



**Forum:** ECOSOC

**Issue:** Regulating multinational corporations' activities as a measure to develop national economies

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### **Introduction**

Multinational corporations (MNCs) play significant roles in shaping the global economy. When multinational corporations invest in a country, they create employment opportunities. They account for increased incomes and expenditures in the economy of the host country stimulating growth. Workers also benefit from technology transfer as new machinery is imported into the host country. Multinational corporations have the freedom to shift their locations at will; giving them the advantage to exert pressure over countries in which they operate when faced situations that affect their interests. In developing countries, where multinational corporations have become the major employers and wealth creators, they might oppose attempts by the host country to improve worker's salaries, tighten environmental regulations, demand a higher share of the profits through taxation or liberalize the right of workers to organize if those moves are seen as against their interests. If the host country declines to bend to the multinational corporation's wishes, the company may threaten to withdraw or throw its political and economic influence behind political elements in the host country more amenable to the multinational corporation's point of view.

### **Definition of key words**

Multinational corporation (MNC) – a corporate organization that owns and controls the production of goods or services in at least one country other than its home country. Control is considered an important aspect of an MNC, to distinguish it from international portfolio investment organizations, such as some international mutual funds that invest in corporations abroad simply to diversify financial risks.

GVCs – global value chains; international production sharing, a phenomenon where production is broken into activities and tasks carried out in different countries.

GDP – the total of all value created in an economy.

OECD – Organization for Economic Cooperation and Development; an international organization that works on establishing evidence-based international standards and finding solutions to a range of social, economic and environmental challenges.

National economy – the economy of a nation as a whole that is an economic unit and is usually held to have a unique existence greater than the sum of the individual units within it.

### **Background information**

The actions of multinational corporations are strongly supported by economic liberalism and free market system in a globalized international society. According to the economic realist view, individuals act in rational ways to maximize their self-interest and therefore, when individuals act rationally, markets are created and they function best in free market system where there is little government interference. As a result, international wealth is maximized with free exchange of goods and services.

To many economic liberals, multinational corporations are the vanguard of the liberal order. They are the embodiment par excellence of the liberal ideal of an interdependent world economy. They have taken the integration of national economies beyond trade and money to the internationalization of production. For the first time in history, production, marketing, and investment are being organized on a global scale rather than in terms of isolated national economies.

International business is also a specialist field of academic research. Economic theories of the multinational corporation include internalization theory and the eclectic paradigm. The latter is also known as the OLI framework.

The other theoretical dimension of the role of multinational corporations concerns the relationship between the globalization of economic engagement and the culture of national and local responses. This has a history of self-conscious cultural management going back at least to the 60s.

For example, MNCs in the U.S., which has the world's largest economy, make disproportionate contributions to the national economy: They represent a very small number of total American firms (less than 1%), but a large fraction of GDP, exports, imports, research and development, and private-sector employee compensation. Specifically, U.S. MNC parent companies in 2016 constituted more than 24% of private sector GDP (value-added) and 26% of private-sector employee compensation; U.S. MNCs are engaged in more than half of all U.S. exports and more than 40% of U.S. imports (Bureau of Economic Analysis 2018b). Likewise, MNCs throughout the world dominate the global economy as well as their national

economies. The OECD (2018) estimates that MNCs account for half of global exports, nearly a third of world GDP (28%), and about fourth of global employment. These firms all generate a significant share of their revenue from abroad as well.

Importantly, their transnational activities have transformed the nature of international trade, investments, and technology transfers in the era of globalization. The extensive global value chains (GVCs) prevalent in today's world economy have been driven by how MNCs structure their global operations through outsourcing and offshoring activities. In fact, their decisions have enormous implications for a wide range of policy issues—such as taxation, investment protection, immigration—across many countries with different political and economic institutions. MNCs also may have strong political influence domestically. Indeed, their global economic dominance may go hand-in-hand with their powerful domestic political position.

### **Relevant treaties and UN resolutions and previous attempts to solve the issue**

In 1972, the UN Center for the Study and Regulation of Transnational Corporations was established, the purpose of which was to identify the most significant trends in their development and disseminate information about their activities. In the same year, the world community began to develop a "Charter of economic rights and Obligations of States", in which a significant place should be given to achieving a compromise between the interests of TNCs and the rights of sovereign States. It was stressed that transnational corporations should not interfere in the internal affairs of the host country. In 1987 The UN General Assembly discussed the "Concept of International Economic Security", which is close in its goals to the Charter.

However, international regulation of the activities of TNCs is not effective. There are many reasons for this: the excessive power of multinational companies themselves, their lobbying efforts, including in the international arena, as well as the positions of many states that participate in obtaining benefits from international business.

In 1993, the UN Center for TNCs ceased to exist, it was transformed into the Department of Foreign Direct Investment and TNCs within the framework of UNCTAD. By the early 1990s, a compromise between TNCs and host countries was formed in the following form: the countries receiving TNCs and foreign investments agreed to weaken control over the activities of multinational companies. Favorable conditions were created for foreign direct investment, in the form of more guarantees and incentives, liberalization of the procedure for access of foreign capital to the domestic markets of countries, ensuring the security of foreign property. In addition, joint ventures with the participation of foreign and national capital have been developed.

Certain aspects of the activities of TNCs may be regulated by the TRIMS (Agreement on Trade Aspects of Investment Measures) and TRIPS (Agreement on Trade Aspects of Intellectual Property Rights), adopted by the Uruguay Round of GATT/WTO (1994).

In July 2003, the Commission on Human Rights approved the draft convention "Norms of Responsibility of Transnational Corporations", which imposed the same obligations on TNCs as on States. In accordance with the convention, TNCs will be obliged to refrain from environmental pollution and human rights violations, adhere to the rules of fair play in business, marketing and advertising activities, ensure the safety of consumers and the high quality of goods and services offered by them, as well as safe and healthy working conditions. So far, this draft has not acquired the force of a convention.

### **Possible solutions**

1. In the field of property relations, international corporations are instructed to promote the participation of national authorities in the joint-stock capital of enterprises, effective joint-stock control by local partners, as well as to give priority when hiring and promoting national personnel to all posts of economic management.
2. In the monetary and financial sphere, transnational corporations are called upon to advise and cooperate with the Governments of host countries on the mitigation of financial problems related to the state of national balance of payments and state budgets. In addition, corporations are instructed not to allow actions that can have a negative effect on the functioning of the capital market in host countries. In particular, special agreements between national governments and multinational corporations are dedicated to preventing difficulties in the movement of funds between corporate branches in different countries.
3. In the field of transfer pricing, multinational corporations should not resort to the practice of setting prices that would be divorced from the corresponding prices of the world market.
4. In the field of taxation, transnational corporate codes require States not to place international corporations in obviously unfavorable conditions relative to local companies.
5. In the field of consumer protection, international corporations are called upon to strictly comply with relevant international standards in order to eliminate the danger to the life and health of buyers of their products, as well as to prevent differences in the quality of goods in different markets to the detriment of consumers.
6. Non-interference of transnational corporations in the domestic political affairs of host countries.

## Useful links

<https://www.investopedia.com/terms/m/multinationalcorporation.asp>

<https://vittana.org/19-advantages-and-disadvantages-of-multinational-corporations>

[https://www.brookings.edu/wp-content/uploads/2019/12/Kim\\_Milner\\_manuscript.pdf](https://www.brookings.edu/wp-content/uploads/2019/12/Kim_Milner_manuscript.pdf)

<https://bizfluent.com/info-8444236-economic-effects-multinational-corporations.html>

<https://www.abacademies.org/articles/theroleofmultinationalcorporationsinglobaleconomicpracticeliteraturereview-9918.html>

In Russian:

<https://cyberleninka.ru/article/n/gosudarstvennoe-regulirovanie-transnatsionalnyh-korporatsiy-kak-osnova-povysheniya-effektivnosti-ih-vzaimodeystviya-s-gosudarstvom/viewer>

<https://cyberleninka.ru/article/n/transnatsionalnye-korporatsii-i-natsionalnye-ekonomiki-sravnitelnyy-analiz-razvitiya>

[https://studme.org/285447/ekonomika/regulirovanie\\_deyatelnosti\\_transnatsionalnyh\\_kompaniy](https://studme.org/285447/ekonomika/regulirovanie_deyatelnosti_transnatsionalnyh_kompaniy)