Globalisation

A study of multinationals and their effect on our local communities

(Above: Guatemalan farmers show a carefree front as their simple lives are turned upside down by multinational food retail giants.)

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Executive Summary

This paper attempts to make sense of globalisation from a social and business perspective. Initially I will talk briefly about globalisation within our community and the different stand points those communities and individuals have taken; for and against globalisation. I will then talk about the multinational companies that have made the phenomenon of globalisation possible and these companies various impacts on societies and local communities around the world. The topic is further analysed by using multinational food retailing companies in Latin America as a case study. Displayed to the reader through this case will be a clear indication of how local communities and in particular their farmers are affected by globalisation and multinational companies.

There are many different views on globalisation; and those against it oppose many different aspects of it. One of the countless reasons why there are anti-globalisation activists is due to the following: Multinational food retailing companies, the backbone of what is known as 'globalisation' within the supermarket industry, have in many cases entered small farming communities around the globe and destroyed a way of life for many of the farmers and labourers around them. Within Latin America these farmers have been forced to flee their homes to find refuge within the slums of the urban sprawls within their cities or even to cross borders into the USA.

Introduction to Globalisation

Definition:

Globalisation can be defined as ' the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa' (Giddens 1990). It has also been described as ' process which embodies a transformation in the spatial organisation of social relations and transactions - assessed in terms of their extensity, intensity, velocity and impact - generating transcontinental or inter-regional flows and networks of activity'. (Held, et al 1999)

In relation to Latin America (the major area of discussion of this paper) globalisation can be defined as a practice or system that has affected several of the continents most persistent problems. Such problems would be the diverse extent of economic exploitation and social disparity that has branded Latin America ever since it's European colonisation in the sixteenth century. (Harris & Halebsky 1995)

Pro-globalisation:

Free trade fosters prosperity and has an extremely important characteristic that affects our way of life. This characteristic is actually it's tendency to be able to prevent war. Extensive research has shown that trade promotes peace both directly, by reducing the danger of military divergence, and indirectly, by promoting prosperity and democracy (Weede 2004).

Globalisation and free trade in the 20th century and beyond can be compared with the 19th Century expansion of empires (like the British Empire). These empires built an infrastructure in developing countries; railways, ports and beautifully constructed colonial buildings were just some of the benefits these developing countries could take advantage of. Even though these commodities weren't built for the benefit of the developing country (they were built for British trade) they still ultimately increased these countries abilities to trade and to become technologically independent.

In the 20th Century infrastructure, technology, health and education systems implemented by the world powers, in developing and developed countries, has improved the overall quality of life for people worldwide, this does not include Africa. The average GDP for all countries except Africa has gone up; however the downside is; the difference between the rich and poor countries has also increased. The reason for this is that the countries introducing themselves to the developing countries are actually gaining a much more significant benefit.

Anti-globalisation:

This term is more commonly attributed to the political standpoint of certain people, groups and organisations that are in opposition to certain facets of globalisation. Those in resistance often oppose large multi-national company's dominance of global trade agreements and trade-governing bodies like WTO (the World Trade Organisation) (Graeber 2002).

Otherwise known as a social movement, anti-globalisation represents its participants in their opposition to large corporations who endeavour to attain and 'have' attained political power. Political power can be put into effect via international trade agreements, anti globalisation activists scrutinize these agreements, stating that they quite often undermine ‘the environment, labour rights, national sovereignty, the third world, and other various aspects of our everyday lives as human beings’ (Graeber 2002).

It is common knowledge that globalisation and free trade can affect developing countries negatively, however, the worlds most developed countries and the people who live within them are also affected negatively. Globalisation forces job opportunities from these developed countries to other countries around the world and low skilled workers in developed countries lose their jobs. This increases the difference between the rich populace and poorer populace in that country. The following quote, from the United Nations, backs this statement up and shows us why there are anti-globalisation activists. ‘The richest fifth of the world have 80% of the world’s income and the poorest fifth have 1%; this gap has doubled between 1960 and 2000’ (United Nations 1999) largely due to the impacts of globalisation.

As displayed above, multi-national corporations play a substantial role within the theory and practice of globalisation, these corporations are powerful by nature and currently account for over 33 per cent of world output, and 66 per c ent of world trade (Gray 1999). These organisations even though considered to be global companies are still heavily ‘nationally embedded’ in terms of their business activity (Hirst and Thompson 1996). Despite this; multinational corporations still have considerable economic and cultural power. The next section of this paper will talk about these companies, their branding and how they affect communities around the world.

Globalisation & Multinational Companies Social Impact

(How do they impact our local communities?)

Branding:

The main driving force for the growth of multi-national companies and the globalisation of their impact is in their brand (Klein 2001). In the mid-1980s a management theorists came up with a seemingly harmless idea that successful corporations must primarily produce brands, as opposed to products. This idea led to the exorbitant expansion of wealth and cultural influence we see in multinational companies today and over the past fifteen years (Klein 2001). 'Brand builders are the new primary producers in our so-called knowledge economy' (Klein 2001).

Modern multinational companies have used a strait to the point yet brutally honest approach to branding over the past fifteen years. This approach is that companies should not disburse their limited capital on factories that will require physical maintenance, on equipment that will decay or on workers who will undoubtedly age and perish. As an alternative, they should focus that capital in the processes used to build their brands (Smith & Smith 2002).

Multinationals:

Multinational corporations are in actuality weak and vague organisations that generally display the corrosion of everyday values that afflict practically all late contemporary social institutions (Gray 1999). Diverse communities around the world are impacted and exploited by these multinational companies. They continually create or contract business in countries where they can profit from cheaper wages and assets. As discussed earlier this ‘can’ mean added wealth and infrastructure for that community. However, it quite often means increased levels of unemployment in the city/country where the industry was located beforehand. Not to mention that the wages payed and work environment in the communities where the operations are implemented are usually relatively poor (Smith & Smith 2002). Below are a few examples that articulate this situation perfectly:

- 'The numbers of people living on less than $2 per day has risen by almost 50% since 1980, to 2.8 billion—almost half the world's population. And this is precisely the period that has been most heavily liberalized' (World Bank 2000).

- 'The world's poorest countries' share of world trade has declined by more than 40 per cent since 1980 to a mere 0.4 per cent' (UNCTAD 1999). This has been precisely the period in which the majority of multinational companies have grown exponentially, and is obviously a large factor resulting from their growth.

Multinationals apart from affecting whole economic systems of countries and communities also attempt to create new markets within these communities. They search for new markets which have not yet been exploited in order to increase sales; it is typically carried out by creating new desires among target groups. The easiest target market for multinational companies to create new desires for is the child and youth market. Prized not only for the influence they have over adult spending but also for their own escalating spending power, the youth of today are one of the most profitable and influential markets (Kenway and Bullen 2001).

Despite all this negative hype about multinational companies; they ‘have’ played a very significant role in the growth of globalisation. Around the world individuals and communities are linked much closer to each other and information and money flow quicker than ever before. Globalisation and it’s creation of multinationals has resulted in making goods and services in one part of the world increasingly available in ‘all’ parts of the world. International travel and communication is also much more frequent. In all globalisation has made life easier for those who can actually afford the luxuries of travel and international business. (Sourcewatch 2006).

The Food Chain; Survival of the Biggest

A case study of Latin America and the detrimental effects globalisation and multinational food retail companies have had on it's local farmers.

'Commodity prices have fallen dramatically, by some two thirds over the past 30 years, so that farmers have had to triple production just to maintain their incomes. One example among many: in just the last three years, Tanzanian farmers experienced a decline of 50% in the price of coffee.' (OXFAM 2001)

'While farmers earn less, consumers have been paying more.' (O'Neill 2001)

Although, according to the U.N. Food and Agriculture Organisation, Latin America produces four times the amount of food needed to feed the population, 58 million people are still malnourished.

Introduction:

During the 1980's a transformation within Latin America began; this transformation was one that would shape the future of farmers all over the continent for decades to come. For some it would be a positive change, however a large majority found it to be the opposite. The transformation I talk about is opening up of trade barriers within Latin America in order to allow food retailing companies access to the regions 'un-commercialised' and fertile lands.

During the 1990's the revolution in food retailing within Latin America accelerated extraordinarily as countries unbolted their economies to suit conditions for financing from the International Monetary Fund and the World Bank. As Latin America's overall FDI significantly increased; multinational food retailers bought out local chains and entered joint ventures with the obstinate ones. The greatest fears for farmers in the region were realised when the multinational companies introduced unfair trade rivalry from American and European growers with weighted financial backing. Small farmers are constantly left to compete with the biggest world players as these food retailing chains (products of globalisation) move from large cities to smaller towns and from economically sound countries to ones still developing their economic and social systems (Dugger 2004). These chains are now the prevailing force in the trade of processed foods and they're produce sales are growing to a similar reputation.

When global food retail companies dominate a market, there are scenarios whereby it can be seen to be advantageous for all the citizens within that community. Such a scenario would be when the economy, of the region being taken over, is growing energetically and spawning decent jobs for globalisations losers, because in spite of everything the chains 'are' creating cheaper, cleaner and safer shopping environments for these societies. Samuel Morley, a visiting research fellow at the International Food Policy Research Institute (IFPRI), has written extensively on inequality and labour economics in Latin America, he stated that "It would be an appealing transformation of the sector if alternative jobs could be made available," however these scenarios never seem to materialise in Latin America and other developing countries/continents around the world as they do not have economies of great strength. As Latin America's population grows its economic situation trails further and further behind. In Latin America, 220 million of the total regional population of 500 million people are poor.

The case study that I will shortly talk about outlines just how bad the situation in Guatemala is, Guatemala is actually one of Latin America's 'better off' regions, with supermarkets controlling 10-15% of grocery sales. Therefore the case gives you an indication of what the more unfortunate farming communities, in Latin America, must have to endure. For example in Argentina supermarket chains control 30% of this industry and in Brazil; 50% (Dugger 2004). Rural markets shrink throughout the continent, even though the victims of globalisation are pushed to trade within them, these rural markets are slowly but surely lost in the black holes that we call multinational companies.

Within a single decade Latin America's farming communities have been transformed by food retail giants such as Ahold and Walmart. These multinational goliaths have transfigured food distribution by offering low prices, a range of choices and convenience; they are now also changing the face of food growing (Dugger 2004). This could seem positive to some, however it is far from that; there are thousands of Latin American farming communities who have been devastated by the unforseen and overwhelming challenges that these companies bring (Dugger 2004). The major visible impact that these changes have had within the farming communities over the past decade is the great increase in the number of, now penniless, farming migrants entering the urban slums of their own countries and crossing the American border to seek refuge from their new 'corporately governed' country side.

Guatemala's Local Farmers Suffer (Case):

Within the serene confines of the extraordinarily fertile and incredibly poor Guatemala, supermarket giants have crushed farmers to the point where they are no longer able to maintain operations within the land they once called home. Guatemala was once, not long ago, a place where people swapped produce for service and service for produce, money 'was' required to sustain they're everyday living, however, life was effortless and uncomplicated up until the multinational giants arrived on Latin American shores.

Guatemalan man Mario Chinchilla would inspect his field of sickly tomatoes on a daily basis; he would labour all day trying to meet the requirements of the new supermarkets which had opened up in town, however no amount of labour could possibly turn his crop into the stout, flawless product that Guatemala's leading supermarket chain offered to it's customers (Dugger 2004). A better product at a cheaper price, it seems good all round doesn't it, but at the end of the day it has ruined many people lives. The chain I talk about is a giant Dutch multinational company named Ahold (Worlds 3rd largest retailer). The Chain is so large it includes names such as Bi-Lo and Stop & Shop under its 'assets'.

For some time Mario headed a farmer's cooperative that was managing to sell produce to the chain however this proved to be an ephemeral opportunity whereby the multinational chain ran away with the locals hopes and dreams, leaving them to sit in their unsold crops of rotting vegetables. The reason for this was because the multinational retailers require farmers who encompass the proficiency and capital to invest in modern farming technologies such as; 'greenhouses, drip irrigation and pest control' (Dugger 2004). "They wanted consistent supply without ups and downs," said Mr Chinchilla. "We didn't have the capacity to do it" (Dugger 2004).

Inequality, rebellion and violent repression within Latin America has been a recurring problem for many decades, during the 1990's there was already a gap between rich and poor and the supermarket chains have simply added to this gap. This time Latin America has tried a different (non-violent) approach. In order to fight for their right to live comfortably in their homeland farmers joined forces; there are rare success stories, however many (like Mario Chinchilla and his Co-op) have suffered a more common fate. In Guatemala there is a tiny farming community named Lo de Silva; more than 300 farmers who originally belonged to Mr. Chinchilla's co-op, 'the Association of Small Irrigation Users of Palencia', were from this village (Dugger 2004). Out of those 300 farmers there are only 8 still enduring the torment that globalisation has brought them. These remaining farmers aren't even able to sell to the supermarkets they sell their product to middle men for severely discounted prices; to top this off the only product the middlemen will accept from them is salad tomatoes. Mr. Chinchilla's case is an ideal example that demonstrates how the opportunity of success for small farmers is a remote prospect to most. Small farmers are simply getting left behind due to their lack of market pull and marketing/operational techniques (Dugger 2004). A 'survival of the biggest' situation has been created – 'only the big can serve the big; the small need not apply, as global companies wipe out local distinctions in establishing a level economic playing field.' (Hannaford 2006).

During the 1990's food retail conglomerates went from controlling between 10 and 20 percent of the Latin American market to totally dominating it (Economist.com 1997). During this period, in Guatemala specifically, the quantity of supermarkets has more than doubled; as their share of food retailed has reached 35 percent. The smaller shops and open air markets still remain and retail a great deal of fruits and vegetables in Guatemala. For customers to leave these historically enriched and characterised markets and enter the newly opened supermarkets in the region, is to leave behind Guatemala and enter a commercialised shopping centre that could reside in Hong Kong or London, with it's marked down jumbo packages and symmetrical fruits in plastic trays. None of this, however, matters unless the bottom line is understood.

The bottom line is that the rules of the World Trade Organisation are actually taking second place in importance to the privately set standards of the food retail giants. Also pressures from the I.M.F. and the World Bank to allow greater foreign investment into Latin America were proposed to formulate more competitive economies for them; however it is obvious that this model didn't have a community element at its centre. Hardships have come from; not only what I described previously (the fact that the farmers must sell they're produce at much cheaper prices, better quality and in a more convenient matter) but also from the fact that that they are now competing with the rest of Latin America, the United States and even the world because trade borders have been opened to allow almost 'anyone' import and export capabilities. Rigid opposition from internationally renound growers is now a reality for Central and Latin American farmers; at a distribution centre, for a subsidiary company of Ahold in Guatemala City, shipments of 'apples from Washington, pineapples from Chile, potatoes from Idaho and avocados from Mexico' are brought in (Hannaford 2006).

Conclusion

Globalisation has positive and negative affects on our society. This paper has outlined in great detail the negative affects of globalisation and multinational food retailing companies on Latin America's and the world's small farmers. The reason for this is due to the fact that there were; only on occasion, very rare and unusual success stories to be found about smaller farmers succeeding in their sales to companies such as Ahold and Walmart, within Latin America. After researching farming communities' around the globe, it can be deduced that Latin America is not alone in this battle to produce food and sell it at competitive prices, while still maintaining some sort of meaningful social existence. Asian, African and Indian farmers; have been heavily exploited. Even farmers within more developed countries such as Australia have had to sell their products at severely discounted prices in order to satisfy multinational company standards.

Farmers world wide, are however, not alone. Traditional strategies of help to farmers that feel the hardships of globalisation, such as providing fertilizers and improved seeds, are no longer enough to enable them to sustain their businesses. Professors and agronomists are banding together to document trends and develop new methods of help that will allow the fleeing farmers of Latin America, Africa and Asia to compete with others in selling products to the multinationals. In the midst of the these methods a few techniques stand out, such as; regulations put upon the multinationals that require farmers be paid promptly, laws that restrain these companies from dominating entire markets (such as mergers of supermarket chains) and enhanced hygiene and convenience through technology at open-air markets.

After reading this paper I hope you too can conclude it is important that societies living within the limitations of this amazing world are given the chance to experience life's pleasures and break out of the chain of inevitable failures that multinational corporations have brought to them. Being given the chance to make an honest and fair living, is only basic compassion and mercy; two marvellous characterises that any individual can encompass. If multinational food retail companies and global companies in general were able to, in some way, display this, then Anti-Globalisation would be a much less used expression.

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