Foreign investments under a heterodox microscope

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Economics is not a science. As much as those of us studying and practicing the discipline would like to place it in the same category as the hard, positivist sciences, the fact of the matter is that it simply isn't. Unlike the hard sciences, we cannot embark upon environmentally controlled experiments using humans as lab rats to find out the truth of a particular economic theory. That would be a tad bit frowned upon. What we are left with is a whole host of constantly changing variables and a few numbers and a small demographic from which we extrapolate. More often than not, the greatest financial events of the current century flow under the economist's radar. We are very adept at ad-hoc rationalisations but stumble and fall when we are asked to predict the outlook of next year's financial markets.

In light of the catalogue of economic failures, it is important to not look at economics as a monolithic discipline that disseminates only one narrative of how the world, and its people work. The one most common in our textbook is more or less a straight line from Adam Smith to Milton Friedman, who evolved Smith's classical liberalism into the freemarket utopia that some states want to become. This view is commonly known as the neoclassical viewpoint. And neoclassical economics is often taken to be the only form of economic understanding, from the boardrooms of the wealthiest countries to the ones in the third world desperately attempting to rise up. Not many places outside of small pockets of academia will admit to neoclassical economics being only a kind of way in which economic activity can be understood. This display of silence often baffles me, for it has been rather well documented that understanding economic activity through a neoclassical lens has not led to the kind of prosperity that many countries in the Global South had hoped it would be. The truth is that there are several different strains of economic thought that have just as prestigious pasts as neoclassicism.

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The Marxist-heterodox discipline follows the works beginning from Karl Marx and building up on the works of many contemporary economists such as Thomas Piketty and Joseph Stieglitz. The purpose of this rather brief foray into heterodox thought is to show a different perspective of that hallowed term in neoclassical economics, the one that justifies every irrational behaviour: economic growth.

In neoclassical discourse, economic growth is taken to be the be-all and end-all of everything. The point of economic activity is to keep growing, and if you keep growing there will be nothing wrong. As a point of departure, several large multinational corporations follow this self-same model: businesses such as Amazon run huge deficits on their trading account because they bank on the rate at which they're growing to perpetually continue on this road to monopolistic expansion. In much the same way, third world countries such as ours are told that economic growth is the key to success. There isn't much that is false in that statement. Yes, Bangladesh, having the large population that it does, will no doubt be benefitted from a large and robust economy. However, there are only certain kinds of things that come to mind when we think of third-world economic development: rapid industrialisation, growing financial markets and, possibly most importantly, tonnes and tonnes of foreign investment, or FDI.

On the surface, a lot of the rhetoric surrounding FDI seems like a no-brainer. A foreign firm will come here and invest in the infrastructure of the country, as well as providing employment to the people of the country. Money flows in, demand increases due to the money and so does people's purchasing power. Truly it would be inconceivable to even think that there would be any opposition to this notion. The opposition does, however, exist. Even within the economic discipline. Heterodox economists have always come out against the notion of completely removing all barriers to FDI or incentivising it. Heterodox economists are not averse to the idea of foreign investment altogether but the capital intensive investment that it usually entails often deepens third-world quagmires rather than alleviating them.

For the purposes of this article, the case to be made is purely an economic one. Hence, we will not be going into the social and political implications of FDI and how it relates to Western imperialism, though it is certainly not a trivial issue. Economically speaking, FDI brings with it a particular kind of culture, which in economic discourse is called a labour-heavy culture. This means that the host country will, more often than not, have a burgeoning population desperately seeking employment, which gives the investing firm the chance to depress wages way beyond what a worker doing the same job earns at the investor's home country. What concerns the heterodox economist is that this quick-fire unskilled employment of millions into one particular sector (i.e. garments manufacturing) perpetuates the very cycle of unskilled labour that the host country seeks to get out of. The more foreign firms that want to invest, the more the demand for unskilled workers, of which there is usually a large pool. Wages will remain sticky downwards, while most of the government's initiatives will be to remove barriers to entry and not to educate or pass knowledge onto the labour force beyond the vocational skill that is necessary. And so, the host country is only left with an endless cycle of unskilled labour and only a very small rising bourgeois class that have benefitted from FDI friendly markets. Does that scenario remind us of anywhere close to home?

The myth that economic growth is the be-all and end-all is broken when one scrutinises carefully how economic growth rate is calculated, which uses the GDP as a factor. There is never an indicator of distribution of wealth in a measure of a country's growth. As absurd as it sounds, it is not necessary for a country to be equal in terms of distribution to have a good rate of economic growth. FDI perpetuates a lot of these distribution patterns that create a larger chasm between the working class and the super rich. Any by this point in history, if you still believe in trickle-down economics then there is little that can be said to persuade the delusional.

Up until now we have focused on the labour aspect of FDIs. But there is another important factor to note, which is the impact that a highly specialised world economy has on a third world country in times of cutthroat competition. By specialising in the garment-sector, which has grown as a result of rapid FDI, a lot of hopes rested on the performance of this one sector alone. Any slip-ups (Rana Plaza and Tazreen tragedies being more than just a stumble) and confidence plummets downwards, paving the way for other countries to take over. And this is because FDI depends on cheap, transferrable bodies as their workshops. Unskilled hands are available everywhere. And so there always remains this risk of crash.

And, finally, let's scrutinise the other side of the argument for FDIs, which focuses on demand. The idea is that the income generated from employment will increase the money supply, thereby increasing demand and improving the lives of the people working in these FDI-initiated firms. The reality is that while purchasing power increases holistically, relatively they become poorer because of the stellar capital accumulation of a few, for which prices rise at a far greater pace than that with which their income injects money into the circular flow of income. And so, because of that, they are left to face the rather ironic fate of not being able to afford to live because they worked too hard. And finally, removing barriers to entry cause firms to become incredibly vulnerable in the face of foreign superpowers, who have very deep pockets. Creative production ceases and the country more or less accepts its fate as a perpetual provider of cheap labour and thus a perpetual resident of the Global South.

The key is not to curb all inflows of FDI, but to be careful as to how much they should be let into our markets and how we can move out of this burgeoning mass of unskilled labour. Bangladesh right now has so much unskilled labour that we even export it to the world, where humans are treated as chattel with no regard for even the most basic human rights (e.g. the kafila system in the Middle East). We need to look critically at how we can educate our populace so that we are not perennially held hostage to the demands of an overindulgent and consumerist West.

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