Multinational Corporations and the North/South Divide

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Abstract

This article examined multinational corporations and the North/South divide. The objectives of this study were to examine the role of multinational corporations in economic disparities between Northern and Southern countries; and investigate the impacts of multinational corporations' investments in the global South. This article adopted the dependency theory. The dependency theory is a perspective in the field of international relations and development studies that seeks to explain the unequal relationship between developed and developing countries, often referred to as the North (developed) and the South (developing). According to dependency theory, the global economic system is divided into a core (developed countries) and a periphery (developing countries). Multinational corporations, primarily based in core countries, play a significant role in perpetuating this divide. They often exploit the resources and labor force in peripheral countries to benefit core countries. This results in a flow of wealth and resources from the periphery to the core. Methodologically, data were sourced from secondary materials and analysed data using content analysis. The article revealed that multinational corporations (MNCs) play a complex and multifaceted role in economic disparities between Northern and Southern countries. These disparities are often referred to as global economic inequality or the North-South divide. MNCs invest heavily in both Northern and Southern countries. While Northern countries often attract more foreign direct investment (FDI), Southern countries also receive a significant share. MNCs bring capital, technology, and expertise, which can stimulate economic growth. However, the concentration of investment in select industries or regions within Southern countries can lead to disparities in economic development. The article recommended that there is need to implement international tax reforms that ensure MNCs pay their fair share of taxes in both their home countries and host countries.

Introduction

Multinational corporations (MNCs) and the North/South divide are two interconnected concepts that play a significant role in the global economic landscape. Understanding these terms and their relationship is essential in comprehending the dynamics of international business and global economic inequality. Multinational Corporations, also known as Multinational Enterprises (MNEs), are large, often globally recognized companies that operate and conduct business activities in multiple countries around the world. These corporations have a significant presence in both their home country and foreign markets. They have expanded beyond their domestic borders to establish subsidiaries, branches, or joint ventures in various countries, allowing them to engage in international trade, investment, and production. MNCs have a vast geographical presence, with subsidiaries and operations in multiple countries, enabling them to serve a global customer base (Dicken, 2015).

Multinational corporations are often involved in various sectors, such as manufacturing, services, technology, and more. They engage in a wide range of activities, from production and distribution to research and development. Due to their international operations, MNCs typically have complex organizational structures to manage diverse cultural, legal, and economic environments. MNCs are among the largest and most influential economic entities globally, often rivaling the economic output of some countries. They have the resources and capabilities to shape global markets and influence international policy.

According to Ghosh (2013), the North/South divide, also known as the Global North/Global South divide, refers to a long-standing and deeply rooted economic and socio-political disparity between regions of the world. It is primarily characterized by a division between the economically developed and industrialized countries of the Northern Hemisphere (the "Global North") and the less developed and often poorer countries of the Southern Hemisphere (the "Global South"). Countries in the Global North tend to have higher income levels, more advanced industrial and technological infrastructure, and greater access to capital and resources compared to countries in the Global South. The divide is not solely economic; it also encompasses disparities in healthcare, education, living

standards, and access to basic services. Global South countries often face higher rates of poverty and limited access to healthcare and education.

Statement of the problem

The issue of multinational corporations (MNCs) and the North/South divide is a complex and multifaceted problem with significant economic, social, and political implications. This problem is often referred to as "global economic inequality" or "global wealth and development disparity." Multinational corporations are primarily based in developed or "Northern" countries, such as the United States, Europe, and Japan. These corporations often operate in developing or "Southern" countries, where labor and resources are less expensive. The profit generated by MNCs tends to flow back to their home countries, contributing to economic disparities between North and South. MNCs often extract natural resources, such as minerals and agricultural products, from Southern countries. These resources are typically sold on the global market, but the profits often do not adequately benefit the local populations who may face environmental damage and resource depletion (Dicken, 2015).

Stiglitz (2013) stated that MNCs frequently establish manufacturing facilities in Southern countries to take advantage of cheaper labor. Labor conditions in these facilities may be substandard, and workers may be paid low wages with limited job security. Some MNCs use complex financial structures to reduce their tax obligations, resulting in lower tax revenues for the governments of Southern countries. This limits the ability of these governments to invest in infrastructure, education, and social programs. MNCs often wield significant economic and political influence, which can sometimes lead to policy decisions that benefit their interests over those of the host countries. This influence can undermine local sovereignty and self-determination. The concentration of wealth and resources in the hands of MNCs and the global elite exacerbates poverty and inequality in Southern countries.

Objectives of the study

The objectives of this study are to:

i. examine the role of multinational corporations in economic disparities between Northern and Southern countries.

ii. investigate the impacts of multinational corporations' investments in the global South.

Conceptual Clarification

Multinational Corporations

According to Isaksson and Simons (2016), multinational corporations are companies that operate in more than one country. It is a large, global organization that has operations in multiple regions, typically including exploration, production, refining, and distribution of products and services. Multinational corporations are major players in the global energy industry and typically have significant resources, expertise, and technology for the exploration and production of goods and services. These companies may operate in both upstream and downstream activities, including exploration and production, refining, marketing, and transportation. Multinational corporations are large firms that operate in multiple countries, involved in the exploration, extraction, processing and the distribution of goods and services.

Loof and Heshmati (2014) stated that multinational corporations are companies that operate in different countries, including those that are involved in the extraction, refining, and distribution of products. These companies have a significant impact on the local communities where they operate, particularly in terms of their social and environmental impact. Multinational corporations often have a significant impact on the global economy and are major employers, generating significant revenue and profits. They may also have significant political and social influence in the countries where they operate, due to their size and economic importance. Some of the most well-known multinational companies include ExxonMobil, Royal Dutch Shell, BP, Chevron, Total, and ConocoPhillips. These companies have a significant presence in the global oil and gas market and are often subject to close scrutiny from governments, environmental groups, and other stakeholders due to the environmental and social impact of their operations. Multinational corporations are typically organized as a complex network of subsidiaries, joint ventures, and partnerships, operating in multiple countries and regions (Akin & Adekoya, 2022). The parent company, often based in a developed country, provides strategic direction, financial resources, and management oversight, while the subsidiaries are responsible for day-to-day operations in their

respective countries. These companies are often vertically integrated, meaning they control every stage of the oil production process, from exploration and extraction to refining and marketing. This allows them to optimize efficiency and reduce costs, while also providing greater control over the quality and quantity of their products (Wang & Jia, 2018).

The North/South divide

The North-South divide is a term used to describe the socio-economic and developmental disparities between the more economically developed countries (often referred to as the "Global North") and the less economically developed countries (often referred to as the "Global South"). This divide is a complex and multifaceted concept that encompasses various dimensions such as economic, political, social, and cultural differences. It has historical roots and continues to influence global dynamics, development strategies, and international relations. The origins of the North-South divide can be traced back to the colonial era when European powers established colonies and exploited the resources of regions in Africa, Asia, and Latin America. This exploitation left many of these regions impoverished, with limited access to education, technology, and infrastructure. The legacy of colonization has contributed significantly to the disparities between the North and the South (Nicola, 2020).

According to Mimiko (2012), the global North typically enjoys higher levels of industrialization, technological advancement, and overall prosperity. The economies of the North are characterized by advanced manufacturing, high-tech industries, and a well-developed service sector. In contrast, many countries in the global South rely heavily on agriculture, natural resource extraction, and low-skilled labor. Infrastructure, including transportation, energy, and communication networks, tends to be more advanced in the North. This disparity in infrastructure development can further exacerbate economic differences. Access to modern infrastructure is crucial for economic growth, education, healthcare, and overall quality of life.

Arbab (2019) stated that the North-South divide has historical, economic, social, and political dimensions that have significant implications for the well-being and progress of nations. While the North-South divide might oversimplify some

complexities, it still captures essential patterns that warrant discussion. The North-South divide oversimplifies the complexities of global disparities. It assumes a binary division between "developed" and "developing" nations, ignoring variations within regions and countries. It neglects the fact that some countries in the global South have shown remarkable development progress, while some in the North still face economic and social challenges.

The accuracy of the North–South divide has been challenged on a number of grounds. Firstly, differences in the political, economic and demographic make-up of countries tend to complicate the idea of a monolithic South. Globalization has also challenged the notion of two distinct economic spheres. Following the liberalization of post-Mao China initiated in 1978, growing regional cooperation between the national economies of Asia has led to the growing decentralization of the North as the main economic power. The economic status of the South has also been fractured. As of 2015, all but roughly the bottom 60 nations of the Global South were thought to be gaining on the North in terms of income, diversification, and participation in the world market. Globalization has largely displaced the North–South divide as the theoretical underpinning of the development efforts of international institutions such as the IMF, World Bank, WTO, and various United Nations affiliated agencies, though these groups differ in their perceptions of the relationship between globalization and inequality. Yet some remain critical of the accuracy of globalization as a model of the world economy, emphasizing the enduring centrality of nation-states in world politics and the prominence of regional trade relations.

According to Nicola (2020), the divide between the North and South challenges international environmental cooperation. The economic differences between North and South have created dispute over the scientific evidence and data regarding global warming and what needs to be done about it, as the South do not trust Northern data and cannot afford the technology to be able to produce their own. In addition to these disputes, there are serious divisions over responsibility, who pays, and the possibility for the South to catch up. This is becoming an ever-growing issue with the emergence of rising powers, imploding these three divisions just listed and making them progressively blurry. Multiplicity of actors, such as governments, businesses, and NGO's all influence any positive activity

that can be taken into preventing further global warming problems with the Global North and Global South divide, contributing to the severity of said actors. Disputes between Northern countries governments and Southern countries governments has led to a break down in international discussions with governments from either side disagreeing with each other. Addressing most environmental problems requires international cooperation, and the North and South contribute to the stagnation concerning any form of implementation and enforcement, which remains a key issue.

Theoretical Framework

Dependency Theory

This article adopted the dependency theory. The dependency theory is a perspective in the field of international relations and development studies that seeks to explain the unequal relationship between developed and developing countries, often referred to as the North (developed) and the South (developing). According to dependency theory, the global economic system is divided into a core (developed countries) and a periphery (developing countries). Multinational corporations, primarily based in core countries, play a significant role in perpetuating this divide. They often exploit the resources and labor force in peripheral countries to benefit core countries. This results in a flow of wealth and resources from the periphery to the core (Stiglitz, 2013).

Akin and Adekoya (2022) noted that multinational corporations, as powerful economic actors, have the ability to extract natural resources and cheap labor from developing countries. They often establish operations in the Global South to take advantage of lower production costs, leading to the extraction of valuable resources and wealth from the South to the North. Dependency theory argues that international trade relations are often characterized by unequal exchange, where the prices of raw materials and commodities from the South are controlled by the North, while manufactured goods from the North are sold back to the South at higher prices. This perpetuates a cycle of dependency and underdevelopment in the South. MNCs can exert significant influence over the governments of developing countries, often pursuing policies that serve their interests rather than the broader development needs of the host country. This can lead to political instability and economic dependence on foreign corporations.

Multinational corporations are central players in global value chains, controlling various stages of production, from research and development to distribution. Developing countries often occupy lower-value positions in these chains, such as raw material extraction and assembly, while the more lucrative aspects are concentrated in the North. The Dependency Theory provides a framework to understand how multinational corporations, predominantly based in developed countries (the North), can exacerbate the North/South divide through economic exploitation, unequal exchange, and their dominant position in the global economy. It highlights the structural inequalities in the global economic system and the challenges faced by developing countries in overcoming their dependency on foreign corporations and achieving sustainable development.

Methodology

This paper adopted the descriptive research design. Descriptive research studies are those studies which are concerned with describing the characteristics of a particular individual or group (Kothari & Garg, 2014). The method of data collection for the study is the qualitative method. In the qualitative method, information is gathered in form of words, descriptions, narratives and numerals from secondary sources such as books, journals, articles, internet records and other documents. Content analysis was used in analyzing the data sourced. Content analysis is a research technique used to make replicable and valid inferences by interpreting and coding textual materials. According to Luo (2020), content analysis is a research method used to identify patterns in recorded communication.

Research Findings

The role of multinational corporations in economic disparities between Northern and Southern countries

Multinational corporations (MNCs) play a complex and multifaceted role in economic disparities between Northern and Southern countries. These disparities are often referred to as global economic inequality or the North-South divide. MNCs invest heavily in both Northern and Southern countries. While Northern countries often attract more foreign direct investment (FDI), Southern countries also receive a significant share. MNCs bring capital, technology, and expertise, which can stimulate economic growth. However, the concentration of investment

in select industries or regions within Southern countries can lead to disparities in economic development. MNCs often establish operations in Southern countries to take advantage of lower labor costs. This can lead to the exploitation of cheap labor, poor working conditions, and low wages, which contribute to economic disparities. These practices can result in economic benefits for MNCs and, to some extent, employment opportunities for local populations, but often at the expense of fair wages and workers' rights (Akin & Adekoya, 2022).

MNCs frequently engage in resource extraction in Southern countries, such as mining, oil, or agriculture. This can lead to the depletion of natural resources, environmental degradation, and social upheaval. Profits from resource extraction often flow out of the country or to a small elite, exacerbating economic inequalities. MNCs can have a significant impact on a country's trade balance. Southern countries may become heavily reliant on exports of raw materials or low-value-added products to MNCs, which can result in trade imbalances. They often have to import higher-value-added products from Northern countries, contributing to economic disparities. MNCs often bring advanced technology and intellectual property to host countries. While this can lead to knowledge and technology transfer, it may also perpetuate a technological dependence. Intellectual property rights can restrict local innovation and development, contributing to economic disparities.

Loof and Heshmati (2014) asserted that some MNCs employ aggressive tax planning strategies to minimize their tax liabilities in host countries. This reduces the revenue available to Southern countries, limiting their capacity to invest in infrastructure, education, and social welfare, which are vital for reducing economic disparities. MNCs often wield considerable political influence, both in their home countries and in host countries. They can lobby for policies that favor their interests, potentially at the expense of broader economic development and poverty reduction efforts. MNCs are key players in global supply chains, often outsourcing production to different countries. While this can create jobs and stimulate economic growth in certain areas, it can also lead to uneven development, with some regions benefiting more than others. MNCs can sometimes engage in corrupt practices, such as bribing officials to secure favorable

treatment or contracts. This can weaken governance and the rule of law, exacerbating economic disparities.

The overall socioeconomic impact of MNCs depends on various factors, including government policies, labor regulations, and corporate responsibility initiatives. When host countries have strong governance and regulations in place, MNCs can contribute positively to economic development, job creation, and technology transfer. In conclusion, the role of multinational corporations in economic disparities between Northern and Southern countries is complex and varies depending on a range of factors. While MNCs can be engines of economic growth and development, they can also exacerbate disparities through practices like resource exploitation, labor exploitation, and tax avoidance. Effective regulation, transparency, and responsible corporate behavior are essential to mitigate these negative effects and ensure that MNCs contribute to global economic equity

The impacts of multinational corporations' investments in the Global South

The impact of multinational corporations' (MNCs) investments in the Global South is a complex and multifaceted issue. While these investments can bring numerous benefits, they also have the potential to generate significant challenges and negative consequences. To provide a comprehensive understanding, let's delve into the various aspects of MNC investments in the Global South:

Positive impacts

i. Economic growth: MNC investments often lead to economic growth in host countries. They bring in capital, technology, and expertise, which can stimulate local industries, create jobs, and boost economic activity. This contributes to higher GDP and improved living standards (UNCTAD, 2015).

ii. Job creation: One of the most direct and tangible benefits is job creation. MNCs often hire local workers, offering employment opportunities that can be especially valuable in areas with high unemployment rates.

iii. Technology transfer: MNCs frequently introduce advanced technologies and management practices to the Global South. This can enhance productivity and competitiveness in domestic industries, contributing to economic development.

iv. Infrastructure development: To support their operations, MNCs often invest in infrastructure, such as roads, ports, and power generation facilities. This

infrastructure can benefit not only the corporations but also the broader community by improving transportation and energy access (World Bank, 2021).

v. Exports and foreign exchange: MNCs can boost a country's exports, as they often integrate into global supply chains. This generates foreign exchange earnings and reduces trade deficits.

Negative impacts

i. Labor exploitation: In pursuit of cost-efficiency, some MNCs may engage in exploitative labor practices, such as low wages, long working hours, and inadequate workplace safety standards. This can lead to poor working conditions and exacerbate income inequalities (Rodrik, 2011).

ii. Resource depletion: MNCs involved in resource extraction industries can lead to the depletion of natural resources, environmental degradation, and displacement of local communities, without commensurate benefits to the affected regions.

iii. Dependency on MNCs: Overreliance on MNCs can lead to economic vulnerability. If these corporations decide to withdraw or reduce their investments, it can have severe economic repercussions.

iv. Intellectual property rights: While technology transfer can be positive, it can also contribute to dependency on foreign technologies and hinder domestic innovation if intellectual property rights restrict knowledge sharing.

v. Economic inequality: Investments in the Global South can exacerbate income inequality, as profits often flow out of the country or benefit a small elite. This can lead to social tensions and political instability (Dicken, 2015).

vi. Environmental impact: MNCs may not always adhere to stringent environmental standards, leading to pollution and degradation of local ecosystems. This can have long-term consequences for the environment and public health.

Conclusion

The role of multinational corporations (MNCs) in the North-South divide, also known as global economic inequality or the development gap between Northern and Southern countries, is a complex and multifaceted one. After considering the various aspects of MNC involvement in this divide, it becomes evident that their impact is far-reaching and has both positive and negative consequences. MNC

investments can stimulate economic growth in host countries by infusing capital, technology, and expertise. This often leads to increased GDP, job creation, and improved living standards, particularly in areas with high unemployment rates. MNCs frequently bring advanced technologies and management practices to the Global South, enhancing local industries' productivity and competitiveness. To support their operations, MNCs often invest in essential infrastructure, which benefits not only their business but also the broader community by improving transportation and energy access (Arbab, 2019).

According to Nicola (2020), the impact of multinational corporations' investments in the Global South varies widely depending on factors like the industry, host country's governance, and the specific practices of the MNCs involved. While there are clear benefits in terms of economic growth and job creation, there are also significant challenges, including potential exploitation, environmental degradation, and issues related to economic and political influence. Effective regulation, responsible corporate behavior, and strong governance are essential to maximize the positive impacts while mitigating the negative consequences of MNC investments in the Global South.

Recommendations

Based on the findings of this paper, the following are recommended:

1. There is need to implement international tax reforms that ensure MNCs pay their fair share of taxes in both their home countries and host countries.
2. There is need to encourage MNCs to disclose their financial and operational information, including revenue, profits, taxes paid, and employment practices.
3. There is need to develop and enforce international labor and environmental standards that MNCs must follow to promote fair wages, safe working conditions, and responsible environmental practices.
4. There is need to facilitate technology transfer and knowledge sharing by encouraging MNCs to collaborate with local businesses and institutions.

5. There is need to regulate resource extraction practices by MNCs to ensure that natural resources are managed sustainably.

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