

# The Paradoxical Contribution of Multinational Companies (MNCs) To Poverty Alleviation in Developing Countries

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## ABSTRACT

For several years now, MNCs have exploited low labour costs in certain developing countries in order to bring down production costs. This creates poverty through low wages and simultaneously alleviating poverty by creating employment opportunities for unskilled workers. By isolating the economic impact and neglecting the social impacts, this paper aims to examine how exactly MNCs have influenced the impoverishment of certain nations. This paper compares the positive effect of employment prospect creation against the negative effects - low wages and child labour. These three factors are spoken about in the context of two MNCs (Nike, and H&M) that exemplify the general trend when MNCs move factories and manufacturing processes to developing nations.

**Keywords:** Multinational corporations, foreign direct investment, unemployment, minimum wage, absolute poverty, relative poverty

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## INTRODUCTION

Multinational corporations/companies (MNCs), through foreign direct investments (FDIs) benefit developing countries in numerous ways such as but not limited to increasing exports, generating employment, promoting newer technologies, and enhancing quality of life (Malak, 2018). Isolating the aspect of poverty alleviation, MNCs have historically been shown to give opportunities to lesser educated individuals to enter the workforce thus bringing them out of objective poverty. However, this cannot be said without considering that MNCs concurrently create poverty by offering low wages. MNCs are able to take advantage of low labour costs in developing countries to reduce production costs by creating factories in said countries - typically in Southeast Asia. The current research in the field stands at a point where both sides can be proven but lacks an explanation of how the benefits and disadvantages can be weighed against each other to understand the overall impact. Various companies such as Nike, H&M, Apple, and many more cause similar multi-faceted macroeconomic impacts.

## METHODOLOGY

This paper utilizes a variety of sources- primary and secondary to develop a holistic idea of the impacts of MNCs. It explores two cases of two brands delving into three subparts: the positive, availability of employment, and the negatives, low wages and child labour. By exploring data, interviews, and other qualitative observations, this study aims to compare and contrast the multi-faceted effects that MNC's have had in recent years on the status of poverty alleviation in various developing countries.

### CASE 1: NIKE (SPORTS BRAND)

In order to meet growing customer demands but still turn large profits, Nike offshores manual labour jobs in factories to countries such as China, Vietnam, and Indonesia. Their manufacturing process has both positive and negative aspects. Nike exemplifies the impact that several other companies have.

#### *Availability of Employment*

The most obvious by-product of FDIs is more easily available employment for unskilled workers (Saucedo et al., 2020, p. 1). Nike works with different manufacturers to produce these products so although many workers are not directly working for Nike, the products do lead to the Nike brand. Nike, in China alone, has over 210,000 workers. Similarly, in various other countries, there are a large number of factory workers. The availability of this unskilled

labour job opportunity gives room to lift those in a state of unemployment to employment. In doing so, it brings people out of absolute poverty due to unemployment into relative poverty which enables a relatively better lifestyle. In areas where access to jobs for women is low, Nike has also made employment opportunities available. In 2008, Nike launched a campaign called the “Girl Effect campaign” which attempted to lift girls in lesser progressive areas out of poverty (Day, 2001).

**Low wages**

The biggest issue when it comes to employment opportunities created by MNCs is the wages provided. Wages have been reported, by Nike itself, to be below the legal minimum at up to 25% of factories (Teather, 2005). For instance, Indonesia, which accounts for 22% of Nike shoes manufactured, has a minimum monthly wage of approximately only \$100 (Manufacturing Process, n.d.). Nike’s presence in Indonesia can be traced back to the early 1990s. Nike workers today make approximately 150% of what their salary would have been in the 1990s. However, if inflation and currency devaluation are taken into account, it is shown that Nike workers make slightly less than what they were making two decades ago (Miakhel, 2009). In terms of minimum daily wage, data shows that several workers in shoe factories did not even meet minimum wage earning only approximately \$1 per day. Other publications cite their earnings to be \$2.28 per day (Swardson& Sugawara, 1996). These are relatively much low and exploitative wages. The Indonesian government estimates suggest that the minimum wage only covers approximately 70% of basic needs of an individual. Thus, these low wages would set factory workers at a state of objective poverty.

Similarly, in Vietnam, as of 2008, 20,000 workers protested for an increase in their salaries. Through this protest it was revealed that these workers make only \$59 per month (Miakhel, 2009). This money is barely enough to allow an individual to afford their basket of consumption let alone an entire family.

**Child labour**

Nike has admitted to having limited control over subcontracted factories which dictate the working conditions in factories (Day, 2001). Life magazine, in 1996, released a photograph of a 12-year-old Pakistani boy making a soccer ball. The garment industry and equipment manufacturing industry are both commonly hubs for child labor due to their low skill requirements and minimal government regulation. Child labor as such gives room to a cycle of poverty. Allegedly, children work 14-hour days making equipment (Swardson& Sugawara, 1996). These long hours strip children of their right to education, limiting their prospects in the future and enabling a cycle of poverty.

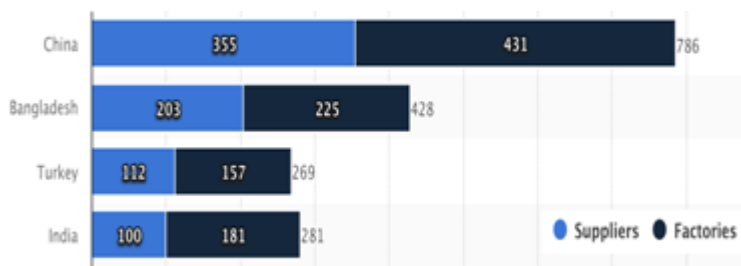
**CASE 2: H&M (FAST FASHION BRAND)**

The top three manufacturing locations used by H&M to manufacture clothing are China, Bangladesh, and India. These countries have 431, 225, and 181 factories respectively (Smith, 2022). Here, H&M is able to take advantage of low production costs to sell clothing at lower price points in order to attract a larger consumer base.

**Availability of Employment**

Akin to Nike, H&M also has created unskilled labour opportunities in various developing countries that permit more people to enter the workforce. The company website declares that H&M is the largest manufacturer and exporter of clothing, employing over 25,000 people in 20 factories (Nagaraj, 2021). Likewise, in various other countries H&M has had a tremendous impact, creating several factories and supplier prospects over time as shown in the image.

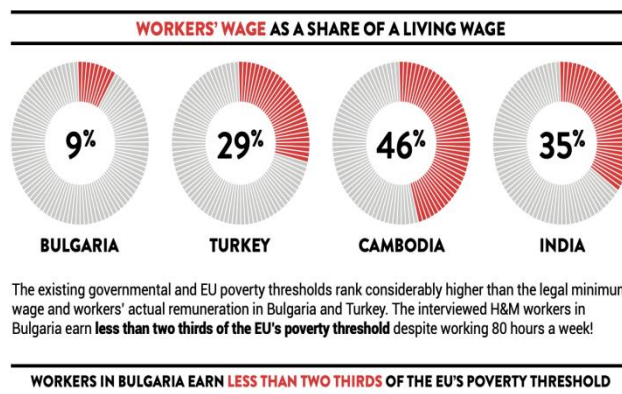
**Low wages**



Upon interviewing 62 people in six supplier factories in Bulgaria, Turkey, India, and Cambodia, it was found that none of the workers made anything that resembled a living wage to cover individual and family expenses (Guilbert, 2018). The earnings of these workers, when investigated in comparison to living wage was shown to be astonishingly low. Workers in none of the aforementioned four locations made even 50% of a living wage with workers in Bulgaria earning as little as 9% of the living wage. Interviewees from India and Turkey stated that they are only able to meet

living wage if they work overtime. Not only does this constitute as forced labour by the ILO’s standards but it also goes to show the extent to which H&M has underpaid several workers. Living wage consists of money for food, rent, adequate healthcare, education, transportation, and clothing. When workers earn such small fractions of the money needed for this basic basket of consumption, it brings them into a state of poverty. Here, often parents earning these types of incomes cannot put their children into schools thus enabling a cycle of poverty caused by the same unskilled labour jobs.

In an interview with a factory worker based in India, it was found that her monthly income, after working a minimum of 12 hours per day, was 6000 INR or 75 USD (Musiolek, 2018). Being the single breadwinner of a family of five, the family is set in a state of poverty. In this sense, these garment factories are introducing poverty into the nation by endorsing these kinds of payments.



### ***Child labour***

Although international labour laws do not classify it as child labour, 14–18-year-olds have been found to work in factories in Myanmar (Butler, 2016). Including this age group in the workforce discourages them from moving to higher paying jobs in the future by omitting not only their access to education but also exposure to better jobs. In doing so, this kind of child labour contributes to long term poverty continuation.

## **DISCUSSION**

When brands such as Nike and H&M move their manufacturing processes to developing countries through foreign direct investments, they bring a surplus of impacts with them. The most prominent factor is the sheer availability of employment opportunities. In countries with larger garment industries, the extent to which MNCs can and have benefitted in creating employment opportunities is drastically underestimated. Without these factories, unskilled workers would be set in absolute poverty due to unemployment. However, this cannot be said without acknowledging the downsides that these corporations bring with them. They introduce astonishingly low wages and unworkable conditions. These low wages, in a sense, also create poverty by leaving workers without sufficient income to afford necessities. The prevalence of child labour contributes to the longevity of this cycle of low wage jobs when many factories employ children - thus limiting them from exploring better job prospects. In this sense MNCs can create a cycle of poverty that is difficult to put an end to. MNCs often justify these violations of human rights (low wages, unreasonable work hours, inhospitable conditions) by saying they create employment opportunities. However, the negative here, outweigh the benefits since they are creating and continuing economic disparity. MNCs also often face worldwide criticism for their labour practices as their vast outreach subjects them to global attention - this incentivizes them to constantly make improvements and changes to pay above minimum wage. Therefore, it can be stated that although the contribution of MNCs is multi-faceted, the role that MNCs have played in shaping the state of poverty in nations such as China, Bangladesh, and India are complex and immense.

## **CONCLUSION**

This study fixates on only two cases of brands as a representation of the general impact of MNCs on poverty alleviation. This does not conclusively show a standardised pattern of impacts that MNCs have but simply outlines an observable trend of paradoxical impacts in some countries with some brands. For further exploration of the field, one would need to observe more brands, more countries, and find quantitative and qualitative ways to quantify the contribution of MNCs to poverty alleviation. We would also need to find positive examples of MNCs and contrast the prevalence of these positive examples with the number of the negative examples to explore the overall impact.

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