Exam 3
Prompt 1
PS 360

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Globalization has changed the economic and political landscapes of the world. Gone are the days when Appalachian steel was fired by Pennsylvanian coal in Midwestern steel plants, shipped on rail cars made in Chicago to Detroit, where workers from the city, engineers from Milwaukee and management from Harvard ran the Big Three factories making cars for consumers in California. Now any combination of those steps might be located globally in a Multinational Corporation (MNC). Any ton of steel has a greater than even chance of being smelted in China, and the broader supply chain for industries has moved to touch most every corner of the world with exploitable resources.

This expansion can be seen two ways: as an octopus strangling the hapless disadvantaged worldwide, or as rising tide lifting all boats (and pouring into the low points with great volume and force). On the critical side, MNC led globalization leads to job loss and wage depression in the more developed country, and lower absolute wages in the less developed country production moved to, as well as environmental and political damage in those countries. Countering that, MNC investment is likely the quickest and most effective way to grow countries out of LDC status.

What drives MNC investment in LDC countries? Cheaper means of production. Whether it be cheaper labor, or cheaper land, or fewer environmental restrictions, the profit motive drives investment into LDCs.

This divider can be further split by the 'type' of investment an MNC is doing. In a horizontal integration, the MNC is attempting to capture foreign market share and revenue by building a parallel production facility within the borders of the LDC. This is done to either evade the costs of transportation or the costs of tariffs. In a vertical integration, a MNC is moving a stage of production

rather than the whole line and expects the comparative advantage benefits (e.g. low labor costs) to trump the cost of shipping. A MNC heavily dependent on a resource located in a LDC (A steel company needing access to iron ore, or a rum company needing access to tropically grown sugar cane), will undergo backward integration. If instead a MNC controls the raw materials needed for a product, and they want to capture profits worldwide from the production chain, they might build out forward vertical integration.

Along with the direct economic motivations for MNC FDI, there are some indirect ones. These reasons for investment hinge on the fact that MNCs have strong bargaining power with LDC goverments. FDI is an incredible boon. If it is well managed by the host country, it can stimulate sustained countrywide growth, if it is poorly managed, it can still cover budget holes and keep the goverment afloat. Knowing that, MNCs can pressure host country goverments to enact policies that benefit them by making business cheaper. Typically, MNCs will look for deregulation of enviromental constraints, labor laws or other 'business crippling' statutes. MNCs might also be interested in subsidies from the host goverment, and the host goverment might be willing to accept the burden of subsidies in return for the jobs and training FDI provides.

FDI from MNCs is an extremely lucrative, attractive prospect for LDCs looking to climb the steep hill of development. After the trial and failure of alternative strategies, namely the Socialist Bloc/COMINTER, Import Substituting Industrialization, and nationalization of extraction industries, most LDCs are attempting to compete for FDI.

What is the process LDCs undergo to attract investment? Well, there are different strategies, targeting different attractive factors, which benefit different groups in the host countries. The most basic is removing capital controls and trade barriers, to reduce the operational expense of the FDI transactions. This liberalization benefits all, and is a target for democratic LDCs as well as authoritarian regimes. If the LDC is authoritarian, it can make itself an attractive target by squelching dissent within the workforce and depressing wages. Because of the disconnect between those making decisions and the majority of the country, decisions that enrich the ruling at the expense of the workers can be rationally made. Democratic countries can be attractive compared to authoritarian ones because nationalization of the industries is seen as less likely.

Human Development can be strongly influenced by MNC led globalization. In fact, the UN Human Development report has an entire chapter on the topic. The report is concerned with the instability and volatility economic changes can bring to countries, and how the food price volatility can lead to famine among the poor and those untouched by the benefits of globalization. The report is also worried about the constrained policy space afforded to national governments when MNCs can invest in a competitor for FDI with less restrictive policies as

a lever to force local government to scale back taxes for social programs and other expenses.

The UN has a case study in the report, the Apple iPhone. The profit percentages of the iPhone are broken out: the two largest slices of the pie are input materials and Apple's US profits. All other segments of the chain (Japan, Korea, EU and China) have single digit profit percentages. However, much of the polluting, hazardous work happens in China, the LDC Apple targeted for it's FDI. In fact, the report cites a source claiming that labor law enforcement declined over the 1980s and 90s due to competition for foreign direct investment.

Although there are significant growing pains due to industrialization, the ends justify the means. The options available to the LDCs are to maintain their low standards of living, and the pain, sickness and short life expectancy that entails, or to allow the fires of industry to heat up their economies. Strategies other than FDI have been tried, but they have been generally ineffective or difficult to transport and scale. Although there are painful times ahead for the developing world, Multinational expertise and resources are required to build efficient economies.