

International Political Economy (SOCS-SHU 222)

THE POLITICS OF MULTINATIONAL CORPORATIONS

Instructor: JING QIAN



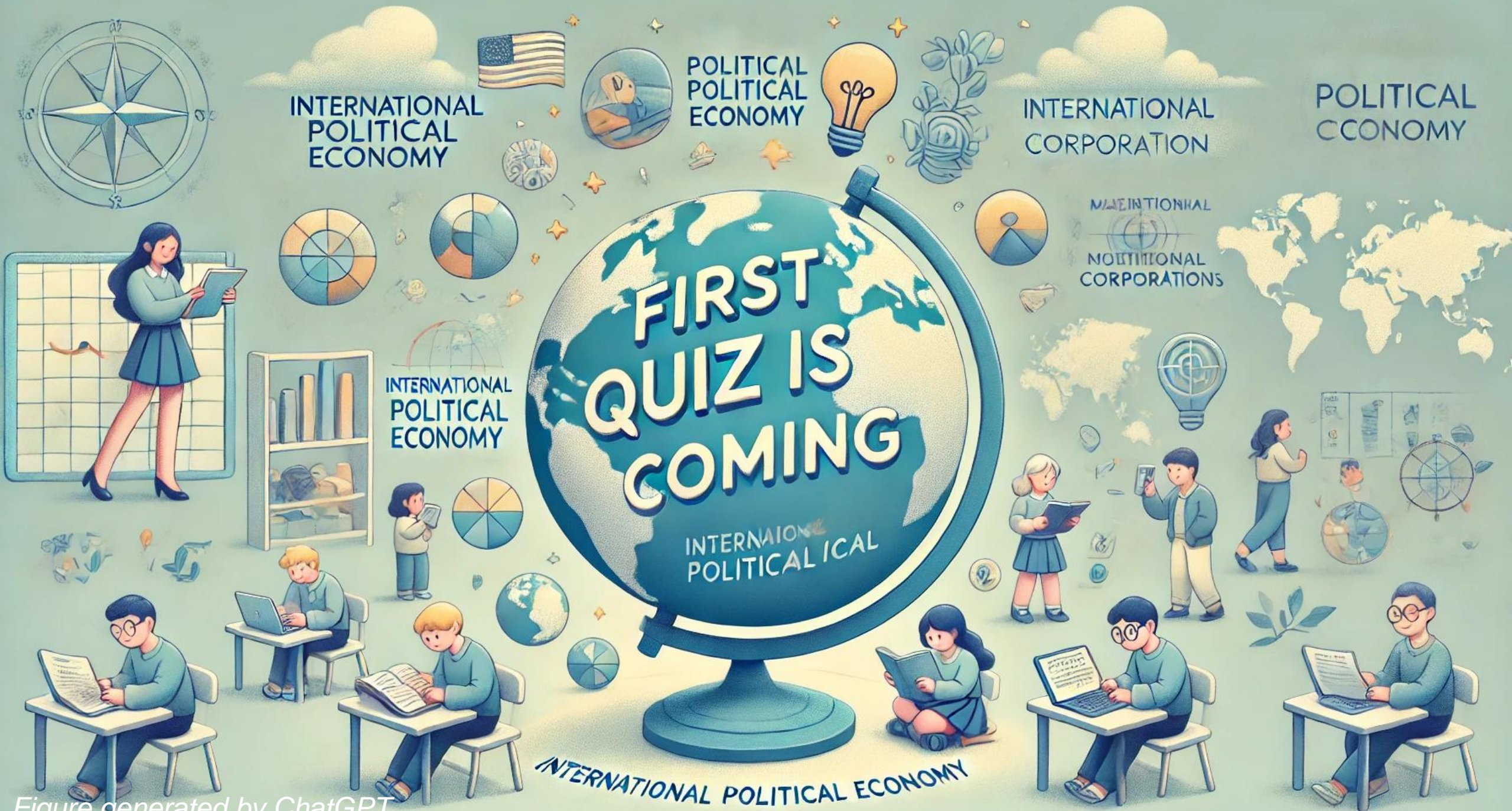


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First-Quiz: How It Works

- Host on Brightspace
- Available between (China Standard Time):
 - Start: Thursday, March 27, at 9:45AM
 - End: Sunday, March 30, at 11:50AM
- Duration: 90 minutes
 - Pick anytime to start, (auto)submit in 90 minutes
- Important notes:
 - Plan ahead, check batteries, internet, drinks, etc.
 - No guarantees of immediate email response from me during your quiz

First-Quiz: What to Expect

- Total time: 90 minutes
- Question format:
 - 45 multiple-choice questions
 - 15 fill-in-the-blanks/short answers
- Roughly*
 - 70% coming directly from lectures & slides
 - The rest from readings
- Last question will be allocating the weights between the two quizzes
 - Choose anywhere between 20% - 40% for the first quiz
 - The rest will be allocated to the second quiz
 - You will have to decide before you submit the 1st quiz

PLEASE, PLEASE, PLEASE

The quiz is **OPEN-BOOK**

- What you can do
 - ✓ Check slides, textbooks, readings.
 - ✓ Check your notes.
 - ✓ Access online materials using search engines and Wikipedia.
- What you **ABSOLUTELY SHOULD NOT DO**
 - Communicate (in any form) with classmates who has not taken the quiz
 - Record/Save the quiz questions in any form
 - Use any GenAI to similar tools to help you with the quiz

As a student in NYU Shanghai, I pledge that:

- I will perform honestly all my academic obligations. I will not represent the words, works, or ideas of others as my own; will not cheat; and will not seek to mislead faculty or other academic officers in their evaluation of my course work or in any other academic affairs.
- I will behave with decorum and civility, and with respectful regard for all members of the University—faculty, staff, and fellow students— our guests, and members of our wider communities.
- I will abide by NYU Shanghai and by NYU rules of conduct and policies on academic integrity and by the special requirements of any individual course of study or other academic activity.
- I will endeavor earnestly to uphold the values, standards, and ideals on which our university community depends and call on others to do so.

<https://shanghai.nyu.edu/content/academic-integrity>

<https://bulletins.nyu.edu/undergraduate/shanghai/academic-policies/standards-conduct/standards-conduct.pdf>

Resources

- Lecture slides
- Textbook and other required readings
- Weekly Assignments* (to be shared on Saturday)
- Additional Office Hours (sign-up at: jingqian.org/IPEclass/officehour)
 - Tuesday, March 25
 - ✓ 11:15am – 12:00pm
 - ✓ 1:30pm – 4:00pm
 - *Also by appointment*

Review Session

- Format: Q&A
- Submit your questions on Brightspace before noon on Monday, March 24
 - *Submissions can be anonymous to your classmates*

First-Quiz: Questions for the Review Session (Mar 25) ▾

Please submit any questions, topics, or concepts you would like covered during the review session on March 25.

Whenever possible, refer to specific slides, textbook pages, or readings to ensure clarity.

Only submissions posted before **noon on Monday, March 24** will be considered.

If you have a new question or topic, please **start a new thread**.

You can "**second**" an existing thread by replying to it. Priority will be given to topics with the most total posts within a thread.

Topic	Threads	Posts	Last Post
First-Quiz: Questions for the Review Session (Mar 25) ▾	0	0	

The Politics of Multinational Corporations

READING ASSIGNMENT:

Oatley Chapter 9

Regulating MNCs

Accountability

- To whom are MNCs accountable?
 - Stockholders
- To whom are governments “accountable”?
 - Depends on political institutions
 - Democracies depend on votes
 - Dictatorships may depend on the support of a small loyal clique (military, business elites, etc.)

MNCs: Accountable to stockholders

Are MNC effects good or bad?

- They generate **positive externalities**
 - Educate the workforce
 - Managerial experience
 - Access to marketing networks
 - Transfer technology
- Allow countries to draw on the savings around the world (rather than rely just on local savings for investment)
- Sometimes they draw on local savings!
 - “**crowds out**” investment in local firms
- Profits may be repatriated!
- May force the local affiliates to work only with the parent company
 - paying licensing fees
 - purchasing inputs from other subsidiaries of the same corporation
- May drive local firms out of business

Confronting Goals

- What do MNCs want?
 - Maximize economic returns from business operations
 - Maximize shareholders value
- What do host countries want?
 - Extract as many of the benefits from FDI as possible
 - And minimize potential costs.
 - *What benefits? Benefits for whom?

Regulating Multinational Corporations

- All countries regulate MNCs to some extent
- **Developing countries**
 - Governments did block FDI in some sectors – nationalization
 - Local ownership requirement
 - Limits of profits repatriation
 - Performance requirements
- Why? Recall the two developmental strategies of the developing world
 - Import substitution industrialization
 - Develop domestic manufacturing industries
 - Export oriented development
 - Export-oriented manufacturing
- Most developing countries start to liberalize FDI since the 1980s



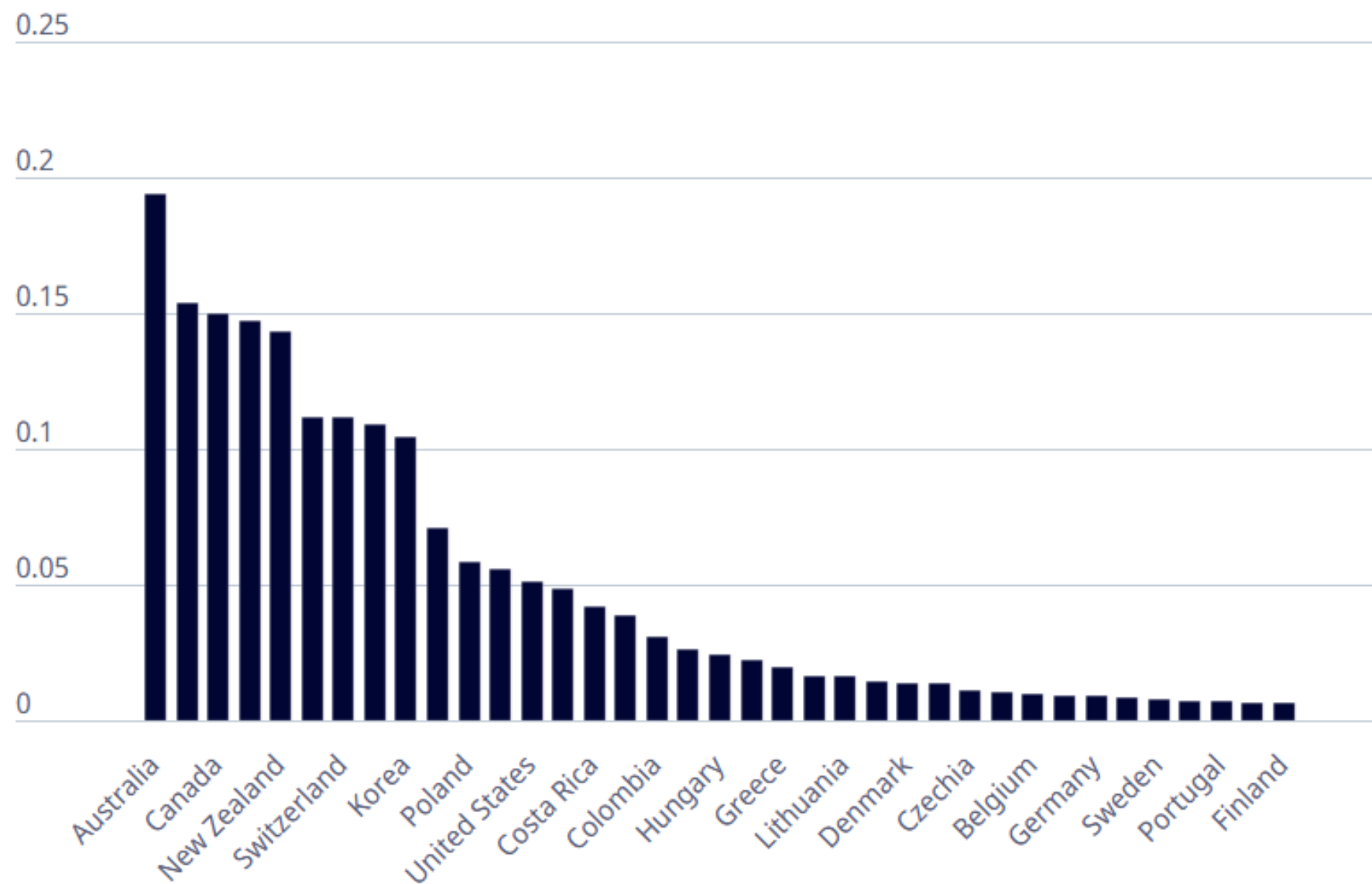


Regulating Multinational Corporations

- All countries regulate MNCs to some extent
- Developed countries
 - In general, more open to FDI
 - Still, block MNCs in certain industries (critical sectors)
 - [OECD FDI Restrictiveness Index](#)
 - [CFIUS](#)

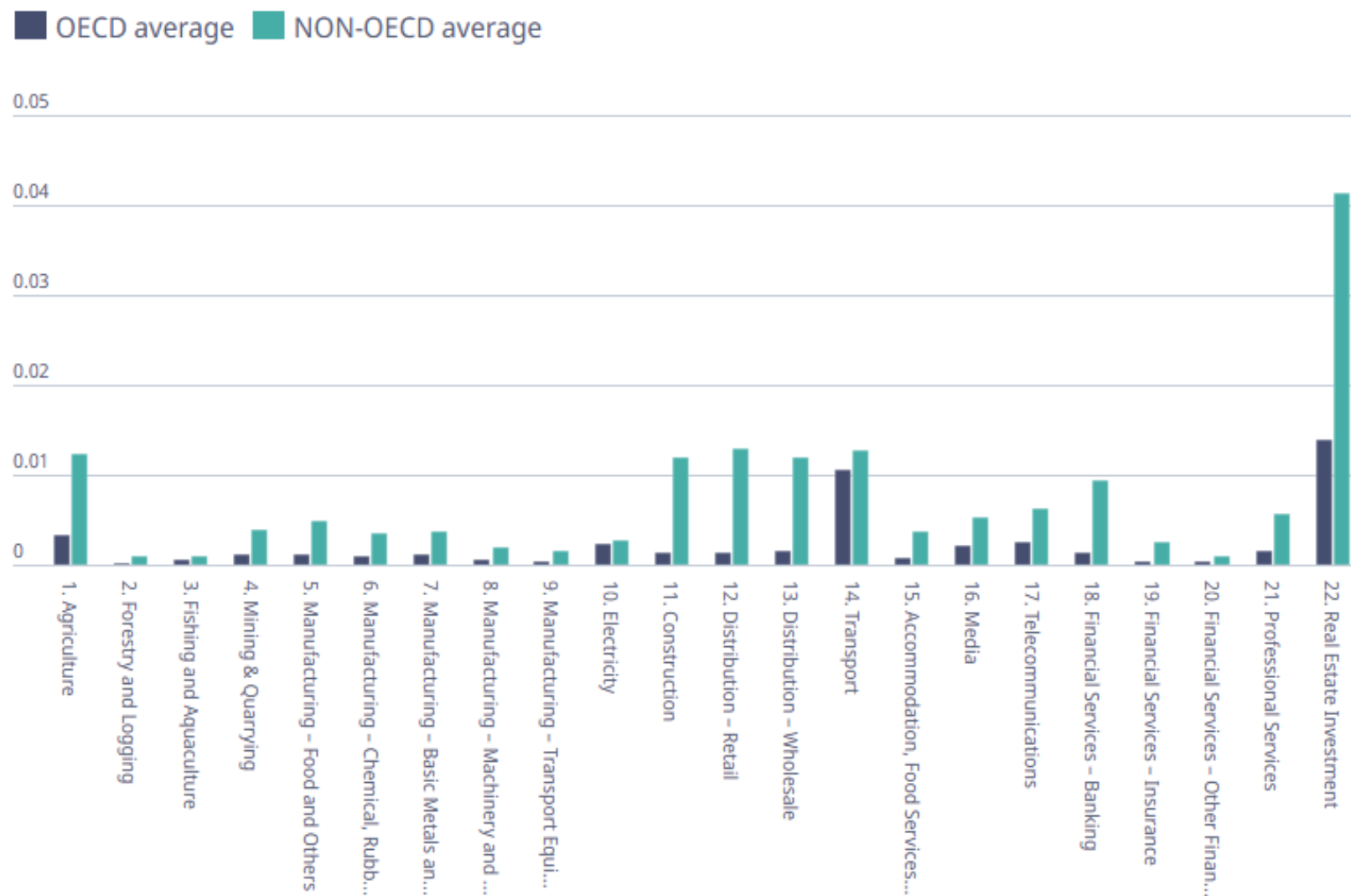
Foreign direct investment regulatory restrictiveness index

Index, 2023



The real estate, transport and agriculture sectors experience the highest restrictions

OECD FDI Regulatory Restrictiveness Index (open=0; closed=1)



The indices reflect regulation in force on 31 December 2023. Reported scores include sector weights to account for differences in the economic importance across sectors (sector weights are measured as the average sector's share in total value added across countries and time).

[OECD FDI Regulatory Restrictiveness Index, 2023](#)



Sectors of selected deals subject to CFIUS intervention, 2017-2022

Sector	Abandoned	Blocked	Measures	Total
Semiconductors	2	1	2	5
Financial services	3		1	4
Medical		1	2	3
Energy	2			2
Industrials	2			2
Software	1		1	2
Agriculture	1			1
Automotive	1			1
Chemicals	1			1
Construction	1			1
Services	1			1
Telecoms			1	1
Transport			1	1

Buyer jurisdictions of selected deals subject to CFIUS intervention, 2017-2022

Bidder jurisdiction	Abandoned	Blocked	Measures	Deals
China	13	1	3	17
Germany	1		1	2
Bermuda			1	1
France			1	1
Hong Kong			1	1
Japan			1	1
Singapore		1		1
Switzerland	1			1

Source: Stock Exchange Filing

Bargaining with MNCs

Bargaining Power

- Bargaining power comes from (ch.3)
 - Patience
 - Outside options
- Both MNCs and host countries have something the other side wants
 - MNCs: capital, technology, the investment*
 - Host countries: natural resources, access to domestic market, cheap labor force, etc.

“Race to the Bottom” (RTB)

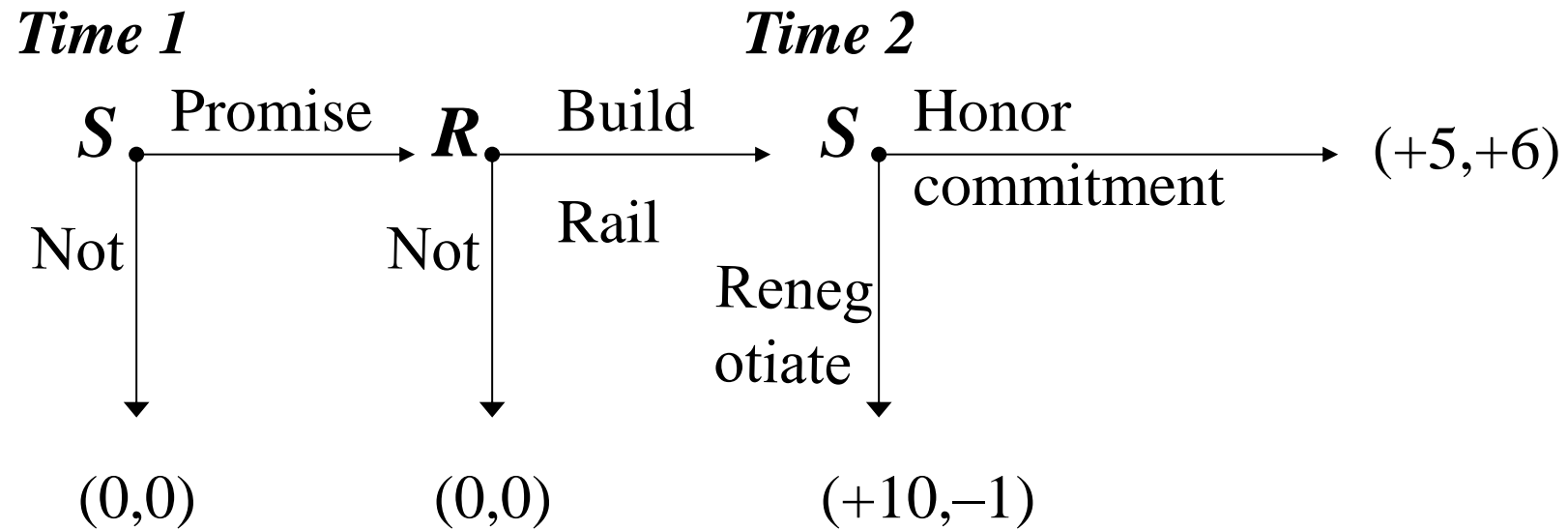
- How do host countries attract FDI? --- By offering additional benefits
 - Lower taxes
 - Lower regulatory standards (labor, environmental, etc.)
 - Additional incentives
- Expectation: MNCs go wherever standards are the lowest
- Why might this work?
 - Lower MNCs' production costs (and increase shareholders' value)
- Why might NOT this work?
 - On one hand: MNCs benefit from public services
 - So maybe MNCs tolerate some taxation
 - On the other hand: promises are not credible
 - Even if MNCs don't like taxes, they shouldn't trust governments

Obsolescing Bargain

- The MNC cannot easily remove its fixed investment from the country, so the investment becomes a hostage
- What analytical tool does this recall?
 - Commitment problem
 - Credible commitment problem
 - Time-inconsistent preference problem
 - Time-consistency problem

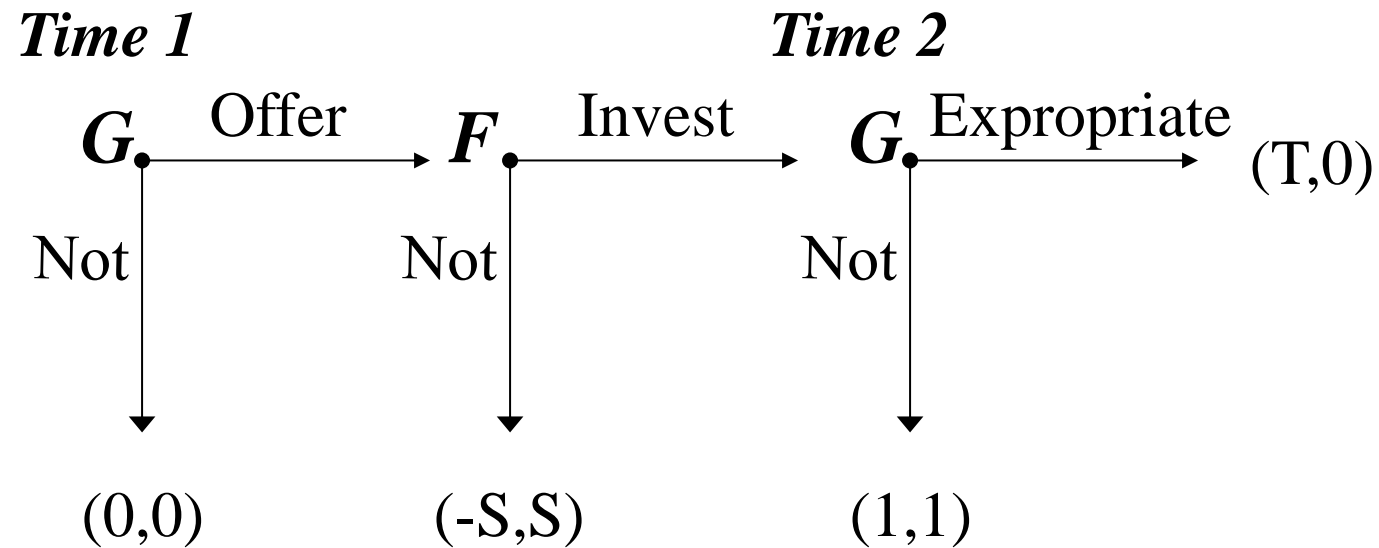
Obsolescing Bargain

Ship owner & Railroad builder



Obsolescing Bargain

Foreign Direct Investment and the Commitment Problem



Suppose that $T > 1 > S > 0$

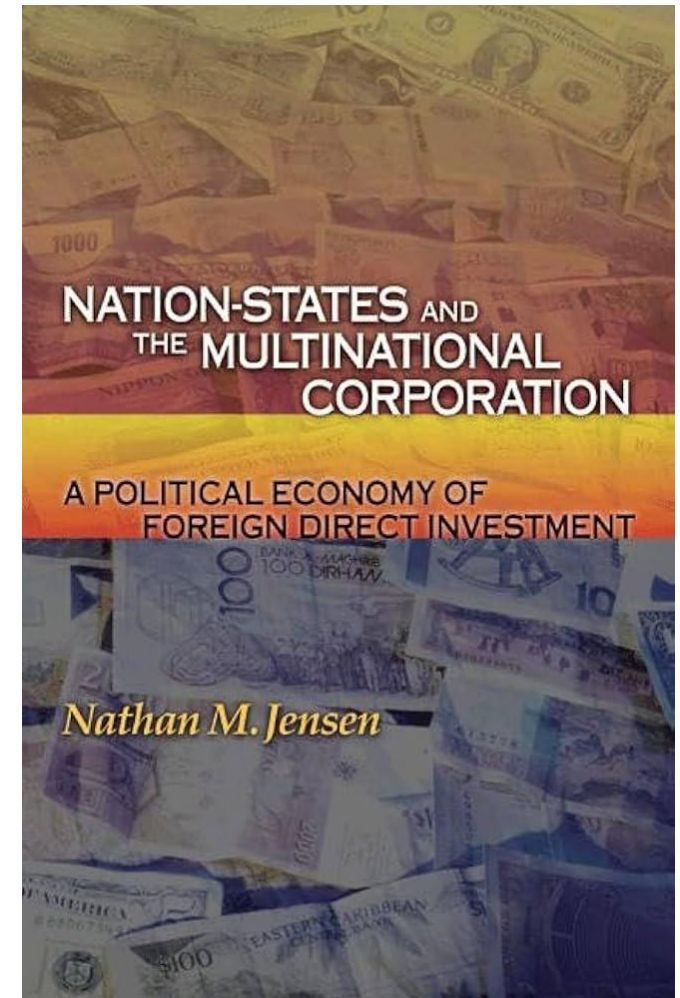
Tying Hands

How do governments tie their hands?

- Domestic: Democracy
- International: Bilateral Investment Treaties (BITs)

How do governments tie their hands?

- Domestic: Democracy
 - “Audience costs”
 - Commitment to market-friendly policies
 - Reputations matter
 - Veto players
 - Higher policy stability
 - Harder to change policy



How do governments tie their hands?

- International: Bilateral Investment Treaties (BITs)
 - Arbitration clauses
 - Allow MNCs to sue host countries in international forums
 - Countries “lock-in” investor-friendly policies through BITs

Thank You!



Take-away

- MNCs are accountable to stockholders (1 dollar 1 vote)
- Governments are accountable to various constituencies depending on the political institutional context
- Regulating MNCs
- Obsolescing bargain - another example of a time-consistency problem
- Race to the bottom thesis
- Audience costs and veto players