POLI 445
Politics of International Economic Relations

Session 10 – Multinational Corporations 1

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Session Overview

The session will look at Multinational Corporations in the global system. We will specifically look at the meaning of multinational corporations and how their activities have been regulated in the global south and the global north.

Session Outline

- **Topic one**: The meaning of Multinational Corporations
- **Topic Two**: Regulation of the activities of Multinational Corporations

Reading Materials

- Bossman E. Asare, 2016. International Politics: The Beginner’s Guide-Updated and Expanded, Digibooks, Ghana.
- Charles W. Kegley Jr. and Shannon L. Blanton, 2010. World Politics: Trend and Transformation, Wadsworth: Cengage Learning.
- Richard Payne, 2007. Global Issues: Politics, Economics, and Culture. New York: Pearson Longman.
- **Thomas Oatley (2013),** International Political Economy (fifth Edition): Interests and Institutions in the Global Economy, Pearson Longman**.**

Topic one
The meaning of Multinational Corporations

- Multinational Corporations (MNCs) are business organizations with their headquarters abroad. They are organizations that operate in at least three countries and they have their headquarters in other countries, usually in the western world or the global north countries, such as the USA and Europe (a number of them are also located in Japan). MNCs are also called transnational corporations to indicate how their activities cut across national borders. Payne (2007:12) notes that MNCs are companies that operate in more than one country and depend on interdependence for the operation of their enterprises.
- And interdependence suggests a situation where countries depend on one another. For instance, Ghana depends on other countries for certain essential goods and services, while other countries also depend on Ghana for some essential goods and services.

The meaning of Multinational Corporations

- MNCs occupy an important and often divisive role in the global economy. One reason why MNCs are important is that some of their activities promote human and national development. They are also divisive because they can give legitimacy to an autocratic regime and also abuse human rights.
- These companies control business activities in other countries. In practice their authority extends beyond national borders. Some of the popular ones are Coca Cola, Guinness, Wal-Mart, General Motors, Ford, General Electric, Toyota, and other financial institutions. MNCs make decisions that affect people in their countries and other countries.

The meaning of Multinational Corporations (Cont'd)

- MNCs are typical examples of non-state actors in the global economy. I have noted that non-state actors are individuals and organizations who act on behalf of themselves, **multinational corporations**, nonprofit organizations, terrorists and other militant groups, and intergovernmental organizations. They do not represent any particular country. Once they issue a statement, they do that on behalf of their corporations, not any government.
- As non-state actors in the international system, MNCs are able to influence policies that affect many people in the world. The rich and influential MNCs are able to get the support of intergovernmental organizations to promote particular policies in the world. A number of them are richer than countries and this makes some of them more influential than countries.

The meaning of Multinational Corporations (Cont’d)

- MNCs have host countries and home countries. Host countries are where the MNCs have branches of their corporations. Ghana can be described as a host country for many MNCs because their headquarters are not in Ghana but they have branches of their corporations in Ghana. Home country means where MNCs have their headquarters.
- The headquarters of General Electric is in the USA, so the USA is the home country of General Electric. Japan is also the home country of Toyota because Toyota is headquartered in Japan. And Ghana is a host country of Toyota because we have a branch of Toyota in Ghana. Some examples of MNCs in Ghana are Standard Chartered Bank, Coca Cola, Barclays Bank, Guinness, MTN, ZAIN, Stanbic Bank, Vodafone, and etc.

Sample questions

1. What are the differences between MNCs host countries and their home countries?

2. List ten examples of MNCs in Ghana.

Topic Two
Regulation of the activities of Multinational Corporations

- We will discuss the regulation of MNCs in both the global north and global south countries. By regulation, countries in both the global north and the global south do not prohibit or prevent MNCs from operating in their economies. Instead, they come up with certain policies and measures that MNCs must comply with as long as they want to have their businesses and corporations in those countries.

MNCs’ Regulation in the Global South

- After independence in the 1960s many countries in the global south decided not to have any business with MNCs. Many developing countries saw MNCs presence as a continuation of colonialism. Essentially, they did not want foreigners to dominate their economies after they had gotten rid of the colonialists. Similarly, many countries in the global south did not want MNCs to control revenue from exports since this would suggest that governments would not have control over money to provide development projects in their countries (Oatley 2008). As a result of these concerns, a number of countries nationalized MNCs and provided compensation in certain instances.
- By nationalization, the countries claimed ownership of the corporations and these became state-owned enterprises or corporations (Oatley 2008). However, the corporations that were nationalized failed to live up to expectation or their results were unacceptable. This prompted many countries to take a look at MNCs from the global north.

MNCs' Regulation in the Global South (Cont'd)

- Global south countries then decided they would allow MNCs to operate in their countries with some restrictions and performance requirements. They felt their economies could also benefit from the FDIs promised by MNCs. One of the popular performance requirements introduced was that the activities of MNCs should lead to backward linkages in the economy. Backward linkage means that the production of a particular good or commodity should lead to an increase in demand for the components used in producing that commodity.
- Essentially, when you have an MNC producing cars in your country, all the local companies that produce the parts used in manufacturing cars must see an increase in demand for their parts. The main reason here is that you do not want MNCs to be importing the raw materials for production from their home countries and elsewhere. By this requirement MNCs would buy a certain percentage of their inputs from the global south countries. You want jobs to be created in your country, and backward linkages will likely get you there.

MNCs' Regulation in the Global South (Cont'd)

- Another performance requirement imposed was that MNCs should export a certain percentage of their output (products) to other countries. This was to ensure that the local markets/consumers benefit from the products of the MNCs. Some global south countries also required MNCs to conduct research and development in their countries to boost the research capacities of their countries. The rationale was that MNCs were used to conducting research and development in their home countries, so having them do that in the developing world would ensure that developing countries strengthen their research base and the possibility that local entrepreneurs would learn from this research and development was exciting.

MNCs’ Regulation in the Global South (Cont’d)

- However, some global south countries did not regulate their activities. Rather, they put policies in place to encourage more MNCs into their countries. Countries in this category, such as Taiwan and South Korea, created export-processing zones (EPZs) to attract more MNCs. Export-processing zones are “industrial areas in which the governments provide land, utilities, a transportation infrastructure, and, in some cases, buildings to the investing firms, usually at subsidized rates” (Haggard 1990: 201, cited in Oatley 2008).
- It must be emphasized that, in recent times, regulation of the activities of MNCs has reduced drastically in the global south. The reason is that all countries are looking for FDIs and so countries that have restrictive regulation policies are not likely to be destinations for MNCs. And MNCs in general do not want to operate in countries with a lot of regulations.

MNCs Regulation in the Global North

- Generally, rich countries in the world have been committed to economic liberalization for a very long time. However, most global north countries regulated the activities of MNCs just like the global south did after World War 2. A number of global north countries in the past felt that foreigners should not be allowed to control certain sectors of their economies. In certain instances they would require foreign owned corporations to team up with local businesses. Japan, for example, did not allow MNCs headquartered in other rich countries to control certain sectors of their economies unless these corporations partnered with local corporations.
- Nevertheless, the commitment of global north countries to openness of their economies, as well as the activities of the WTO and other intergovernmental organizations, has ensured that these regulations have become minimized. Moreover, the competition for FDIs by the global north countries suggests that restrictive regulations, such as preventing foreigners from controlling some sectors of the economy, scare investors. Broadly, in both rich and poor countries regulation of MNCs activities have been minimized in the contemporary global system.

Sample Question

- Explain why both rich and poor countries have minimized the regulation of MNCs in their countries.

Conclusion

- The session has laid emphasis on the meaning of multinational corporations and the regulation of their activities in the global north and the global south.