to establish a new entrepreneurial class composed of traders, bankers, provisioners, contractors and small manufacturers. He has also suggested that the Peruvian boom of the nineteenth century "though centered on some off-shore islands in the Pacific, was responsible for bringing a local contractor industry into existence on the mainland, an industry which lived off the public works that the guard boom financed". Case studies of several Asian and Pacific nations also show that the influx of foreign capital led to the creation of petty entrepreneurs in the early part of the twentieth century. Some of the success stories of economic growth in recent years come from nations that register considerable investment by MNCs. Brazil, Hongkong, Malaysia, South Korea, Nigeria, Singapore and Taiwan provide good illustrations. In the above countries the entrepreneurial class has simultaneously grown with the increase in foreign investment. Kerdpibule concluded in his study of the effects of joint ventures in Thailand that they "are positively helping the formation of local entrepreneurship".


The impact of MNCs on local entrepreneurs depends upon factors such as the level of industrialization of the host nation and the policies of the government. The local entrepreneurs in developing countries need special protection and support to compete effectively with MNCs. Therefore, the policies of the government can hamper or promote the growth of local entrepreneurs. Another factor related to the growth of the entrepreneurial class, concerns the autonomy of entrepreneurs. Dependencia theorists have stressed that because of the operation of MNCs, the entrepreneurial classes which are emerging in the developing countries are not independent but dependent. They lack autonomy to play a critical role in the industrialization process - a role played by entrepreneurs in West European and North American nations. Various labels such as "lumpen bourgeoisie", "compradore classes", or "client classes" have been used to indicate the dependent status of local entrepreneurs (Evans, Frank;\textsuperscript{125} and Johnson).\textsuperscript{126} In the absence of comparative and historical studies, it is indeed difficult to make any valid generalization in this connection. There exists general factors that condition the overall effects of MNCs on the local


entrepreneurship. The role of surging economic nationalism should not be underestimated in shaping the ideological orientations of entrepreneurs in the developing countries (Fayerweather and Johnson). There is little doubt that during the initial phase of industrialization pioneered by foreign capital, the local entrepreneurs are highly dependent on the MNCs. The question then is whether they are able to transform this relationship in their favor with the passing of time. Vernon has argued that the dependent status of local entrepreneurs in the developing countries has drastically changed during the last three decades. According to him, until the Second World War, the local business people in Latin America, Asia and North Africa largely served as "adjuncts and partners of foreign entrepreneurs". The Second World War, Vernon suggests, was a turning point. It made local entrepreneurs in several developing countries self-reliant by cutting off their overseas sources of supply of foreign markets. Since then, the local entrepreneurs have started asserting their independence. On the whole, one


could see the emergence of a new breed of tough local entrepreneurs prepared to make partnerships or battle with foreign enterprises as their interests demanded. 130

**Working Class**

Those persons who are engaged and employed in extractive, manufacturing, agricultural or service sectors are broadly classified under the segment of population known as working class in an economy. The contribution of MNCs to the growth of working class is both direct and indirect. MNCs in the developing countries do employ skilled and unskilled workers and through their backward and forward linkages, they create additional jobs. It has been estimated that about two million people are directly employed by MNCs in the developing countries. 131

The available evidence indicates that MNCs as a rule provide higher wages than the local domestic firms in the developing countries. Their wages are high for all categories of workers. Reuber's study 132 of direct foreign investment shows that MNCs claim to follow a high wage policy in Asia, Latin America and African countries. A most comprehensive study by ILO 133 of the wage policy

130. Ibid., p.50.


133. International Labour Office, n.131, p.44.
concludes: "In LDCs the average level of earnings of employees in multinational enterprises far exceeds those of their counterparts in all national firms. This gap is much larger than is found in developed countries (in most cases being above 50 per cent) and appears to be related to the stage of economic development".

Wage differentials between local domestic firms and MNCs are the result of several factors.

(a) MNCs are concentrated in the most modernized sector of the economy. Since they use more sophisticated technology, it is reasonable to assume that they employ a large percentage of skilled and semi-skilled workers than national domestic firms. This is responsible for high wage bills.

(b) The marginal returns to the investment, otherwise the rate of profit, is always higher than those of national domestic firms. This is due to the huge capital investment and the semi-monopolistic position in the economy. The national domestic firms comparatively are much smaller with low level of capital investment.

(c) Generally the MNCs subsidiaries are established near the metropolitan areas where wages are relatively high.

Due to the high and better wages given by MNCs, certain scholars have noted the emergence of labour
aristocracy in developing countries. Arrighi\textsuperscript{134} has argued that management practices and technology introduced by MNCs in tropical Africa, which has a general shortage of skilled workers, have led to the creation of a small, semi-skilled but highly productive and well paid labour elite. Sunkel\textsuperscript{135} suggested that the labour force engaged in the multinational sector occupies a privileged position in Latin America. Sklar\textsuperscript{136} has also mentioned the special interest group orientations of organized mine workers in Zambia.

The implicit assumption of the above formulation is that the elite working class develops an interest in maintaining the status quo, since it is beneficial or at least is perceived to be such. While there are occasions for tensions and conflicts between the labour elites and TNCs, these relate to marginal benefits rather than to the structural transformation of the society. Thus, the working class is fragmented and loses its revolutionary potential. A segment of the labour-elites perceives the opportunities for upward mobility in the system, and even


begins to identify itself with the lower-middle class, instead of its counterparts in national domestic firms. Due to the lack of study on the socio-political orientations of workers employed in MNCs, the empirical research about the differences in the attitudes, perceptions and behaviour of workers employed in national domestic firms and multinational firms can substantiate or refute it. Two points can be derived in this connection. (a) Past experience does not necessarily show that the workers in MNCs have always supported with MNCs whenever the latter has come into conflict with the national government. Often these workers have outright nationalization of MNCs. Arrighi\textsuperscript{137} is aware of this fact and has conceded that the labour aristocracy might not be opposed to state ownership and management of the means of production. (b) The very notion of revolutionary potential of the working class springing from their "class consciousness" represents more an article of faith than an empirically observable phenomena in the developing countries. Workers are highly fragmented in these nations; Ethnic, cultural, political and sectoral cleavages and conflicts rather than wage differentials may then appear to be posing barriers to their mobilization (assuming that mobilization is

\textsuperscript{137} Arrighi, n.134, p.256.
possible). Under these circumstances, the thesis of labour aristocracy seems to have limited analytical value.

Ethnic Stratification

The developing countries are often faced with the problem of ethnic stratification, a situation in which one or more ethnic groups have come to occupy a dominant position in social, economic or political affairs. Thus, the question can be posed: how does the presence of MNCs affect the existing ethnic stratification? Do they contribute to the maintenance of existing ethnic boundaries, and even consolidate them, or, do they provide opportunities to deprived groups for upward mobility?

Generally the MNCs do not have any kind of specific corporate policy on this issue. As economic bureaucracies they are neither for, nor against any ethnic group. Most MNCs do not perceive themselves as crusaders for social or ethnic equality. There is the possibility that under some situations (such as when some ethnic groups in host countries have close ties with the ethnic groups of home countries), MNCs are likely to favour specific ethnic groups. For instance, the British MNCs have largely depended upon English expatriates for fulfilling middle and senior-range positions in the former colonies. Empirical investigation has shown that Japanese firms in
Hawaii have demonstrated a market preference for hiring Japanese Americans.138 Chinese firms in ASEAN countries are generally accused of hiring and collaborating with people of Chinese ancestry. However, with a trend towards the indigenization of management and personnel and a growing sensitivity for ethnic tensions, only a few MNCs are likely to follow such policies in the near future.

MNCs impact on ethnic stratification stems not from conscious deliberate policy, but from a set of structural constraints which are imposed on them. MNCs need employees and collaborators who have economic resources, technical and entrepreneurial skills, and if possible, access to bureaucratic and political leadership in the government. In situations where an ethnic group has monopolistic or quasi-monopolistic position with regards to these factors, they have little option other than depending on them. Under these circumstances, this ethnic group is likely to be the main beneficiary of direct foreign investment and might even be able to consolidate and improve its position. For instance, in the case of Malaysia the MNCs largely entered into collaborative arrangements with local Chinese firms. Moreover, in these subsidiaries, the percentage of Chinese employees as compared to Malays is higher in technical and

management positions. The explanation is not that MNCs like Chinese better than Malays or Indians, but that Chinese have their own retail outlets and distribution networks in Malaysia. Therefore, when MNCs began establishing their manufacturing plants, they formed alliances with the existing Chinese firms. Moreover, since the Chinese have come to acquire enterpreneurial and technical skills because of their preeminent position in the economic affairs of the country, they are in a position to capitalize on the job opportunities offered by the MNCs.

The operation of MNCs can have both stabilizing and destabilizing effects on ethnic boundaries. This is evident from the case of South Africa, where MNCs have generally followed, though perhaps reluctantly, the apartheid policies of the Pretoria regime (Rogers, Dehner, Seidman and Seidman, Jackson, United


141. A.Seidman and N.Seidman, South Africa and the US Multinational Corporations (Westport, 1977),pp.145-60

Church Board,143 Nickel,144 Spandau,145 and United Nations Report 1977.146 Some of them have not even hesitated from exerting pressures on home countries for not supporting "Economic sanctions" against South Africa Regime. By all accounts, the huge investments made by MNCs in South Africa have contributed to its growing economic power and political stability. However, while the main benefits accrued to the white minority, it is wrong to infer that blacks and Asians did not derive any benefits. In fact, MNCs have contributed to a small extent to the emergence of non-white middle classes in South Africa.147

It should be stressed here that the past history shows that when plural societies make rapid economic advancement (even without foreign investment), the resulting benefits are not always evenly shared by all the existing ethnic groups. Some decidedly profit more than others. Therefore, while the effects of MNCs on ethnic


147. Spandau, n.145, pp.110-78.
relationships cannot be ignored, it is quite likely that they may not be different from those of national domestic firms in most of the cases.

Social and Economic Inequalities

There exists a widespread concern for increasing economic inequalities in the developing countries. Gini Index (a measure of economic disparities) data, indicates that economic disparities instead of being bridged, have actually increased over the last decade in most of the developing countries. The benefits of economic growth registered in many nations have not reached the needy segments of the population. It is sometimes suggested that the MNCs should also share the blame for the present state of affairs. A recent survey study notes: "The effect of direct foreign investment and foreign aid has been to increase economic inequality within the countries. This effect holds for income inequality, land inequality, and sectoral income inequality". 148

The operation of MNCs in a certain way contributes to the economic disparities in the developing countries.

(1) Generally the wage bills given by MNCs when compared with national domestic firms are higher, which in turn creates categories of employees - blue collar, white collar and professional. These categories of higher wage bill contribute to economic disparities in developing countries when compared to the wage bills of the national domestic firms.

(2) Some social scientists have pointed out that whenever the MNCs have entered into collaborative arrangements, they have strengthened the position of dominant economic and political groups. Tsuda has shown that well-known Filipino business groups and figures are major beneficiaries of the direct foreign investment in Philippines. With the active support of the government they have made collaborative arrangements with Japanese MNCs and have enriched themselves. In certain third world countries, local military or political officials have made partnerships in the joint ventures established by MNCs and have amassed wealth in addition to political power.

(3) The operation of MNCs can aggravate regional economic imbalance in the developing countries. While the national domestic firms and MNCs are likely to determine

the location of their plants on the basis of more or less similar criteria, past experience has shown that MNCs prefer metropolitan sites, where an economic infrastructure already exists. Weinstein\textsuperscript{150} has reported that within the South Asean countries (exception of Singapore), "the concentration of foreign enterprises near the Chief Metropolitan centres has accentuated the disparity between the rural and urban areas". In certain cases the MNCs are instrumental in creating enclaves of prosperity amidst poverty, especially in extractive agricultural sectors. The relative affluence of the employees and petty entrepreneurs who flourish around such enclaves offer a sharp contrast to the overall poverty of the surrounding.

(4) Finally, MNCs affect the consumption patterns and lifestyles cannot be ignored in this context. MNCs produce a large range of consumer items such as electronics, cosmetics, soft drinks, canned foods and cars, which are within the reach of the majority of the populace in developing countries. However, in the developing countries due to low income and limited disposable income, only a small proportion of the populace is able to purchase them. This in turn sharpens the gulf between the standard of living of the higher and lower income groups. It makes economic disparities more conspicuous and thus creates relative deprivation in the minds of the deprived.

\textsuperscript{150} Weinstein, n.121, p.400.