The Strategies of Multinational Companies and Trade Union Responses

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Since the 1970s the world economy has changed significantly and this process has become known as “globalisation”. The “New World Order” of today is characterised by fast movements of capital across borders, by the establishment of a global set of economic rules and by the emergence of powerful multinational companies (MNCs). “Competition” and “international competitiveness” have now become permanent features of the overall neo-liberal ideology of a global capitalist system, which is now dominated largely by the interests of MNCs. Governments try to make their countries competitive in order to attract companies to their territories and to keep them there, hoping that this will solve the burning problems of unemployment and poverty. As a result, countries compete with each other by offering increasing concessions to MNCs. This is evident, for example in the creation of Export Processing Zones (EPZs) where increasing concessions are offered to foreign investors.

- The new global economy looks like a battlefield between economic giants in the form of MNCs from the USA, Western Europe, Japan and – more recently – the ‘Asian Tigers’. These MNCs are the driving force behind a worldwide system of competitive capitalism, which increasingly creates conditions that allow MNCs to escape the rules and controls of national states. As individual countries feel increasingly powerless to regulate investments from MNCs, they try to make themselves “competitive” to attract investors, often at the price of reducing wages and benefits for workers and by deregulating environmental protection.

The role of MNCs in economic globalisation

Production processes and trade have changed significantly over the past 30 years. Some production processes were shifted from industrialised countries to low wage economies on the periphery of the world’s capitalist system, especially in Asia and Latin America. Trade expanded massively, affecting the national markets all over the world. Due to the unfavourable terms of trade for the poorer countries of the South, this increase in trade widened the gap between the richer and poorer countries. According to the Financial Mail:

> *“At the start of the 19th century the ratio of real incomes between the world’s richest and poorest countries was three to one. By 1990 it was 10 to one. By 2000 it had risen to 60 to one”.*

Today, this ratio is estimated to be around 80 to 1 with Africa being worst hit by increasing poverty. The Canadian economics professor Michael Chossudovsky pointed out that:

> *"The New World Order feeds on human poverty and the destruction of the natural environment. It generates social apartheid, encourages racism and ethnic strife, undermines the rights of women and often precipitates cou8ntries into destructive confrontations between nationalities."(2003)*

How then does this "New World Order" look like and whose interests does it serve?

It is important to note that the globalisation of poverty occurs during a period of rapid technological and scientific advances. The global decline of living standards is <u>not</u> the result of a lack of productive resources. However, as MNCs spread their production processes over the globe, better-paid workers in the North were pit against vulnerable workers in the South. MNCs cut production costs through downsizing, restructuring and the relocation of production to cheap labour locations. This reduced the earnings of workers in the industrialised countries and increased unemployment there without a corresponding increase of employment and standards of living in developing countries. This is exemplified by the relocation of US and Canadian companies to Mexico's "maquiladoras", which are Export Processing Zones (EPZs) along the US-Mexican border. Wages in the "maquiladoras" are about 10% of those paid in the US and half of those in the rest of Mexico. However, high-skill jobs and technology have essentially remained in the industrialised countries.

Unemployment now affects nearly a third of the global workforce and the abundant supply of cheap labour in the "Third World" and Eastern Europe contributes to depressing wages even in industrialised countries. Real wages in the low-wage countries are as much as 70 times lower than those paid in the US, Western Europe and Japan. Global corporations use this scenario to minimise labour costs and to achieve high levels of "corporate efficiency" through plant closures, mergers and acquisitions, market control and downsizing. The underlying rule is "survival of the fittest" as the enterprises with the most advanced technologies or those with command over the lowest wages will survive in a world economy characterised by overproduction.

At the macro-economic level, such measures have the opposite effect: they lead to mass unemployment and poverty, bankruptcy of local SMEs and unutilised industrial capacity. Thus, despite the rapid technological advances, there is a stagnation in the production and supply of essential goods and services, simply because the impoverished majority of the world's population cannot absorb (buy) the production output. The ultimate contradiction of the global capitalist system is that the very process of expanding output (through downsizing, retrenchments and low wages) contributes to compressing society's capacity to consume.

Despite the global economic stagnation, the world's largest corporations have experienced unprecedented growth and expansion of their share in the global market at the expense of local, regional and national producers. The "free market" reforms as promoted by the International Monetary Fund (IMF), the World Bank and the World Trade Organisation (WTO) opened up new markets and production sites for MNCs and ensured profitability through low wages and deregulated labour markets. Likewise, the G7 macro-economic policies paved the way for corporate mergers and acquisitions as well as the accompanying large-scale bankruptcy of small and medium-sized enterprises. Countries who refused to "open-up" their economies were confronted with a combined onslaught from the IMF-World Bank-WTO who use the lever of loan conditionalities and aid (sometimes even military threats in co-operation with NATO) to deal with "trouble-spots".

Although global trade and global activities of capital are nothing new, the pace of capital movement as well as the form and concentration of capital have changed. The liberalisation of capital movements is one of the features of global capitalism and MNCs are now shedding much of their traditional in-house functions and replace them by outsourcing. They are building networks of dependant small and medium-sized enterprises and are supplying global markets. For example, the sports shoe company Nike employs only 9000 core workers, but there are 75 000 workers in the chain of sub-contractors which supply Nike. Some MNCs have gone as far as selling their name only while they leave manufacturing to others. Examples are Kodac, Olivetti, Siemens and General Motors. MNCs control about 70% of all world trade and over a quarter of the world's economic activity takes place within the 200 largest corporations.

MNCs took control over local markets through a system of corporate franchising. This ensured that a large share of the earnings accrued to MNCs while the bulk of the investment outlays had to be shouldered by the "independent producer" in the low-wage countries. Global corporations essentially service a limited consumer market of about 15% of the world's population plus a small elite the "Third World" and Eastern Europe. This group engages in "high income consumption" of imported consumer goods and services such as travel and leisure, automobiles, electronics and telecommunications. On the other hand, production for mass consumption to satisfy basic human needs of the majority declined due to rising levels of poverty. The collapse of mass-based consumer markets in turn led to more plant closures and bankruptcies.

The "New World Order" thus creates a vicious cycle: The relocation of industries to cheap-labour location leads to economic dislocation and rising unemployment in industrialised countries. As a result, spending power there and markets for developing countries decline which leads to intensified competition and reduced production as well as economic stagnation in the "Third World".

Globalisation of investment?

Globalisation does not affect all countries in the same way and its consequences are often differentiated. Over 90% of the largest MNCs have their headquarters in the industrialised countries and during the 1990s most of the high-value added, high-tech manufactured goods were produced and consumed in the three powerful economic blocks: USA, Western Europe and Japan. Over 85% of inter-firm co-operative agreements are signed between companies of these blocks and most foreign direct investment (about 80%) is originating from and going to these countries. Throughout the 1980s there was a trend of growing exports and imports in the industrialised world, while the share of developing countries was falling to below 30%. Management, research and technology also remained in the industrial centres and only certain production processes wee located in developing countries. Capital flows to the least developed countries - which include Africa - have been declining from 55% of the total in 1980 to 2% in 1990. Today, the whole continent of Africa accounts for less than half a percent of global investments. Capital flows to Africa are now more humanitarian than economic. In addition, about half of Africa's overseas development assistance immediately returns to the donor countries, as repayments for debt servicing and several African states have become net exporters of capital.

In recent years, the global economic system produced a kind of "rentier economy" in the industrialised countries. This economy does no longer produce actual goods but is centred in the services sector. It is a "high-technology economy based on the ownership of industrial know-how, product design, research and development" (Chossudovsky 2003). This economy dominates over the "material production" and accounts for the bulk of the income from value addition. Royalties and licensing fees for the use of technology, brand names, product designs and value addition by distributors, wholesalers and retailers account for much more than what the actual producers receive. Material production takes place in a low-wage country but the largest amounts for value addition are recorded in the importing industrialised country. The following examples illustrate this point:

- The retail price for coffee is 7-10 times higher than the import price and about 20 times the price paid to the coffee farmer.
- Designer shirts produced in South East Asia are sold in Europe for 5-10 times their import price.
- Less than 2% of the total value of shirts produced in Bangladesh is received by the direct producers as wages. The profit by local companies is equivalent to about 1% of total value.
- About 70% of the total value in the clothing sector consists of firstly profits of distributors, wholesalers and retailers; secondly costs for transport and storage etc; and thirdly customs duties and indirect taxes imposed by the importing (industrialised) country.

Why do companies go across borders?

For information on this issue, please read the 2 pages attached. They were copied from the booklet "Tackling transnationals", published by the International Labour Resource and Information Group (ILRIG) in 1997.

Multinational Companies in Namibia

Not all MNCs come to Namibia for the same reason. Some are attracted by the country's natural resources, which they want to exploit. These include mining companies like Rossing Uranium, Namdeb and Navachab. They have not chosen Namibia as an investment location because of its investment policies, but rather because of the minerals to be found there and the existence of infrastructure that allows them to export mining products (usually in an unprocessed form) to their overseas markets. These companies are usually foreign owned, managed and controlled and serve global markets. Although Namdeb changed its name shortly after independence (from Consolidated Diamond Mine, CDM) and gave 50% of its Namibian shares to the Namibian government, the company's operations have not changed significantly and it still exports its diamonds in raw form to its Central Selling Organisation (CSO) in London. For years, the company had claimed that it is not viable to even polish diamonds in Namibia and this only changed under some political pressure and the emergence of a competitor company, which established several polishing plants in Southern Africa.

Fishing companies invest in Namibia for similar reasons. They are simply interested to exploit Namibia's marine wealth and sell it to overseas markets. As marine resources were either severely depleted or even destroyed in other parts of the world, fishing companies are eager to have access to fishing grounds in Southern Africa, particularly along the Benguela current.

Another group of multinational companies in Namibia are the retail chains with head offices in South Africa. These include companies like Shoprite, Game, Joshua Door, OK, Woolworth, Jet, Ackermans etc. They opened branches in Namibia simply to have access to new markets in Namibia's major towns. In recent years, some of them were exposed to competition in the form of China shops, which sell similar goods (often of lower quality) at lower prices.

A third group of MNCs operates in Namibia's financial services and includes various insurance companies and banks that are part of a global network. These include all major commercial banks and insurance companies like Old Mutual and Sanlam. They operate in Namibia to gain access to the market (clients) and are usually linked to head offices in South Africa. Most of their income in the form of premiums and investments of customers is transferred outside the country, usually to South Africa and from there to overseas destinations. These companies thus contribute to capital exports.

Namibia is also host to some MNCs in the hospitality and tourism sector such as the Sun International group, which owns Kalahari Sands Hotel and Casino. Natural or cultural sites that can be exploited for tourism ventures attract such companies. They also spearheaded moves to have gambling legalised in order to run casinos.

Finally, a small number of firms came to Namibia for manufacturing purposes. While some set up local processing to service local markets, many (particularly those with EPZ status) service export markets elsewhere. These companies include Libra Bath ware and Namibia Press and Tools in Walvis Bay as well as the infamous Ramatex company in Windhoek.

Trade Union Responses

Trade unions have taken up struggles with multinational companies all over the world. In some cases, trade unions had to fight for basic workers rights against the combined forces of the company and oppressive regimes that supported them. The following are some of the strategies used to limit the power of MNCs:

1. **Codes of Conduct** are meant to set rules for MNCs to ensure that they respect workers and environmental rights. Such codes have been prepared by international organisations like the ILO, by the companies themselves and by trade unions. The problem with codes is that they have to be monitored and enforced to become meaningful. This requires well-organised unions and strong links with other organisations, which can assist unions to pressurise and punish MNCs that violate the code.

2. **International worker solidarity** has been a powerful tool in the struggle for workers rights. A Coca-Cola plant in Guatemala, for example, did not allow workers to form a union. Workers were oppressed and some of their leaders were assassinated. However, workers were determined to continue their fight and refused to be intimidated. In solidarity with their colleagues in Guatemala, workers in other countries organised demonstrations, strikes and a consumer boycott of Coca Cola products. This international solidarity action was co-ordinated through the international union of food workers IUF. The action was so successful that Coca Cola had to give in to the demands of workers, recognising their union and agreeing to collective bargaining.

3. Forming **world company councils** to bring together shop stewards from different countries that work for the same company has been a strategy used by the International Metalworkers Federation (IMF). Workers employed by companies like General Motors or Volkswagen meet every few years exchange information and experiences. They report on working conditions and workers rights and develop a joint strategy how best to deal with the MNC that employs them. The aim is to achieve the best possible conditions for all workers in the company, no matter in which country they are based.

A similar initiative can be taken at regional or continental level. Unions operating for the same MNC in Southern Africa can strategise jointly and support each other's struggles for better working conditions. Such solidarity action can be very effective, especially if it is accompanied by a publicity campaign. Ultimately, unions can even engage in negotiations across borders where unions from different countries jointly negotiate better conditions of employment with the MNC that employs them. The international unions known as Global Union Federations (GUFs) are best suited to organise such negotiations.

4. Finally, there are **consumer and environmental groups** that play a significant role in monitoring MNCs and putting pressure on them when they violate workers and environmental rights. One example is the Clean Clothes Campaign, which was started in Holland by solidarity and trade union activists

with links to Asian workers who produced clothing for the European market under terrible conditions. By exposing these conditions and working closely with local workers and their unions, the Clean Clothes Campaign calls on consumers to support fair labour practices and to put pressure on clothing stores to buy from producers that respect workers rights. In this way, the campaign effectively supports the struggles of workers in the "Third World".

These international examples might provide some ideas of how we can deal with MNCs more effectively in Namibia. Those companies, which are here to exploit local resources (like the mining and fishing companies) cannot simply move to other countries. Unions and our government are therefore in a fairly strong position to force them to comply with labour, environmental and even economic standards. Unions could pressurise companies and government to process national resources inside the country as a pre-condition for obtaining a licence. This has the potential to create a significant number of new jobs.

Multinational companies that operate retail outlets or hotels in Namibia are also unlikely to shift to other countries as they want to sell on local markets or exploit local sites of natural beauty. Well-organised unions thus have the chance to improve their members' conditions of employment through collective bargaining.

Trade unions will encounter most difficulties when dealing with MNCs that can shift their production elsewhere. These include most of Namibia's EPZ companies, which set up production for export markets. Such companies are usually mobile and can shift their production to other countries. They utilise this mobility to squeeze ever-increasing concessions out of governments and often negotiate with trade unions in bad faith. A standard argument used to counter workers demands is that workers are not productive enough and that the company is making losses in Namibia. However, such claims are not backed up by independently verified information and unions often find it very difficult to conclude negotiations successfully. A classical example is the recent wage negotiations between NAFAU and Ramatex.

In such cases, unions need to work with other organisations that can assist them. These include research organisations that can provide them with accurate information about the company as well as international unions that organise in their sector. These international unions can be very effective in pressurising MNCs and creating links with workers in other countries that work for the same company. Such combined action is often the only way to deal with such MNCs, as individual unions are often not powerful enough at the national level. When dealing with MNCs, unions must utilise international strategies far more effectively than they currently do. Otherwise, Namibian workers will find it difficult to put an end to abuse and exploitation by such companies.