

# **CHAPTER I**

## **INTRODUCTION**

### **A. The Reason of Title Selection**

The writer takes this topic for undergraduate thesis because the writer sees MNCs as something neutral which can be positive or negative for the host countries. The writer is interested to talk about MNCs because the existence of MNCs brings fresh air in the economics of a country. The MNCs may appear to be a new concept which a country is unfamiliar with, thus the government conducts many changes in various aspects of a country in order to meet the concept. Among those changes, the notable one is the modernization. The MNCs is known to be helpful in increasing the living standard of the people in the host countries.

The establishment of MNCs is highly supported by the existence of globalization. Globalization has increased the interaction among countries so that countries could cooperate with each other such as establishing MNCs. The MNCs is one of the essential aspects in contemporary international relations since in international relations, the actor is not always state, but also individual, MNCs, IGOs, INGOs, etc. Almost 200 countries in the world have become the host and the home countries of MNCs. It proves that MNCs have done their best to make countries interconnected. The home countries are usually developed countries while the host countries are usually developing countries.

The development of MNCs is supported by the idea of liberalism. Liberalism believes in free trade and it makes countries cooperate each other to progress together. The home countries usually invest in developing countries because of several reasons such as to reduce the cost of production, make those partner countries for both the production base and to become a place to sell the products as well. There are also home countries which invest in the third world countries for the sake of utilizing the natural resources available in those countries. Those natural resources can be used for the raw material then processed to become ready for sale.

MNCs do the expansion to the world especially to the third world countries to reach their goals since the success of the MNCs do not only increase the economic level of a state but also influence the political position of that state in the world. It is not a new thing to say that the economy and politic are related and influence each other tightly.

The multinational companies and their great roles have reached in Nepal as one of the third world country in South Asia. Various multinational companies easily implement production efficiency. With the different standard of wage compared to home country, MNCs seek for lower cost production by establishing branch or factories in Nepal and employ Nepalese to work in their companies. Besides taking the people to work with, those companies also take the land to establish the building of the companies. It is known that big companies require a large space to be able to run a good operation.

MNCs give opportunity for people with lower education to get a job. This leads the society to have the ability to access paid job regularly. It is significantly helpful for the society to raise their living standard by providing them with job to earn money from other than occupation with irregular income, such as farming and agriculture.

This phenomenon has made the writer interested to find out the contributions by making this issue become the undergraduate thesis. In addition, the reason of this title selection is that because there have not been many studies that discuss about the success of MNCs in the third world countries, especially South Asian countries. To specify the study in Nepal, the writer uses point of view on how the condition of Nepalese society is after the establishment of MNCs.

## **B. Background**

According to Quincy Wright, there are various types of people, regions, states, governments, confederations, alliances, international organizations, even cultural organizations, religious organizations, and industrial organizations.<sup>1</sup> It implies that the international relations now is not only the interaction among states or interaction across states but the actors are not always states, but also individuals, multinational companies, NGOs, INGOs, etc.

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<sup>1</sup>Quincy Wright, *The Study of International Relation*, Chicago: Irvington Pub, 1980, page.

The MNCs are very prominent actors in international relations especially in this globalization era. Big corporations from the developed countries massively establish branches almost in the whole of the world including in the third world countries as MNCs. The MNCs are corporations which have branches in several other countries while transnational corporation is a corporation established in the other countries instead of the home country.

Now the MNCs and TNCs can be said successful. They obtain many advantages from the companies and the branches. Those MNCs and TNCs since 1970s has applied efficiency principles in the third world countries. Efficiency principle is the principle in using the resources by maximizing efficiency and minimizing the waste.<sup>2</sup>

The owner of those MNCs operates their companies in their countries therefore it will trigger protests and complaints from the people who suffer from the bad impacts from the existence of the companies such as the residual waste that is harmful for the people. Therefore, they establish and operate their companies in the third world countries. In the third world countries, the MNCs could minimize the cost of production and avoid protest from society which are difficult to realize in their original countries.

The MNCs in third world countries hire native people as their main source of labor to reduce the cost of production. In the case of Nepal, the small cost of labor in Nepal drives the MNCs to build more branches there.

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<sup>2</sup>Maisonrouge, quoted from “*Menjangkau Dunia: Menguk Kekuasaan Perusahaan Multinasional*”, Richard J.Barnet& Ronald E. Muller (Jakarta: LP3ES, 1984)., page. 3.

The products of the companies are sold both in local and international market with the same price; therefore, the MNCs could acquire great advantages.

MNCs have increased quantitatively from 7,000 MNCs in 1970 became 37,000 in 1990 (during 2 decades approaching the end of the 20<sup>th</sup>). At that time they controlled 67% world trade inter MNCs and controlled about 34.1% of total of global trade. Recently, there are more or less 100 MNCs that control 75% global trade. One of the examples is British Petroleum (UK) which has an income more than the GNP of Bulgaria or Finland. The other example is General Motor (US) which income is higher than the GNP of the third world countries. In 1997, the total sale of General Motor was 164 billion US\$, while the GDP of Norway was only 153 billion US\$, and the GNP of Indonesia was only 52.2 billion US\$.<sup>3</sup>

MNCs in the third world countries or the less developed countries (LDC) bring various contributions to the host countries. Changes and developments are made in order to catch up with the existence of MNCs. People begin to adapt and to support the development brought by MNCs which creates reciprocity or mutual benefits between society of host country and the country itself and the MNCs.

One of the benefits brought by MNCs is the transfer of technology.

The technology could fasten the development of the science and spread the

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<sup>3</sup> “Panduan Globalisasi”, Retrieved on November 15<sup>th</sup>, 2015, from <http://www.google.co.id/url?q=http://lodzi.hady.googlepages.com/PanduanGlobalisasi1.rtf&sa=U&ei=UvxZTeGsHM6HrAfZ5L2bDA&ved=0CAoQFjAA&usg=AFQjCNFnmcN64TLInypxUKZ9o8Gegn9Xw>

culture. The contributions of MNCs are not only in technology, many other aspects also have tremendous effects to the development of both countries.

Nepal is a small state with 27.8 million of population. It only has 147,181 km<sup>2</sup>. Nepal is a small landlocked country located in South Asia. It is bordered to the east, west and south by India and north by China. It is located between latitudes 26° 22' and 30° 27' north and longitudes 80° 4' and 88° 12' east with an area of 147,181 km<sup>2</sup> land and a population of approximately 27 million population.<sup>4</sup>

Nepal transformed from traditional Nepal into the modern Nepal. Modern Nepal was created in the latter half of the 18<sup>th</sup> century when Prithvi Narayan Shah, the ruler of the small principality of Gorkha, unified many small states. Nepal has never been colonized and remains independent in its history. The birth place of Lord Buddha proponent of Buddhism, 'Lumbini', is also situated in Nepal. Nepal is very wealthy in cultural and natural variety. It has more than 61 ethnic groups and more than 70 spoken languages in which Nepali is an official language.<sup>5</sup>

Nepal government accepts MNCs in Nepal because it aims to increase the economic condition of Nepal which remains the third world country. Nepal has been categorized as developing country where 24% of its people live below the poverty line and earn less than one dollar per day.<sup>6</sup> There are many ways that are taken by the government to increase the living quality of

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<sup>4</sup>Dhani Ram Sharma, *Nepal*, (Kathmandu: 2012), page. 1.

<sup>5</sup>*Ibid.*

<sup>6</sup>*Ibid.*

the people, including by receiving the MNCs to have a broader business connected with other countries, especially developed countries that could transfer technology and science which gradually make Nepal more industrialized country and developed in every aspect.

The aim of the Nepalese government to accept MNCs is to enhance the economic condition of Nepalese. Majority people in Nepal are Hindu with Buddhist as the second largest community group. The culture of Hindu deeply affects the social building of Nepalese. In Nepalese society, the caste system exists as the result of the Hindu culture. It significantly influences the way they create a business. This is stated in a book wrote by Umesh Upadhyaya that “In many cases, families from special castes have developed as the big houses. This South Asian trend is seen in India as well as Nepal.”<sup>7</sup> There are about twenty most popular MNCs in Nepal and each company gives different impacts to the society. Society is an independent variable. Therefore society is influenced by the MNCs as the dependent variable.

In this undergraduate thesis, the writer would like to do a comparison study on the Nepal’s economic and social before and after the establishment of MNCs. The writer will take a look at five points of change; first is technology transfer, good business practice, comfort of live and living standard, infrastructure improvement, and pluralism. The indicators of economic that the writer uses in this research is various, starting from GDP, income per-capita, and the number of unemployment.

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<sup>7</sup>Umesh Upadhyaya, “*The Big Business Houses in Nepal. Report of the Gefont Action Research*”, (Nepal : GEFONT, 2001), pages. 13.

The education is also an important part which significantly influences the economics of people. The education level can be measured from a number of people who attend the school. It indirectly relates to the other aspects because education is the root of everything.

Other important aspect is health which is also an important aspect of people's welfare since poverty, education, and health could not be separated. It connects each other in the development of the people for increasing the living standard of the people. The writer would like to make an analysis of the significance of MNCs in increasing the standard of life to Nepalese by comparing the condition of the people before the entrance of multinational companies and the condition after the advent of MNCs. Any other impacts that influence people living standard by the entrance of MNCs will be explained.

The social changes can be measured by how MNCs bring their culture from the origin countries to be promoted to the host countries and how the response of the Nepalese by the entrance of MNCs. The way how MNCs promotes those cultures will also be found out here. From 20 most influential MNCs in Nepal, the writer takes three as a case study. They are KFC (established in 2009), Dabur Nepal, and Unilever Nepal (both were established in 1992). By taking those companies as an example, it will ease the writer to analyze the impacts of MNCs in Nepalese society.



### **C. Purpose of Writing**

1. As the requirements of the written thesis for achieving the Bachelor of International Relations from University of Muhammadiyah Yogyakarta.
2. To know the contribution of MNCs for the development of society in Nepal.

### **D. Research Question**

Those explanations above refer to a basic question to this study:

**How do the MNCs contribute to the development of Nepalese society?**

### **E. Theoretical Framework**

In order to understand the phenomenon of social and economic changes of Nepalese society after the advent of MNCs, the writer has to use theories or concepts which are relevant to this issue. In this research, the writer would like to use one of development theory, which is modernization theory.

Modernization has three meanings. The first meaning is a very general meaning which consists of the whole progressive social changes where society moves forward. While the second meaning concerns historically about the transformation of social, politic, economic, cultural, and mental experienced by West since the 16<sup>th</sup> century and reached its peak in the 19<sup>th</sup> and 20<sup>th</sup> centuries. The second meaning is often called as "modernity" which

includes the process of industrialization, urbanization, rationalization, bureaucratization, democratization, the influence of capitalism, individualism and motivation to excel, and the increase of the influence of reason and science.

“The third meaning of modernization is the most specific and it refers to the underdeveloped or left behind and to strive to catch up with the more advanced society in advance.”<sup>8</sup> Modernization theory was born in the 1950s in the United States as a response of intellectuals to World War. This theory was born in the atmosphere when the world entered the Cold War between the West countries under US leadership and the Communists states. This modernization theory could be seen from three forms, i.e. as a notion of social change, modernization as an academic school of thought, as well as a form of ideology.

Modernization theory has evolved three times. The first wave emerged in the 1950s and 1960s. One has made the attempt to explain the diffusion of Western lifestyle, technological innovations, and individualist type of communication (highly selective, addressing to certain persons) as the superiority of materialist, secular, Western, and individualist culture and of Economic development: mass media promote the global diffusion of many technical and social innovations that are essential to modernization (Rogers,

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<sup>8</sup>Piotr Sztompka, *The Sociology of Social Change*, pages. 149.

1962), individual motivation, and achievement.<sup>9</sup> The first wave resulted in three variants:<sup>10</sup>

1. Literacy and cultural development: mass media could teach literacy and other essential skills and techniques. They encouraged a ‘state of mind’ favorable to modernity, e.g. the imagination of an alternative way of life beyond the traditional way.
2. National identity development: mass media could support national identities in new nations (colonies) and supported attention to democratic policies (elections).

The second wave of modernization theory is a part of the critical theory that was popular in the 1970s and 1980s. It did not support but criticized the influence of Western modernization. This was held to be a case of Western cultural and economic imperialism or dominance.<sup>11</sup>

The third wave of modernization theory emerged in the 1990s was the theory of late-, high- or post modernity. It tried to be more neutral, being not in favor or against Western modernization. Rather, it attempted to unearth the contradictions in the modernization process and to explain the consequences of modernity for individuals in contemporary society.<sup>12</sup>

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<sup>9</sup>Daniel Lerner, *The Passing of Traditional Society: Modernizing the Middle East*, Glencoe ILL.: The Free Press, 1958.

<sup>10</sup>“Modernization Theory”, Retrieved on November 24<sup>th</sup>, 2015, from <https://www.utwente.nl/cw/theorieenoverzicht/Theory%20Clusters/Media,%20Culture%20and%20Society/Modernization%20Theory/>

<sup>11</sup>Herbert I. Schiller, *Communication and Cultural Domination*, International Journal of Politics, (Taylor & Francis, Ltd. : 1976).

<sup>12</sup>Anthony Giddens, *The Consequences of Modernity*, Stanford (Cal): Stanford University Press, Oxford: Basil Blackwell, Cambridge: Polity Press, 1991.

Giddens shows that modern society is characterized by time-space distance mechanisms. Traditional society is based on direct interaction between people who are close to each other. Meanwhile, the modern societies stretch further across space and time using mass media and interactive media.

The modernization triggers the growth of MNCs. In the other hand, MNCs give positive contributions that should exist in developing countries:<sup>13</sup>

#### 1. Financial and Technological Resources and Expertise

MNCs provide immense resources and investments, technology, innovation and expertise to the host societies. A culture of research and development is encouraged and human resources are developed, at least within the organization. MNCs also contribute significantly to the national exchequer by paying taxes.

#### 2. Good Business Practices

Good governance, organizational transparency, clear command structures, and performance-based evaluation and incentives programs for employees encourage the merit system. MNCs introduce a professional working environment and culture for local organizations to emulate, thereby promoting sound management and business education.

#### 3. Comforts of Life

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<sup>13</sup>Khalid Rahman, "MNCs and TNCs: Their Role and Socioeconomic Impact on Host Societies", Institute of Policy Studies Islamabad.

In some cases, large-scale economies, quality control, and a healthy competition lead to price cuts and other benefits for the end-user. People have more access to the comforts of life with a large variety of choices.

#### 4. Infrastructure Improvement

Many MNCs help in improving the infrastructure and provision of basic needs in their specific areas of operation. They either do so directly or provide funds for this purpose to civil society organizations. This also improves business conditions within and in the vicinity of the areas where they are operating.

#### 5. Pluralism

MNCs help boost cross-boundary interaction among people. Even education, particularly, business education, has taken on a global perspective. The global perspectives and opportunities for cross-cultural understanding increase the adaptability of students to alien environments. This leads to the mixing of cultures and practices and encourages pluralism as well as competition.

To explain further why this theory is relevant for analyzing the case, the modernization theory says about the transformation of the traditional society into modern society. The term modern could be defined by several indicators such as education, economic, social, culture, and mental of the people. Those are the transformation of the people by the coming of MNCs viewed from the perspective of modernization:

##### 1. Technology

In the recent literature on international economics and economic growth, the link between technology transfers and foreign direct investment (FDI) made by multinational corporations (MNCs) seems to have been prominent.<sup>14</sup> The shared view that technology may be transferred to the third world host countries is through:

- a. MNCs' backward and forward linkages with indigenous firms and customers.
- b. Imitation of domestic firms by "learning by watching" in the presence of MNCs.
- c. Induction of trained workers and managers by MNCs.
- d. Relocation of MNCs' R&D activities to host economies.<sup>15</sup>

Those explanations imply the way how MNCs change the society by the technology. Technology is not a new thing for Nepalese, but technology used by Nepalese is not as advanced as technology that is used by the developed countries. In this case, the MNCs have role in promoting the new technology to the society.

The employees of the MNCs especially KFC, Dabur, and Unilever surely communicate with people from the MNCs and they will use technology either mobile phone or computers, or internet. It will help the human resources development the people in term of technology because by working in MNCs they have to learn how to use or operate

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<sup>14</sup>Zhongxiu Zhao and Kevin Honglin Zhang, *Multinational Corporations and Technology Transfers in Developing Countries: Evidence from China*, page. 2.

<sup>15</sup>*Ibid.*

the technological devices. Therefore the interaction using technology is getting more frequent than the previous condition. The employees will also learn how to use machines by working in the MNCs which then open the opportunity for the people to develop their skills.

## 2. Social

The social scope that the writer discusses here is about the interaction among the Nepalese society. Before the coming of MNCs, Nepalese was very traditional. The traditional society is marked by the traditional society which has more direct interaction than people in developed countries who rely on the technology. By the coming of MNCs, it decreases the direct interaction among people. This process is not a short process rather it is a long process that gradually changes the society. It is related to the communication tools that ease them to communicate that is being promoted by the MNCs.

## 3. Culture

Nepalese is very traditional. They held the culture and tradition of the ancestors strongly, especially people who are Hindu and Buddhist. With Hindu and Buddhist as the majority of the population, the culture of both religious communities is deeply ingrained to the practice of Nepalese society. What is a majority culture becoming popular culture in the whole population. Many things are guided by this culture including the practice in politics, economics, and social aspect of a country.

#### 4. Mental

Mental here means the courage of the people. It also can be defined as the confidence of the people in doing what they really want to do. In Nepal, the majority of the people are Hindu. They have a caste system and the caste makes the lower caste difficult for developing their business and expressing themselves.

However, after the coming of MNCs, it gives equality for the people to progress and to pursue a better life regardless their caste. MNCs may become a means for liberalizing the people, since in the liberalism the actor in international relation is not always a state but it also can be individually.

Nepal is still categorized as the third world countries with a high number of the poverty. The gap between the rich and the poor is high. It is a common issue that happens in the third world countries. In creating business, the higher caste possesses bigger chance and is able to build cooperation with the MNCs. As is evident in the Indian industrial commercial scenario, most of the major big business like Tata, Birla, Singhanian, Goyanka, MafatLal, Bajaj, and others are from family undertakings.<sup>16</sup>

#### 5. Economic

The welfare of the people is one of the considerations of the government in receiving the MNCs. MNCs are intentionally accepted by

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<sup>16</sup>UmeshUpadhyaya, *Loc.cit.*



the government to increase the living standard of the people. Before the coming of MNCs, most of the people go to the rice field every day for farming. However, after the coming of MNCs, they work in the company and they think that the industrial sector is better than the agricultural sector. This might be correct since the timetable working in the factory is clearer than working in the field. Working in the field depends on the nature while working in the factory depends on the technology.

If they work in the field, they will rely on the season and weather as it is known that the weather is quite unpredictable. If the day is sunny, then the people could work for the whole day in the field but if it suddenly rains then they have to stop and go back to their house. Working in the factory, however, the Nepalese do not have any problem with the weather and seasons.

It is a good opportunity for Nepalese to learn how to run factory or industry for increasing the economic quality. MNCs give more benefits for the people since it widely opens the job vacancy and makes people learn on how to make the products by working in MNCs that exist there. It is about the economy, and it is complex since economic relates to the other aspects such as education and health. By increasing the economic standard, it automatically increases the level of education and health in the people. The economy will also influence the infrastructure development which is very crucial for the enhancement of human development.

## **F. Hypothesis**

By the question and the theoretical framework that have been explained before, MNCs contribute to the social changes of Nepalese society in the form of development of the standard of living of Nepalese society.

## **G. Research Method**

### 1. Type of Research

In this undergraduate thesis, the writer uses a descriptive type of research. The writer would like to describe, write, analyze, and interpret the conditions and events which happened related to the case.

### 2. Data Collection Method

In this undergraduate thesis, the writer uses library research in collecting and completing data. The data are collected from library research with the help of printed materials such as books, newspaper, journals, reports, and activist documentaries. It is also helped by the electronic media such as the television news, and online media retrieved from the internet. Therefore, all the data collected for this analysis are the secondary data. Even though the secondary data, the data are collected from the reliable sources, therefore this undergraduate thesis is a trustworthy research.

### 3. Data Analysis Method

The writer uses qualitative method which data analysis uses the theory that is already explained before.

## **H. Scope of Research**

This research would like to focus on the impacts of MNCs in Nepalese society from 1992 to 2013. This period is chosen because by that time Nepal tried to focus the development into social and economic aspects. During this period, MNCs came to Nepal and the other countries invested in Nepal. At the same time, Nepal was also developing agriculture, forestry, settlement, urban development, and industrialization which were being established to support and to enhance the social and economic condition. Even though the time range in this undergraduate thesis is limited, important events before and after the period would be discussed.

## **I. System of Writing**

In order to complete this undergraduate thesis, the discussion will be divided into five parts.

The first part is the Chapter I which consists of eight sub-titles: the reason of title selection, background, the purpose of writing, research question, theoretical framework, hypothesis, method of research, scope of research, and system of writing. The introduction is the brief opening about what case that will be analyzed in this thesis. The background is the status quo that generates the problems. The purpose of writing is the aim of the writer why writing this thesis. The research question is the problem that this thesis wants to analyze. The theoretical framework is the explanation of the theory used in this thesis to find the answer of the question. The hypothesis is the answer that the thesis wants to prove, followed by the method of research

in which consist of the explanation of how the writer collects the data and sources to generate the answer.

Chapter II will be an exploration of Nepal. This chapter presents about the profile of Nepal and its status quo. The governance system will also be described in this section.

The next is Chapter III. This chapter will explain about the history and development of MNCs in Nepal, especially three prominent MNCs which are the case study in this thesis. They are KFC, Unilever Nepal, and Dabur Nepal. This chapter will explain the beginning of those three MNCs and their development. It will also discuss the success of those MNCs because their success brings significant influence the life of people in Nepal.

Chapter IV is the analysis on the impacts of MNCs to the Nepalese society both direct and indirect contributions as the results of the MNCs existed in Nepal. In this chapter, the analysis will be explained by using the modernization theory.

Chapter V contains the conclusion and the summary of the discussion in the previous chapters.