

[**Should LDCs Love MNCs?**](http://www.foreignpolicy.com/articles/2002/01/01/should_ldcs_love_mncs)

**BY MICHAEL SANTORO | JANUARY 1, 2002**

**Journal of International Business Studies**, *Vol. 32, No. 3, Third Quarter 2001, Washington, D.C.*

Multinational corporations (MNCs) are at the heart of the debate over globalization and its impact on developing countries. Critics charge that MNCs violate labor rights, ruin the environment, prop up corrupt and repressive regimes, and undermine global cultural diversity. Meanwhile, advocates of global economic integration invariably emphasize the crucial role of multinationals in providing much-needed capital, jobs, and technology for poor nations.

Which view is more accurate? To help answer this question, Texas A&M economist Lorraine Eden and University of Minnesota business professor Stefanie Lenway organized a special symposium for the quarterly *Journal of International Business Studies (JIBS)*, focusing on what they call the "Janus face" of globalization. Eden and Lenway admit a pro-globalization tilt among their colleagues -- "when scholars look at problems identified with globalization’s dark side, they also often contribute to our understanding of the bright side." Indeed, the volume offers some compelling evidence that MNCs can prosper and be good corporate citizens at the same time.

In their article "Globalization and the Environment: Determinants of Firm Self-Regulation in China," business professors Petra Christmann (University of Virginia) and Glen Taylor (University of Hawaii–Manoa) conclude that China’s poor environmental regulations have not transformed the country into a haven for pollution-intensive multinationals. Rather than take advantage of weak regulations, MNCs often "self-regulate" by adopting stricter environmental performance standards than required by local governments. In their study of 118 business ventures in China -- some locally owned, some owned by MNCs, and some jointly owned -- Christmann and Taylor find that MNCs and their suppliers were more likely than local firms to comply with local regulations and to adopt internationally recognized environmental management standards such as ISO 14000.

Of course, such findings do not mean that critics of globalization should stop scrutinizing MNCs or regard them as purveyors of environmental purity. As Christmann and Taylor point out, the evidence is mixed regarding the extent to which MNCs consider local environmental laws when deciding where to locate manufacturing plants. They also note that the glare of publicity directed by environmental activists is precisely what causes many MNCs to stay on their best behavior in the Third World, lest a labor or environmental lapse tarnish their brand names or global reputations.

While China welcomes foreign investment with open arms and a pro-business regulatory environment, other developing nations, such as India, have historically been reluctant to trust the good intentions and salutary effects of profit-maximizing MNCs. The Indian pharmaceutical industry -- with its ownership restrictions, price controls, and weak intellectual property protections -- is a clear example. But what potential benefits does India forgo when it allows local pharmaceutical firms to produce cheap generic versions of patented drugs? Quite many, according to business professors Susan Feinberg (University of Maryland) and Sumit Majumdar (Imperial College of Science, Technology and Medicine in London) in "Technology Spillovers from Foreign Direct Investment in the Indian Pharmaceutical Industry."

Feinberg and Majumdar note the numerous studies showing that the research-and-development activities of MNCs in developing countries often spill over to local firms in the same industry. This transfer even occurs in an environment of strict respect for intellectual property rights, simply because people talk to each other and switch jobs. In India, however, the authors found that spillovers occur mainly among the MNCs themselves, not between MNCs and local Indian firms. Government policy, according to Feinberg and Majumdar, "may have reduced incentives to import and develop world-class technology in India." They also report that Indian policies have created two groups of firms in the same industry, a kind of caste system of pharmaceutical innovation.

The dilemmas faced by China and India are all too familiar for developing countries. But contrary to much vocal criticism, the interests of MNCs don’t automatically diverge from the interests of developing countries. Sometimes, as the essays in this special issue of *JIBS* demonstrate, what’s good for multinationals is good for people, too.

*Michael Santoro is assistant professor in the international business and business environment department at Rutgers Business School and author of* Profits and Principles: Global Capitalism and Human Rights in China *(Ithaca: Cornell University Press, 2000).*