Using a case study, assess the social impact of transnational corporations in the development of the Third World.

Transnational corporations (TNCs) are enterprises that manage production or deliver services in more than one country. These corporations originated in the industrialized nations of ‘The First World,’ for example, Europe and the USA, now ‘the West.’ They later trans-nationalised their industries to parts of the ‘Third World,’ a term used to refer to countries that had yet to develop economically, such as Africa, Asia and Latin America. These terms that divide the world along economic lines continue to hold negative connotations. There is a sense of superiority implied, of the ‘First World’ over the former communist states of the ‘Second World’ and developing ‘Third World’ (Fazai, 2008). Therefore, for the purposes of this essay I will use the ambiguous yet slightly preferable term ‘developing countries’ to include the broad definitions of development e.g. social, cultural and environmental, as well as economic, development.

Development itself is a contested definition. Traditionally development has been associated with purely economic growth. This concept has increasingly broadened to include democracy, empowerment and an emphasis on pro-poor growth (Thomas, 2001: 649). The way that development is defined and measured has gone from reflecting purely economic indices to a broader meaning that includes socio-cultural, political and environmental indicators (Dunning, 2006: 179). Critics of classical neo-liberal ideas cite the need to look towards a more progressive approach, seeing development as a process in which social needs are addressed directly (Thomas, 2001 655).

Social impacts are taken to mean human consequences that affect people’s ‘way of life.’ This relates to factors such as happiness, health, and prosperity, and influenced by the availability of work, food and social infrastructure. These social impacts increasingly come under the influence of transnational corporations, whose role in developing countries has been the topic of much debate. On the one hand, TNCs bring foreign investment that boosts the host economy towards development. On the other, TNCs plunder resources and take what they can while giving very little back. This is especially true in the context of oil rich states that will provide the topic for
this essay.

Case Study: Shell and the Ogoni People
Since 1956, and the first drop of oil was discovered in Nigeria, the country has been producing up to 2.2 million barrels per day (Bassey, 2008). The people of Ogoni, Nigeria, have yet to reap the benefits of this. Shell was the first corporation to exploit oil reserves in the region, making Nigeria largely dependent on companies like itself for its oil revenues, that made up 90% of its export earnings and 80% of government revenue (Boele, 1995). The Ogoni is a distinct ethnic group numbering around 500,000, living in 404 acres of the Niger Delta east of Port Harcourt (Boele, 1995). The ‘human development index,’ (HDI) a definition of development that looks beyond GDP to include issues of well-being, such as health and education, was 0.499 for Nigeria as a whole in 2006. The country ranked 154th compared to the rest of the world (UNDP, 2008). This implies a low overall standard of living, despite the fact that the population sits on a valuable supply of oil. Shell’s social impacts will be assessed by looking at the outcome of its activities. These include collaboration with the authoritarian military regime, involvement, explicitly or otherwise, in human rights violations, its poor environmental record and lack of contribution to infrastructure in the region. For the purposes of this essay, the main focus of discussion will be Shell’s support for the political regime and its complicity in human rights violations. Following this, the case for Shell will be made, outlining the companies response to the accusations made against it. Finally, an analysis will be drawn between this case and similar trends in the international political economy.

Shell and the Political Regime in Nigeria
The unstable political climate of Nigeria, dominated by various military regimes, has arguably favoured Shell. The company has been accused on numerous occasions of collaboration with the Achaba military dictatorship to squash local opposition to its activities in the Niger Delta. In turn, the regime has benefited from the fact that “80% of Nigerian government revenues come directly from oil, over half of which is from Shell” (KIND). Instead of using the oil revenues as a means of development, the funds enabled the military to maintain control over the rest of the population (Boele, 1995). Such a political arrangement enabled Shell to achieve greater concessions with regard to the environment, and control labour costs. These are the conditions that also
tend to undermine the development impact of foreign direct investment (Philip, 1982). While Shell is not directly responsible for the political regime in place, it has helped facilitate its presence, by providing it with the resources and the funds to carry out its activities.

The source of this power of TNCs is questionable. According to Darryl Reed "The ability of corporate leaders to exercise influence derives in part from the large size of individual firms and the subsequent large amounts of resources with which to lobby government" (Reed, 2002: 203). At the same time, the processes of economic globalization "have largely undermined the public policy autonomy of developing countries" (Reed, 2002: 204). The Shell/Ogoni case demonstrates the sheer scope of influence that corporations hold in relation to local people. The strategies of such enterprises reflect the need to meet shareholders’ interests, "of a profit-seeking, and/or capital appreciation kind" (Dunning 2006: 179). Their activities have been justified on the grounds that the long-term economic benefit will be beneficial to local people. However, in Ogoniland, this has not been evident: despite substantial oil revenues to the Nigerian economy, there has been a failure to return adequate benefits to the oil-producing communities (Wheeler, et al, 2002).

Shell and Human Rights
Accusations of human rights violations committed by the military regime on behalf of Shell Nigeria are numerous. These include the harassment of Ogoni activists, who were "detained, interrogated, tortured, denied access to lawyers, doctors and family" (Boele, 1995). This led the human rights organization Amnesty to conclude in one of its reports that "the government’s suppression of its critics has led to some of the most serious human rights violations" (Amnesty International). The most public of these was "the hanging by the Nigerian military regime of Ogoni writer and environmental and human rights activist Ken Saro-Wiwa and eight of his colleagues, on November 10, 1995" (Lawrence, 1999). Whether or not there was direct complicity in the murders, the ramifications for the Shell worldwide were huge. The execution is commonly cited as one of the key events that galvanised public opinion, especially in Europe and the United States. The consequences of this included direct attacks on Shell gas stations, boycotts, and negative media publicity. For Wheeler, "It was the case that put the interconnectedness of business, the natural environment and human

The People’s Response
In the case of the Ogoni people, it was left to civil society to address the issues presented by the impacts of Shell and the political regime. The Ogoni Chiefs handed a petition to the local Military Governor complaining about Shell. According to the petition, the company was “seriously threatening the well-being, and even the very lives” of the Ogoni (EbirI, 2005). The petition highlighted the fact that the 1970s had brought increasing activity from the oil companies, a deteriorating environment and decreasing crop yields and fish catches. Failing attempts to make their voice heard, the Movement for the Survival of Ogoni People (MOSOP) was founded and began with the launching of the Ogoni Bill of Rights (OBR) in October 1990 (Boele, 1995). The Ogoni leaders came together to sign a document that outlined their demands for environmental, social and economic justice (Boele, 1995).

Corporate Social Responsibility
Shell’s response came in the form of Corporate Social Responsibility (CSR), defined by the World Business Council on Sustainable Development (WBCSD) as “the continuing commitment by business to behaving ethically and contributing to economic development while improving the quality of life of the workforce and their families, as well as of the community and society at large” (Watts and Holme, 1999; Wheeler et Al, 2002: 298). This definition calls for corporations to actively address the concerns and interests of stakeholders, and to go above and beyond the existing business ‘call of duty.’ “Corporations, too, though still fairly focused on the traditional objectives of their value adding activities, are increasingly aware of their wider social responsibilities.” (Dunning, 2006: 179)

Shell incorporated CSR into its business practice in 1995, in direct response to the Ogoni situation. The company introduced a number of initiatives: in May 1996 it proposed a ‘Plan for Action in Ogoniland’. The plan outlined a number of steps towards improving the situation in the area. These included cleaning up all oil spills,
making safe all facilities, rehabilitating its past community projects where necessary and taking over their maintenance, as well as investigating further development projects in the area (Shell International, 1997; Wheeler et Al, 2002: 307). Following this, the company published a report in 1998 titled “Profits and Principles: Does there have to be a choice?” which included statements of corporate social, economic and environmental performance (Shell International, 1998; Wheeler et Al, 2002: 301).

Shell appeared to be a new company in terms of its image and approach to social issues, yet critics questioned the extent to which Shell’s actions had made any real impact in Ogoniland. The company was the first to admit that there was a gap between its intentions and its current performance (SPDC, 1998; Wheeler et Al, 2002: 308). This was due factors such as poor communication with the community, lack of assistance from the government, and a lack of sincerity on Shell’s part to make any real difference. According to Wheeler et Al, Shell’s new-found principles did not materialise on the ground “corporate responsiveness may not be mirrored effectively in dealings with their most important direct stakeholders: for example local communities and in the developing world.” (Wheeler et Al, 2002: 297). Others, such as Ledum Mitee, Acting President of MOSOP at the time, have gone further to accuse Shell’s attempt at corporate social responsibility as “ineffective, unnecessary or just PR for the company” (Wheeler et Al, 2002). In 1993, a leaked memo from a meeting between Shell International Petroleum Company (SIPC) and Shell Petroleum Development Company of Nigeria Limited (SPDC) revealed that the company was more concerned about its public profile than the concerns of the Ogoni people (Boele, 1995). While Shell planned to address the issues raised by MOSOP by improving its performance on issues such as oil spills, gas flaring, land use and local employment needs, it had no intention of consulting the Ogoni community or MOSOP about any of its proposed plans (Boele, 1995).

Corporate Social Responsibility as a method of addressing stakeholders’ concerns has been criticised on a number of grounds. The self-regulatory approach of CSR has been condemned because it implies that “market-based solutions can effectively address the concerns of ‘stakeholders.’” (Reed, 2002: 222). Without effective regulation, Shell was left to address the concerns of its stakeholders, the Ogoni people, as it saw best. Shell did not even recognise MOSOP as a valid stakeholder in
its business operations until the Ogoni case achieved international news coverage. Only once MOSOP posed a big enough threat to the company, were their demands listened to. The social impact was to put the Ogoni people in a position in which they were forced to fight for their right to citizenship, and identity as valid stakeholders. According to Reed “This approach places the most vulnerable populations at greater risk...[and] masks the power relations involved in the relationships between corporations and “stakeholders”,..., forcing people to try to impose limits on corporations as “stakeholders” rather than as “citizens.” (Reed, 2002: 222) This analysis articulates perfectly the kind of power relationship that existed between Shell and the Ogoni.

**Shell and Development**

Living on top of a valuable supply of oil might be considered ‘lucky’ for a country trying to develop economically; foreign capital could be used to provide infrastructure, employment and improve social facilities. In developing countries where there were populist governments, for example in Venezuela, distributive practices were adopted to spur development. In Nigeria, while much of the oil industry was nationalized in 1977, becoming the Nigerian National Petroleum Corporation (NNPC), Shell Nigeria remained in direct partnership with the government in its oil activities. Nigeria’s relative economic dependency on the oil industry has arguably made it vulnerable to oil corporations like Shell. “The influence of resource extraction industries is magnified by the extent of the countries dependency on a single industry (e.g., oil in Nigeria)” (Reed, 2002: 220).

In the context of the global political economy, it could be argued that this dependency arises out of existing relationships of domination that developed during colonial times. Termed ‘neo-colonialism’, this concept is incorporated into the works of dependency and world-system theorists such as Frank, Freidmann, and Wallerstein. According to Frank, there is a centre of wealthy, economically developed states that make up the ‘core,’ and a ‘periphery’ of poorer, underdeveloped states. The dependency arises from, and is a result of advanced states’ interference in developing countries (Frank, 1969). This dependency is perpetuated by TNCs that originate in the ‘core’ and draw resources from the ‘periphery.’ “There is an outflow of resources from ‘peripheral’ areas (developing countries) to ‘core’ areas (developed countries)”
(Frank, 1969). It is this outflow that correlates with the development of under-development, and makes the case for economic development and underdevelopment having “a clear historical reference.” (Phillips, 1977: 10; Zakaria, 1997)

The dependency theories correlate with the Shell/Ogoni experience; the company, founded in the colonial period, has maintained control since. The government is dependent on Shell for oil revenues, and subsequently facilitates its operations. However, most of the oil revenues are transported away from the ‘periphery;’ Nigeria, to the industrialized States at the ‘core;’ and where Shell’s headquarters are located, (the UK and the Netherlands). While critics of the ‘dependency theory’ have argued that “The economic successes and the growth rates of peripheral areas such as South Korea, Taiwan, Singapore (…) have weakened the clichés of basic dependency arguments” (Zakaria, 1997: 48) I would contest this argument in the case of oil-rich nations: “Nowhere in the developing world is there any clear example of resource extraction industries providing an effective spur to development.” (Reed, 2002: 209) Many oil-rich countries have come to see oil as a “resource curse” rather than a blessing. In Ogoniland there are two refineries, one petro-chemical plant and a fertilizer plant, yet few Ogoni have found employment in these projects (Boele, 1995). “Despite this level of industrial development Ogoni villagers received no pipe-borne water, no electricity and little infrastructure.” (Boele, 1995)

Conclusion

The overwhelming trend in the international political economy supports the hypothesis that TNCs have negative social impacts in developing countries. The Shell case articulates this trend perfectly, by demonstrating the power relations that dominate peoples’ lives, especially for people in developing countries. The greatest crime that Shell and others commit is to deny the communities in which they operate their companies, the opportunity to develop. They extract the wealth and leave environmental and social catastrophe in their wake. By exerting power in ways that serve profit-seeking interests at whatever cost, people are put in positions where they have to fight to have their voices heard. In order to achieve their rights as stakeholders, the people of Ogoni had to put Shell in a position in which their business interests were threatened. The power relationship played out between Shell and the Ogoni as articulated in the dependency theory, demonstrates how unequal
relations between ‘core’ and ‘periphery’ states result in benefits for one at the expense of the other. In the end, the best that Shell did for the Ogoni people, was to eventually leave Ogoniland, and let the land and the people recover, from years of abuse.

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