

Speech

## “TNC World Order - Will it Unravel” ?

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I would like, first of all, to thank the Government of the Republic of Korea and the World Bank for inviting me to share my thoughts as a discussant on the topic “Corporate Governance, Business Ethics, and Market Order.” Ten minutes only, I have been told, and I intend to obey. But before going on, I would like to say that, for the most part, the World Bank is still part of the problem rather than the solution in Southeast Asia and the South as a whole

The recent cautious departures from the neoclassical orthodoxy that we have witnessed in the last few years are definitely welcome, but the bigger question for us when we hear the institution’s hesitant regrets for its past approaches is: Is there not something terribly wrong when an institution with a staff of over 6,000 of the so-called “best and the brightest” sticks to a fundamentally flawed development strategy for over 25 years?

But enough. I am not here to give the co-sponsor of this meeting a hard time. I would like to begin by quoting from a recent editorial from the Economist which asserted that “the economic pain being imposed [by global capital markets] on the ex-tigers is out of all proportion to the policy errors of their governments.” The same judgment has been expressed, though in much stronger fashion, by Prime Minister Mohamad Mahathir, who has bewailed the massive destruction of the national wealth of Asian countries that never deserved such a reward for 30 years of hard work. Mahathir, indeed, goes beyond the Economist to brand the rollercoaster movements of speculative investors, which have bankrupted domestic businesses, thrown people out of work, and forced huge segments of the population below the poverty line, as crimes against humanity.

The sudden collapse of the economies of East and Southeast Asia is, to many of us from the global South, the most spectacular recent example of the irresponsibility that accompanies the lack of regulation and lack of accountability of corporate capital. But it is neither new nor surprising. The last few years have provided many other stark examples of what Ralph Nader would term corporate criminality, resulting in the widespread perception that transnational corporations, be they hedge funds like the Quantum Fund, or oil companies like Royal Dutch Shell, today pose the greatest threat to global stability and global welfare. Indeed, to many corporate crime is a far greater threat than Saddam Hussein!

A cursory survey of recent corporate crimes would include Shell’s role in the ecological devastation

of Ogoniland in Nigeria, Mobil's complicity in the extrajudicial execution of suspected separatists in Aceh in Indonesia, Nike's exploitation of cheap Asian female labor to build a corporate empire, Shell's deep-sea dumping of the oil rig Brent Spar, Mitsubishi's role in the destruction of rainforests in Southeast Asia, and Nestle's systematic campaign to promote infant formula in place of breastfeeding, resulting in long-term negative impact on millions of babies. The list goes on and on.

### **Resisting Regulation: An Old Story**

The current efforts to impose some minimal controls on global financial flows have evoked the same strong resistance that met earlier efforts to regulate the conditions of production, trading, and advertising of transnational corporations (TNCs). One recalls the way, in the 1970's, the TNCs, using the political clout of their governments in the North, were able to scuttle efforts within the United Nations to create a Code of Conduct for Transnational Corporations. Indeed, transnational corporate pressure was able to emasculate the UN agency that was set up to formulate such a code—indeed convert it, according to one commentator, from a Center on Transnational Corporations to a Center for Transnational Corporations. What codes of conduct have been enacted, such as the one to govern the marketing of infant formula by Nestle and other food giants, have either evoked minimal compliance or have simply been flouted.

Indeed, the tentative regulatory efforts of the seventies gave way in the eighties and early nineties to a drive to institutionalize a global order that would sweep away the remaining state constraints on TNCs. The Uruguay Round, which was mainly formulated to promote the interests of the transnational corporations of the US, European Union, and Japan, has been the most radical of these efforts. Bringing down tariffs was only the tip of the iceberg.

#### **The GATT-WTO Agreement also:**

- eliminated the use of trade policy as a means of industrialization by the less developed countries under the TRIMs (Trade Related Investment Measures Agreement) and through the banning of quotas;
- foreclosed the strategy of industrialization via imitation that had been used by earlier industrializers through the strict TRIPs (Trade-related Intellectual Property Rights) Agreement — a code that could have been crafted by Bill Gates himself!
- facilitated the penetration of the hitherto protected services sector of developing countries by TNCs specializing in services through the GATS (General Agreement on Trade in Services);
- incorporated agriculture into GATT-WTO to facilitate the penetration of developing country agricultural markets by agro-corporations marketing highly subsidized agricultural products.

### **The IMF and the TNCs**

The IMF has, in the recent past, become not simply a global macroeconomic manager but a mechanism to restructure Asian economies along the lines preferred by US transnationals. While it is the Fund's wrongheaded deflationary policies that have drawn the most attention, central to its adjustment package for Korea, Thailand, and Indonesia have been measures of radical deregulation, liberalization, and privatization designed to destroy the complex of state activism, industrial policy, and strategic trade policy that US transnationals had long regarded as obstacles to their ability to compete in these markets.

As many observers, including former US Federal Reserve Board director Lawrence Lindsey have

noted, the IMF conditions incorporate the long-time US bilateral agenda for these countries. Speaking of the Fund's program in Thailand, the US Trade Representative Charlene Barshefsky asserted, "the Thai government's" commitments to restructure public enterprises and accelerate privatization of certain key sectors will enhance market-driven competition and deregulation [and] create new business opportunities for US firms." On Korea, her words are equally revealing of the agenda of US transnationals:

*"Policy-driven, rather than market-driven economic activity meant that US Industry encountered many specific structural barriers to trade, investment, and Competition in Korea. For example, Korea maintained restrictions on foreign ownership and operation, and had a list of market access impediments. The Korea stabilization package, negotiated with the IMF in December 1997, should help open and expand competition in Korea by creating a more market-driven economy. If it continues on the path to reform there will be important benefits not only for Korea but also for the United States."*

That the US strategy to use the IMF programs as a battering ram for TNC interests has been all too successful is indicated by the fact that US and European companies were able to mount \$31 billion in takeovers of Asian companies last year, or a fourfold increase over the figure for 1997. Is it any wonder that so many Asian business now subscribe to the conspiracy theory that Washington and Wall Street engineered the financial crisis to destroy Asia's rising business class?

### **Signs of Hope?**

But even at the height of the ascendancy of unfettered capital, there are some positive signs. First of all, awareness of the underside of transnational capital is more widespread today than at any other time. The image of the transnationals as being agents of progress and human welfare is now viewed as a cynical joke or as the self-serving propaganda of the transnationals' public relations consultants—thanks partly, it must be underlined, to one of the most influential educational devices around: the UNDP's Human Development Report, which has, year after year, documented worsening trends in the growth of poverty, income distribution, and access to vital resources. There is a severe crisis of corporate legitimacy, even in the North, where people increasingly correct you if you bring up the old statement that 80 per cent of the world's resources are consumed by the 20 per cent of the world's people that live in the North. No, they tell you, most of that 20 per cent are themselves exploited by the top 1 per cent. Some sea change is at work when even Time Magazine begins to run exposes on what it calls "corporate welfare queens." As we all know in the case of Eastern Europe and currently in Indonesia, severe loss of legitimacy is a precondition for deep-seated change in power structures.

Second, strong pressures from civil society have, in recent years, resulted in the negotiation of multilateral environmental agreements (MEA's), among them the Montreal Protocol on the Ozone Layer, the Kyoto Convention on Climate Change, the Biodiversity Convention, and the Basel Convention on the Toxic Waste Trade. These conventions undoubtedly leave much to be desired. The US corporate lobby, for instance, was able to prevent deeper cuts in greenhouse gas emissions during the Kyoto conference. In most of the conventions, the TNC lobbies were able to remove explicit condemnations of their activities. And compared to the well-developed and funded institutional mechanisms of the WTO, the MEA's have very weak and vague enforcement mechanisms. Nevertheless, the MEA's provide a good springboard to legally assert the priority of social and environmental concerns over trade, investment, and market considerations.

Third, bold and innovative campaigns that have mobilized global civil society civil have been able to

put transnationals on the defensive, as in the case of Nestle, Nike, and Shell. The Greenpeace campaign against Shell's dumping of the Brent Spar in the North Sea, in particular, exposed so many of the vulnerabilities of giant TNCs and will long serve as a textbook for civil society movements taking on TNCs.

One must note some recent victories, though these may be limited: an international campaign that has been able to stalemate the TNC's effort to get the OECD to enact a Multilateral Agreement on Investment, which would sweep away most of the last remaining state controls on transnational investment, and the successful drive to get the US Congress to refuse the US executive "fast-track authority" to negotiate new trade and investment agreements.

These campaigns are turning passive consumers who act only in self-interest into activist citizen-consumers who demand look at more than just cost and product-related characteristics to determine their purchases but consider under what social and environmental conditions the commodities are produced. The Green Consumer is now a market factor. Soon he and she will be joined by the Socially Conscious Consumer, who will demand that products are turned out by unionized workers who are provided a living wage.

One must not, of course, exaggerate the meaning of these trends. And yet the TNC's are worried and apprehensive, and the recent charm offensive of the WTO director general Renato Ruggiero, in which he, along with USTR Barshefsky and President Clinton, have been talking about transparency, about consultation with NGO's, and about persuading people about the benefits of free trade and investment liberalization rather than imposing these views, is indicative of the sense of great unease among the TNC elite — a feeling that, much like the German Sixth Army before Stalingrad in 1942, they may have reached their highwater mark.

Civil society groups have been central in recent efforts to counter the depredations of the TNCs. But without a more decisive effort on the part of governments, creating a new global regulatory structure will come to naught. In this regard, many of us in the South listen hopefully, though cautiously, at the recent talk emanating from Europe's Social Democratic governments and parties that they plan to rein in corporate activities to better serve social goals with monetary, fiscal, and social regulations. If Europe's Social Democrats are serious and do not flinch in the usual fashion at a TNC ideological counteroffensive, then the possibilities of a new global regulatory structure built on a political alliance of the European Union, Japanese, Asian, and Southern governments and civil society movements becomes less far-fetched.

I have no doubt that change will come, though in exactly what fashion and at what pace is hard to predict. One cannot, however, discount that the change may come in the manner of the two biggest surprises of the last half of the twentieth century, that is that corporate hegemony may unravel in as dramatic and swift a fashion as the collapse of Soviet and Eastern socialism and the implosion of the Asian tigers. But it would definitely be good for everybody if we did not have to go through a massive crisis like a depression to drive the world to enact strict controls on these global buccaneers.

Thank you very much.

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\* From Peoples' Global Action website:

<http://www.nadir.org/nadir/initiativ/agp/free/wto/tncworldorder.htm>

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