

From Wealth Creators to Partners:

Re-inventing the Role of Global Enterprises in the Generation and Distribution of Wealth in the light of Africa's Socio-Economic Experience

Peter John Opio
Uganda Martyrs University
umu@afsat.com

Abstract:

This paper advocates for trade relations between Africa and multinational enterprises based on the principles of partnership and solidarity. Two assumptions held in standard economic and public policy analyses are disputed: the liberal adage that free trade and unrestricted direct foreign investment has aggregate positive outcome in developing countries and are indispensable for the wealth, growth and economic efficiencies of these countries. The Marxist/neo-Marxist assumption that the free flow of trade and investment impoverishes the masses of the Third World is also challenged. In contrast, the paper suggests the need to recognize the complex structure of business enterprises and Third World countries. Drawing on concrete experiences of leading multinational organizations in sub-Saharan Africa it offers some concrete guidelines for genuine cooperation between these enterprises, African nations and the masses.

Introductory Considerations:

Trends in FDI and MNC Activities

Transnationalization of the world economy has become increasingly evident in recent years. The growth of the transnational sector in most economies has exceeded the growth of the world economy as a whole so that the share of production, trade and accumulation accounted for by multinational corporations and their associates has increased rapidly. A United Nations report: *Multinational Corporations in World Development* (1973) estimated the value-added of all MNCs at one-fifth of all the GNP of all non-centrally planned economies. A similar survey by *World Investment Report 1992* estimated the value of MN intra-firm trade as representing one-fourth of world-wide trade (WIR 1991:35). According to the report: *Survey of Current Business* measured the stock of US-owned direct investment abroad by book value rose from \$86.2 billion to \$423.2 billion between 1971 to 1992. Within the same period, direct investment by West Germany rose from \$7.3 billion to \$186 billion, that of the United Kingdom from \$16.2 billion to \$259 billion and that of Japan from only \$4.4 billion to \$251 billion (Spero and Hart 1997)¹.

However, figures show that the inflow of these investments between 1970 and 1992 has been more pronounced within the developed and highly industrialized nations than the developing nations. Investments in the United States rose from \$83 billion in 1980 to \$420 billion by 1992, representing 86% improvement over 1970s figure (WIR

1993:234ff). This is true of other developed countries. In the early 1980s, foreign multinationals in the United Kingdom accounted for 19% of industrial output and 15% of industrial employment. Capital stock of foreign affiliates accounted for approximately 13% of GNP in the UK, 5% in Germany and 3% in France during the same period. In the European Union, FDI averaged \$19 billion between 1982-1987 and increased to \$109 billion in 1990.

These contrast sharply with the outflows to the developing countries. *Statistical Abstracts of the United States* present a disproportionate DFI inflow into the Third World. While the inflows into Asia accelerated in the late 1980s and early 1990s, and while Latin American countries saw marginal improvements, FDI inflows in Africa have generally remained stagnant. The IMF report: *Economic Trends in Africa: The Economic Performance of Sub-Saharan African Countries*, (September 1994: 3) has shown that "in 1993, net external financing inflows to sub-Saharan African countries (excluding South Africa) from MNCs amounted to US \$12 billion, an amount somewhat lower than that registered in 1992." The *Spring 1993 World Economic Outlook* (WEO, May 1993:47) also painted a less than terrific picture of DIF. Although the DFI occasioned real GDP growth, the effectiveness of these investments remained marginal because of high incremental capital output ratio (ICOR) Their influence on the economic policies of these nations and impacts on society have however, not abated. Why this is so, is the subject of polarising and bloodletting debates. It is neither desirable nor possible to re-echo these debates here. Our contention is that these debates are based on and feed on the same formalistic understanding of wealth creation and a unilateral concept of economic growth. These claims, we contend, are out of step not only with the African phenomenology of work, life and community. They tend to clinicalize the problems of poverty and inequality on the continent.

Wealth Creation, Economic Efficiency and Development in Africa: Claims and Disclaimers

Proponents of a liberal market economy argue that foreign investment has a positive effect on Southern economic development.² Such investment fills resource gaps in developing countries and improves the quality of factors of production. Multinational corporations bring into the underdeveloped countries otherwise unavailable financial resources through the firm's own capital and its access to international capital markets. They also contribute crucial foreign exchange earnings to the developing world through their trade effects. The marketing skills and knowledge of foreign markets of the multinational corporations and their competitive products, it is argued, generate exports and thus increase the foreign exchange earnings of the host countries. The economic turnaround in sub-Saharan African countries, particularly Uganda in the later part of the 1990s, provides a useful (albeit limited) case in point. The liberalization of the economy saw a rise in foreign investment to an unprecedented level since independence and has registered a growth rate of 8% per annum in GDP during 1992-95, thanks to an increase in foreign investments

A second important gap filled by the multinational corporations, according to proponents of foreign investment, is technology. Multinational corporations allow Southern states to profit from the sophisticated research and development carried out by the multinationals and make available technology that would be out of reach of developing countries. Foreign firms also have contributed significantly in the training and development of local staff, stimulating local technological activities, and transfer of technology throughout the local economy and improving productive efficiency of host African nations. Raphael Kaplisky (1987: 201-260) attributes the comparative advantage of the Kenyan economy over other countries in the Great Lakes region of Africa to the technical change instituted by British multinationals such as Unilever. The use of advanced technology, including robotics within the automobile industry by MNCs such as General Motors in South Africa, explains why South America has continued to sustain its market dominance in sub-Saharan Africa (Richard Jackson 1983)³.

Third, argue proponents, foreign investment has helped improve the quality of labour in the South and indeed, in Africa. It provides needed managerial skills that improve production, creating more jobs. The service sector, in particular, has seen notable improvement in some African countries over the last decades. The creation of jobs, the provision of new and better products, and programs to improve education for local employees and communities have been evoked as a case for MNCs activities in the Southern hemisphere in general and the preponderance of liberal capitalism and its Smithian heritage over socialism. Michael Novak (1981, 1982 and 1995) even proposes the liberal virtues embodied in the Anglo-Saxon Whig tradition as the *conditio sine qua non* for entrepreneurial creativity and as the ultimate antidote to poverty. Capitalism, in short, "is better for the poor than socialism or the traditional Third World economy" and "a necessary precondition for the success of democracy" (Novak 1995:84-85).

The Limits of Grand Generalisations: Some Cases from Africa

There is an asymmetry between the liberal assumption on the role of MNCs in Africa and actual political, social and economic experience on the ground. Often overlooked are the potential (and sometimes actual) impacts of MNCs on human rights, social disintegration and, not insignificant, erosion of moral values.

The Ogoni crises in Nigeria which culminated in the murder of the Ken Sarowiwa and subsequent boycott of Shell challenges in a profound way the modus operandi of MNCs and demonstrates in a very stark way that wealth-generating activities that do not respect the rights and freedoms of people, especially the poor and disenfranchised, is irresponsible. The abuse of human rights, however insignificant, William Meyer (1998) correctly points out, calls into question the assumption sustained by international regimes that economic freedom scales down poverty and ultimately leads to greater democracy.⁴ (I find quite deplorable the current U.S. policy towards Africa and was shocked when Bill Clinton, upon his visit to the Great Lakes region of Africa three years ago simple-

mindedly noted that human rights violations in the region do not measure up to the scale of economic growth, which would lead to greater democracy!)

It is overly generalising, to be sure, to assume as some radical opponents of MNC do, that MNC's activities cause poverty. There is no empirical test to verify this assumption so far. This notwithstanding, the experiences of mass poverty, and the phenomenon of rising inequality calls into question the assumption that MNC's activity will generate aggregate wealth. The slum dwellers in Nairobi (Mathare Valley) tell a different story about the Kenyan government and the America giant Del Monte. In its bid to expand its operations in Kenya, the company is known to have prodded the Kenyan government into allocating it Kenya's richest plateau in Thika. Its operations have paid off: more jobs, more revenues for the country. Fair enough. However, little is mentioned of the long-term social, cultural and economic costs of its activities on the millions of poor who had to vacate their fertile land to make room for Del Monte and must contend themselves with a hopelessly dehumanising existence in Nairobi's most squalid, crime-ridden slum. The irony though, is that, in the meantime, Kenya has effectively registered itself a world-class producer of pineapples, thanks to Del Monte! More ironic still, the Kenyan regime continues to win substantial development aids and poverty alleviation packages from donor agencies, despite its ominous human rights records. Thanks once more to the behind the scene lobby of multi-billion dollar corporations, including Del Monte! While these and related cases do little to explain away the important role played by MNCs in African economies, they for sure challenge the common-place assumption that these corporations are indispensable engines of economic growth.

Moreover, the liberal assumption of free and unrestricted trade, like its corollary of universal self-seeking, does not sufficiently represent Adam Smith's view on trade, economic growth and the link between wealth creation and moral sentiments. The standard economic models which guide the behaviour of firms takes off from oft-quoted Smith's argument that it is ultimately from the self-seeking behaviour of the butcher, brewer and baker that growth occurs (Smith, *Wealth of Nations*: 26-27). To be sure, as the Nobel Laureate Amartya Sen points out, "Adam Smith himself had not presented this case as being the microcosm of all economic activities, but just as an example of a pure case of exchange of commodities, for which the pursuit of self-interest suffices as a motivation" (Sen 1999)⁵. Smith saw and readily admitted the limits of this behaviour on the society.

Towards A New Partnership with Africa: the Indispensable Role of Solidarity

Our analysis of the socio-economic experience of Africa and the role of multinational/global enterprises brings to bear the need for a new mode of thinking about wealth creation as well as more humane economic strategies. Fortunately, in recent times, the international community is gradually, albeit painstakingly, realising that relations with Africa, political as well as economic, need to be redefined. The old policy options, or rather, the canons guiding these policies, are far from effective. The remarks of Susan E. Rice, the Assistant Secretary General for African Affairs, are note worthy:

"Democratic governance and respect for human rights are also crucial to the goal of integrating Africa into the global economy. Recent history has taught us that governments which safeguard human rights as well as political and economic freedoms can more effectively establish conditions for sustainable economic growth" (Rice, October 29, 1998).

More pertinent however, is her statement that sustained growth should be patterned on a policy of "Partnership for Economic Growth and Opportunity in Africa." Relationship based on partnership presents, in my estimation, a far more open and respectful agenda for development in Africa, and more meaningful guideline for cooperation between MNCs and African governments. Unless these corporations consider themselves as partners in transforming the society, rather than self-driven engines of wealth creation (according to the classical economic credo), their impact on the local community will forever remain suspect. In all fairness, not all corporations are *bet noire* (black sheep) in this regard. Corporations like the Body Shop have shown that humane policies that target the well being of communities can be as productive as they can be competitive, and that trade relations based on partnership have sustainable pay-off.

Is the Susan Rice sort of partnership one that will carry the day for meaning social transformation? Not quite, in my estimation. As long as U.S. trade relations focus only on opportunity windows for U.S. companies as the program "Partnership for Economic Growth and Opportunity *in* Africa," then the trade relations will be anything but "a new wine in old wine skin", which, as the sage Jesus of Nazareth once said, will burst

The path of the sort of partnership that I believe will sustain the relation is one that was charted at the "Partnership Africa" forum in Stockholm where, in an open forum, the two parties (Africa and Sweden) challenged their assumptions. Sweden, with its economic power, realized that its paternalistic attitude on Africa, based on the belief that she must set the terms and conditions of their relations, was disrespectful of its trade partners and did little to foster the sort of mutual trust that is the *morum basis* of any relationship, live alone commercial relationship. The host nation realised that economic policies glutted on Africa did little to ignite the creativity and vigour that the continent's leadership needed to become agents of their development but led to a general feeling of infantilism. Moreover, Sweden deprived herself of the opportunity to enrich itself in ways other than economic, from the rich and virgin cultural resources, including caring, community and solidarity

To sum it up, the partnership that MNCs need in Africa must be based on the following factors:

1. *Subject to subject attitude*: There is need for a real change of attitude. No partnership can thrive without respect for the humanity of the other. (African nations need fat wallets for sure, but not a slap in their face. Thank you very much!) This is what the French philosopher has so passionately described as the "face of the other."

2. *Being explicit and respecting each other's values:* MNCs have values germane to them, yes, but they need to recognise and respect the values of their host countries. They need to "glocalize" their modus operandi, i.e. blend their global concerns with local concerns as citizens of their host country. The "expatriate" syndrome needs to give way to community membership.

3. *Transparency of Interest:* Even if interests diverge, as they always will, common ground can be found. This requires openness, something that the WTO and some MNCs are not terribly virtuous about.

4. *Clear contractual standards:* New contractual relationships should focus on the critical factors of success and mutual benefits and avoid a plethora of paternalistic conditionalities that bedevils cooperation towards achieving social transformation. MNC negotiators should expect as much, in terms of standards, from their host governments as they expect from their own countries. "Never expect less of an African partner than what you expect of yourself", notes a Ghanaian academic Angela-Offori-Atta.

5. *Equality of Capacity:* Commercial contracts between MNCs and Africa should be based on equality with the former being availed of all the necessary information pertaining to the contract and implications of the operations. Many African governments feel duped by MNCs.

In practice, I see the following changes to be made to partnership modalities:

1. *Outreach and respect for democratic and human rights processes.* If there is to be genuine partnership corporations as "mediating institutions," they need to break away from their functionalistic-economic silos to embrace the cause of the poor and disenfranchised people in their host countries. The Body Shop has set a good precedence in this regard.

2. *Transparency of Principles:* Principles guiding partnerships should be meaningful and clear, and not clouted with legal jargons and obscurities.

3. *Coherence:* Lip service is often paid at high political profile meetings between host representatives and top companies negotiators. But too often, little is done in practice (thanks to the lavish banquets that grace such occasions!)

This sort of partnership sits comfortably with the church's social teaching on meaningful economic relations and echoes well with what T.S. Eliot alluded to in *The Chorus from the Rock*:

What life have you if you have not life together?

There is no life that is not in community,

And no community that is not lived in the praise of God

When the stranger says: "What is the meaning of this city?"

Do you huddle together because you love each other?"

What will you answer? "We dwell together

To make money from each other" or "This is a community"?"

Notes

1.Hart, Jeffrey and Spero, Joan, *The Politics of International Economic Relations*, (New York: Routledge, 1997).

2.See, for example, Harry G. Johnson, "The efficiency and Welfare Implications of the International Corporation", in Charles P. Kindleberger, ed., *The International Corporations: A Symposium*, (Cambridge: MIT Press, 1970); United Nations Conference on Trade and Development, *The Role of Private Enterprise in Investment and Promotion of Exports in Developing Countries*, (New York: United Nations); Raphael Kaplinsky, *Readings on Multinational Corporations in Kenya*, (New York: Oxford University Press, 1978); Herbert K. May, *The Effects of United States and Other Foreign Investments in Latin America* (New York: Council for Latin America, 1970).

3.Richard A. Jackson, ed., *The Multinational Corporation and Social Policy: Special Reference to General Motors*, (New York: Praeger Publishers, 1983)

4.William Meyer, *Human Rights and International Political Economy in the Third World: Multinational Corporations, Foreign Aid and Repression*, (Westport: Praeger, 1998)

5.Amartya Sen, "Economics, Business Principles and Moral Sentiments", in Enderle George, *International Business Ethics*, (Notre Dame: University of Notre Dame Press, 1999).