

# Countries' Government and multinational corporations the epic situation

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## ABSTRACT

*Regulations of multinationals is quite a discursive topic and also depending to what extent and which nation are we referring to. As assigned the countries namely, Bolivia, Cuba, Ecuador, South Africa and Venezuela the countries have one thing in common when we refer to the era of the year 2014, which is that all these countries are developing.*

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Regulations of multinationals is quite a discursive topic and also depending to what extent and which nation are we referring to. As assigned the countries namely, Bolivia, Cuba, Ecuador, South Africa and Venezuela the countries have one thing in common when we refer to the era of the year 2014, which is that all these countries are developing.

Regulating of multinationals according to the HARVARD Kennedy school journal article (Gerard Ruggie, 2015) the paper displays an idea on how there should be boundaries and limitations set to the multinationals in a country. Regulations could include the internal and external environment of a multinational firm. The journal also explains regulating corporate conduct in regards to human rights, and sheds a lot of information on how that is major aspect countries should tend to regulate on.

There is a specific example of Ecuador mentioned which includes a legal treaty or rather framework which states regulations on the international companies leaving the home country businesses not to abide by the rules, thus human rights rules would have to mandatorily be abided by the, transnational brands but not by the local owners. The example there stated was – *“the language of the proposed treaty would have covered international brands sourcing garments from the factories housed in the collapsed Rana Plaza building, but not the local factory owners.”* The journal continues to express the fact Bolivia, Cuba, South Africa and Venezuela were also becoming a part of this, to ensure multinationals were regulated in terms of human rights and didn't violate the code of conduct.

The theory and operations of demand and supply can be playing a major role in the south American and south African areas of trade, with supply being a major factor with easy access to raw materials, and demand of products unavailable in those countries. Worlds 2<sup>nd</sup> largest exporter of oil is Ecuador and yet the BBC article states (Caselli, 2018), *“the economy grew, but Ecuador remained of the poorest countries in South America while the land-owning elites remained in power”* leading to the old economic problem of rich becoming richer and poor continue to remain poorer.

Most countries tend to regulate the multinational firms coming from other home nations. Imposing regulations on multinationals are necessary for various reasons, starting with security of local businesses, making sure the internal home economy is not hurt and it protects the home economy businesses.

According to (Infinityflame, 2018) the article here states, the government would make sure there is *“fair work arrangement”*, to make sure there is equal behaviour and employee treatment in the organisation, also to make sure the local businesses are also in the market able to compete the article states how governments regulate

multinationals by imposing transnational tariffs to protect to local business and economy. Also, at the same time to make sure the home multinationals are happy and satisfied and to promote more of such giants in the home economy the government may tend to subsidise the business to prevent it from moving abroad.

Moving on to the proposed treaty by the nations according (Business-humanrights.org, 2018) this report explains a Human rights council session where nations had proposed and the human rights accepted it stating, there need to be stronger Human rights rules for businesses, but since there were 20 countries in favour of this treaty and 14 against and 13 of the nations were absent for this decision and also at the same time Human rights stated since the UN's "*decision is too narrow since it only focuses on transnational corporations and will not address national or other businesses that should also be required to respect human rights*" which is why the treaty proposed was sanctioned and accepted but was not continued ahead and carry forwarded. If multinationals have the opportunity to be in a regulated environment they would be in such place for various reasons, like since fair trade rules are around the multinationals would be able to sustain for longer, other rules which would keep the multinational to maintain its ground and be a part of the country's economy.

According to a law journal (Babatunde, 2018) here the author expresses his views on how it is frustrating of an MNC (Multinational Company) to adjust to the country's condition required, or regulations required. There also includes a line which expresses the thought "*MNC operates at the mercy of the host state*" which clearly explains how MNC's need to abide to the rules set by the host countries having no other option. Also, the journal article on the other hand says "*MNC possesses immense power under that government, since it could help or harm the local economy by its business decisions*" this is where the global corporations have an upper hand disrupting the business environment as these businesses can be very influential with the business models. Also, the journal article provides an idea of how MNCs may tend to prefer countries which are easy to set up operations in countries where the set-up costs are low and generally more liberal countries those who aren't very strict about their norms and laws. In the long term what could happen is that if those firms seem to abide and are comfortable to set up their bases in the host country with easy norms the business would tend to set up there with ease and rapidly.

About the South American and South African parts of the world as mentioned in the question, these countries are yet in the developing stage of the economy and would welcome the secondary sector economy, allowing more entrants from out shifting from agriculture and raw materials to better quality of finished goods readily available. What can be observed here is that these countries were looking forward to become open economies at a very early stage and since the set up in those countries was easy the MNCs tried to capture a huge chunk of the market share and people are now quite dependent on those international brands, which makes it difficult to govern and control these giants. Thus, now the weak actions of these governments have led to a conquering act of MNCs which is now difficult to control.

The effects of bringing on more norms and regulations against the MNCs would lead to downward slope in FDI (Foreign direct investment). Let's move to the idea of what an FDI is simply deciphering the abbreviation foreign direct investment according to the Foreign Direct Investment book (Blaine, 2009) this book expresses FDI to be an investment or money poured outside the home country to another economy. The definition goes forward to explain how an "*investment that is made to acquire lasting interest in enterprises operating outside the economy of the investor*". The impact would be positive for the short term but negative for the long-term effect on the country's economy, if there were lot of norms and regulations that are being governed as that would be that would discourage investors from out to come and set up their businesses in that particular country. But at the same time the short-term effect would lead to better home economy, with more employment and inner home currency rotation and more chance of healthy perfect competition in the market which could then lead to good inflation as people would tend to earn more leady to better **gross domestic product and Human development index numbers** allowing the country to grow independently.

In the long term what might be the implications of this would be the country would be a closed economy and the barriers to entry would be high which could discourage foreign investment, and fewer international brands. Thus, multinational businesses would not prefer to move there and avoid such rigid rules and tough competition. On the other hand, some multinationals look at this as an opportunity where they would look forward to settle their business despite the norms and regulations and cream the market and become a market leader slowly capturing the market share of that economy. Since countries with rigid rules and high regulations have less or no international entrants, multinationals would also try to make their space due to less competition, the multinational gets an upper hand over business set up and higher market share which could then allow them to set up their business there. Some

transnational companies tend to be in a place where the regulations are tough and where rules are followed, where in all the businesses work in a healthy and particular pattern following norms and regulations where there is no threat to the multinationals.

### Should multinationals be regulated?

According to the author regulations for multinationals should **be mandatory** as in this manner multinationals have to follow rules to ensure they don't take over and wreck the economy. The economies that are considered are all developing, these economies need to make sure they are not ruled and exploited by firms. Regulations like minimum price systems, tariffs and quotas, equal pay acts, appropriate working conditions and many more other regulations should be governed and put into action at the very beginning when the multinational firm moves its functions there. If they aren't regulated next thing we know the multinationals are going forward to break trade policies the currency of the nation continues to depreciate and become unstable, while pricing would yet be in terms of the multinationals due to higher resources they face more economies of scale which small local businesses don't which would then lead to exploitation of businesses. Also, in order to make sure the environment is not harmed there should be government norms to ensure the transnational businesses don't misuse the land, resources and pollute beyond the permissible amount. Of course, a multinational does tend cause an impact on the host economy and to make sure that impact is positive on the nation it is the government's duty to impose conditions which lead to a positive outcome if and when any multinational creates its base in another economy, while a transnational business crosses its line and tends to cause harm to the country and its economy that is when the government shall intervene.

### Why has it been difficult to regulate these multinationals?

Multinationals have higher power over the country's economy as they tend to sell on higher margins and have high amount of market share that they cover. Country's tend to not have enough power over the transnational companies as they tend to use a huge chunk of the natural resources, local labour, currency and also huge amount of FDI which leads to benefit the country giving the business an upper hand over the economy. Also, since these international businesses tend to give more government tax revenues the government would be pressured to let the multinationals behave and act the way they feel. According to (Kamminga, 2018) multinationals are difficult to cope with for the countries and government gaps are caused by the "*corporate regulation in international law*" there are already norms that are set by the international community and are being followed by the multinationals. However, the above research article also states how multinationals have to follow rules introduced by the district or state since countries tend to attract investment from multinational companies the regulatory and governing act may tend to become loose and lenient thus, leading to country regulations on multinationals to weaken rather than strengthen. These are the various reasons expressing why it has been difficult to regulate multinationals.

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