UNIT 10 TRANSNATIONAL/MULTINATIONAL CORPORATIONS AND STATE

Structure

10.1 INTRODUCTION

Recent years have witnessed fierce debates between the protagonists and the critics over the changing role of the state in the face of prolific rise of multinational corporations (MNC) in a fast globalising world. While the protagonists have been rather quick in proclaiming the 'end of the state', the critics sound reluctant over such a possibility. Instead, they believe that the case for the obsolescence, let alone the demise, of the nation-state has been overstated. However, both share one common understanding about the status of multinational or transnational corporations(TNC): they have become extremely important transnational political actors to be ignored in any meaningful study of comparative politics. Shaping much of the outcomes in the world today, transnational corporations, as the very name suggests, have spread across the globe at unprecedented rate and pace. The size and wealth of Multinational Corporations are too large to be ignored by the students of comparative politics. Although most analysts agree about the vast scope and volume of these corporations, they disagree strongly about their utility for the international system in general and for specific types of nation-states in particular. For the purpose of this unit, we shall refer to the supporters of multinational corporations as *MNC*-enthusiasts, and to their detractors as MNC-skeptics. However, before getting down to analysing the relative strengths and weaknesses of the multinational corporations and their impact on the nation-state, we must begin by providing brief definitions of the two important terms – multinational corporation and state.

10.2 TOWARDS A DEFINITION OF MULTINATIONAL/ TRANSNATIONAL CORPORATIONS

Controversy over a precise definition of Multinational Corporation (MNC) appears to be far from over. Even though the two terms, multinational and transnational, are often used interchangeably in the literature of comparative politics, different scholars attribute distinct meanings to them. ***Widely perceived as 'footloose' and 'stateless' entities by various globalists, a multinational corporation can be conveniently defined as a firm based in a single home country that invests in one or more other 'states known as host countries.*** However, even this relatively simple and less controversial definition raises a central issue regarding the implications of foreign direct investment. For example, as Barbara Jenkins puts it, "Whose interests does the MNC represent: those of the home country, the host country, or the firm itself? This ambiguity has resulted in a debate over the appropriate labelling of the MNC. Is it in fact a ***multinational*** entity with stakes and interests in many countries, or is it more accurately a ***transnational*** corporation that serves the interests of the home country with little regard for the host economies involved?" There are others who argue that the real misnomer is the term ***corporation,*** which is in fact only one part of a larger entity more correctly called a multinational enterprise.

No matter, whichever way one chooses to follow the debate, the controversy refuses to die down while the MNCs continue to grow both in terms of size and profit. A look at the comparative statistics of the growth of MNCs since the 1960s reveals an exponential rise in the number of such corporations. Variously designated as 'international', 'multinational', 'transnational' or 'global' corporations, the number of such companies have grown from 3,500 in 1960 to 60,000 in 1999. Some of these parent companies like Shell, Barclays Bank, Coca Cola, Ford, Microsoft, or Nestle have more than 500,000 foreign affiliates. Similarly, the aggregate stock of foreign direct investment (FDI) worldwide has increased in tandem from $66 billion in 1960 to over $4,000 billion in 1999, as compared with only $14 billion in 1914. The geographical size has also widened with the result that even 'those industrialised countries which never had empires, such as Sweden and Canada, and also some of the larger developing countries have seen some of their companies expand transnationally. Among the 100 TNCs with the highest levels of assets outside their home country, 50 are from Western Europe, 27 from the USA, 17 from Japan, 3 from Canada and one each from Australia, Venezuela, and South Korea'.

10.3 GLOBALISATION AND THE CHANGING NATURE OF MNCS

The nature of multinational corporations has undergone a drastic change with the unfolding of the process of globalisation around the world. This is evident from the changes that are fast occurring at the level of production activities taking place within the MNCs. As against the older times when there was a clear demarcation between production activities taking place at the headquarters and secondary activities occurring in the subsidiary branches, now the companies have become truly global, with the headquarters merely being a convenient site for strategic decision-making. Gone are the days when a TNC such as IBM could be regarded as an American company with several foreign affiliates. Given the widespread expansion of sales owing to revolutionary developments in the field of global communication, production activities of TNCs have today become truly global, and no longer need to be located at the headquarters. Several new developments like the diversification of production activities, adoption of global marketing strategies with an emphasis on creating a uniform brand image, and recruitment of top management personnel from across the globe indicate beyond doubt full globalisation of MNCs. It is against such a backdrop of unprecedented rise in the significance of MNCs that the political implications of MNCs on state are often analysed.

10.4 STATE AND MULTINATIONAL CORPORATIONS

In this context the balance between MNCs and Governments according to Rod Hague and Martin Harrop raises in modem form, the age old question of the relationship between economic and political power. In its current form, the logic governing the relationship is simple; capital is mobile, labour less so and states not at all. Companies can move their factories between countries, but states, by definition are fixed in spare. As a result, countries must compete to provide an attractive home for foreign direct investment. Providing an environment which at least are as business friendly as that provided by competitor states is clearly a major challenge for governments providing potential for competitive deregulation and tax competition. MNCs obviously look for low costs and taxes, the ability to take profits out of the country, weak or pliable labour unions and predictable regulations, a work force with relevant skills, a stable political and business environment and efficient transport and communication. The Governments are forced to compromise on various issues to accommodate the needs and demands of MNCs, compromising their sovereignty.

One of the most widely used definitions of the concept of 'state' is advanced in terms of being 'the sole legitimate unit of political rule' with its own population, territory, and an autonomous or sovereign government. Of all the features, it is the accompanying notion of sovereignty that has really consolidated the dominance of state by authorising it to act as an independent and autonomous entity both within and outside their territorial jurisdictions. It is also this very same feature of sovereignty of the state which has come in for severe attack from the advocates of multinational corporations who not only argue that the sovereignty of the state is fast eroding, but also that it is fast becoming redundant and obsolete in the face of the rise in the significance of MNCs as transnational political actors. Similarly, the future of nation-state as a viable political unit has further come in for attack from a number of other external sources. Growth of supranational bodies like the United Nations and the European Union, the advance of economic and cultural globalisation, and the need to find international solutions to the environment crisis are fast rendering the institution of the nation-state meaningless. Moreover, with increasing globalisation of economic life, the character of the markets has undergone radical transformation. In the changed international context, markets have become world markets, transnational corporations control most of the businesses, and capital is moved around the globe in the flick of an eyelid. All this has resulted, the argument goes, in the erosion of the power of nation-states in regulating and controlling their economic destinies. Before examining the issue of erosion of the sovereignty of the state, let us have a quick look at some of the key features of the state.

10.4.1 KEY FEATURES OF THE STATE

Andrew Heywood's classification of five key features of the state can be very useful for our purpose here and are thus being reproduced below:

- The state is sovereign. It exercises absolute and unrestricted power in that it stands above all other associations and groups in society. Thomas Hobbes conveyed this idea by portraying the state as a 'leviathan', a gigantic monster, usually represented as a sea creature.

- State institutions are recognisably 'public', in contrast to the 'private' institutions of civil society. Public bodies are responsible for making and enforcing collective decisions, while private bodies, such as families, private businesses and trade unions, exist to satisfy individual interests.

- The state is an exercise in legitimation. The decisions of the state are usually (although not necessarily) accepted as binding on the members of society because, it is claimed, they are made in the public interest or for common good; the state supposedly reflects the permanent interests of society.

- The state is an instrument of domination. State authority is backed up by coercion; the state must have the capacity to ensure that its laws are obeyed and that transgressors are punished. A monopoly of 'legitimate violence' (Max Weber) is therefore the practical expression of state sovereignty.

- The state is a territorial association. The jurisdiction of the state is geographically defined and it encompasses all those who live within the state's borders, whether they are citizens or non-citizens. On the international stage, the state is therefore regarded (at least in theory) as an autonomous entity.

Having seen some of the important features of the state, we are now perhaps better equipped to analyse the issue of loss of sovereignty or autonomy of the state and relative strengths and weaknesses of the arguments of the two broad categories of soholars that we have above identified as *MNC-enthusiasts* and *MNC-skeptics.*

10.5 MNCS' INCREASING CLOUT AND THE EROSION OF SOVEREIGNTY

Peter Willetts in his recent study of a whole range of transnational actors, including multinational corporations, identifies some of the important grounds on which states appear to be fast losing their abilities to maintain their sovereign authorities. These grounds are being outlined below with a view to enabling you to appreciate the nature and extent of MNCs' increasing clout in determining their own future by bypassing the all-powerful states in the process.

10.5.1 Financial flows and loss of sovereignty

Analysing the political impact of excessive transnationalisation of major companies on the states, Willetts argues that "it is no longer possible to regard each country as having its own economy". This has had its most severe impact on the abilities of the states to exercise effective control over two of the most fundamental attributes of sovereignty i.e. control over the currency and control over foreign trade. By illustrating the case of increasing intra-firm trade and frequent recourse to fixing of transfer prices that the MNCs take, Willetts shows how the states are fast losing their sovereignty in respect to control of financial flows. *Intra-firm* trade basically refers to a process in which international trade takes place between one branch of a TNC and an affiliate of the same company in a different country. In the case of bauxite all the trade is intra-firm and hence there is no such thing as a world market for bauxite. ***Transferprice*** is the price that is set by a TNC for intra-firm trade of goods or services. What happens under this is that for the purpose of accounting a price is set for exports, but it is not necessary to relate it to any market price. Hence, changes in the transfer price do not necessarily have any effect on the sales or the global pre-tax profits of the company. As Willetts observes, "As the logic of intra-firm trade is quite different from inter-country trade, governments cannot have clear expectations of the effects of their financial and fiscal policies on TNCs." All this has clearly resulted in the erosion of the sovereignty of the states in respect to control over financial flows.

10.5.2 Triangulation of Trade and Loss of Sovereignty

Increasing recourse to the means of 'triangulation' by companies has become a standard technique to evade the control of states over trade. The process of triangulation refers to a situation in which trade between two countries is routed indirectly via a third country. By illustrating the case of Falklands war between Britain and Argentina, Willetts shows how even in the face of economic sanctions imposed by the European Community on Argentina companies could still indulge in triangulation, sending their exports via Brazil or Western Europe. It was also possible for transnational companies to alternatively shift orders to a branch in a third country. All this clearly shows that while it could still be possible for states to prevent direct import or exports of goods, it would be well nigh impossible to prevent ***indirect*** trade from one country to another. Willetts argues that the power of triangulation currently vested in TNCs can, perhaps, only be effectively countered by a Security Council resolution, but even in such a situation 'sovereignty over the relevant trade would then lie with the Securitv Council and not with the individual governments'.

10.5.3 Regulatory Arbitrage and Loss of Sovereignty

The diminishing control of governments in respect to regulating the commercial activities of companies within their countries due to frequent recourse to what has come to be called 'regulatory arbitrage' by MNCs constitutes another ground on which sovereignty is being compromised. The two terms 'arbitrage' and 'regulatory arbitrage' have specific meanings in the context of control being exercised by MNCs over different governments. While ***Arbitrage*** refers to the simple process of buying a product in one market and selling it in a different market, in order to make a profit from the difference between the prices in the two markets, regulatory arbitrage is used in the world of banking. Regulatory arbitrage refers to the process of moving funds or business activity from one country to another, in order to increase profits by escaping the constraints imposed by government regulations. By analogy, Willetts argues, 'the term can be applied to any transfer of economic activity by any company in response to government policy'. Even though institutional mechanisms have been evolved at the international level to regulate the commercial activities of transnational companies and banks, the mandate of such international regimes like the Basle Committee and European Community does not extend to all countries. As Willetts observes, "whatever control is achieved does not represent the successful exercise of sovereignty over companies: it is the partial surrender of sovereignty to an intergovernmental body".

10.5.4 Extraterritoriality and Sovereignty

Illustrating a hypothetical situation, Willetts demonstrates how the problem of *extraterritoriality* is inherent in the structure of all TNCs, which in turn leads to clashes of sovereignty between different governments. By using the example of a hypothetical company that has its headquarters in the United States and a subsidiary company that it owns in United Kingdom, Willetts seeks to show how three lines of authority exist at the same time. As long as the United States controls the main company and the United Kingdom the subsidiary company, there would be no conflict between the two, as they would be exercising their sovereign authority within their own internal affairs. They would also be willing, under the normal circumstances, to concede certain powers to the TNCs in respect to controlling its own policies on purchasing, production, and sales. However, when the US government's decisions cover the global operations of the TNC, there is bound to be a clash of sovereignty. This would inevitably put the subsidiary company in a quandary, not knowing who to obey, the UK government or the orders of the US government issued via its headquarters? Such hypothetical situations have indeed assumed real forms in the past, as in the case of the conflict over Siberian gas pipeline. Also, the United States has infuriated Canada by periodically ordering Canadian subsidiaries of US companies to avoid selling goods to U.S. "enemies" such as Cuba and China through its ***Trading with the Enemy Act.***

10.6 PERCEPTIONS OF THE MNC-ENTHUSIASTS

MNC-enthusiasts view multinational corporations as huge economic combines that have the requisite capacity, know-how, and wisdom to treat the world as a single economic unit and to combine the factors of production like labour, land, capital, and management for maximum efficiency and production. They exhibit tremendous confidence in the ability of MNCs to produce more and better products at lower prices, thereby satisfying the progressively rising global demand for these products. The reason for this exuberance among the MNC-enthusiasts lies in their unflinching belief in the ability of MNCs to locate their plants, draw their resources, and select their management staffs from countries that can provide each factor of production at cost-efficient terms.

The MNC-enthusiasts look at multinational corporations as powerful agents of world modemisation, especially among the less-developed countries. According to them, the MNCs create new jobs, introduce advanced technologies, and train local citizens in the arts and sciences of modern management in the less-developed countries of the world. One of the most important by-products, therefore, of multinational corporate activity is the internationalisation of the production and distribution processes. Owing their professional loyalties to 'rational economic-planning structures' rather than to 'chauvinistic' or 'jingoistic' nation-states, the managers and employees of multinational corporations become better citizens of the world, oppose 'anachronistic nationalism' and war, and prepare the way for the development of world peace through world law and government.

Indeed, the most powerful argument of the MNC-enthusiasts is that multinational corporations, by spreading and intermingling their facilities and products globally, will eventually render the practice of international war obsolete. The Atlantic community, which was witness to two bloody and destructive world wars, has undergone complete transformation as a result of prolific growth of multinational corporate activities and because of the success of regional integration process in the region. The MNC-enthusiasts argue that given the growing interdependency and mutual stakes between the Atlantic countries today, it would be well nigh impossible to predict a war between say United States and Canada, or between France and Germany.

The views of the MNC-enthusiasts can finally be summed up by noting that they are all very optimistic about the global corporate activities ushering in a 'new golden age of peace and plenty'. The only thing that is needed in their views, however, is better international regulation of multinational corporate activities which is not possible without the standardisation of different national legal systems. Adoptions of such mechanisms, the MNC-enthusiasts contend, will not only make effective transfer of capital, management, technology, and economic products highly convenient, but will also genuinely transform the world into a homogenous legal community, a "world village" or a "global shopping centre."

10.7 PERCEPTIONS OF THE MNC-SKEPTICS

In sharp contrast to the perceptions of the MNC-enthusiasts, the MNC-skeptics identify a whole range of problems with the global corporate activities of multinational companies. It is not only the poorer Third World countries which are apprehensive of MNCs, but concerns about serious implications of the functioning of various MNCs are also constantly raised in the developed part of the world. Several well-organised labour unions in the Western countries are of the view that MNCs are fast moving their plants to areas of "cheap labour" resulting in serious unemployment problems in United States, Britain and other developed countries of the world.

Barnet and Muller provide a very succinct account of the arguments of the MNC-skeptics. They view the multinational corporations as "the most powerful human organisation yet devised for colonising the future." Directly attacking the MNC-enthusiasts who believe that the global corporate activities of the multinational corporations are ushering in a 'new golden age of peace and plenty', Barnet and Muller argue that problems of mass starvation, mass unemployment, and gross inequality do not even figure on the agenda of such corporations. Their main contention is that MNCs are like 'absentee landlords', who are concerned primarily with their own profits and are not at all sensitive to the fundamental human needs. By undertaking massive and seductive advertising campaigns, these corporations are not only distorting the tastes and styles of Third World inhabitants, but also fast transforming luxuries into necessities. Neglect of socially vital issues such as nutrition, clean air, and public health by such corporations, the MNC-skeptics argue, have become rampant. One is here reminded of the recent controversy that rocked the Indian Parliament and the media over the mixing of pesticides in Coca-Cola.

MNC-skeptics are particularly concerned about the political fallout of growing MNCs activities on the poorer Third World countries. In the absence of any regulatory mechanism, the future of these countries would not only remain bleak, but problems like greater inequality, greater unemployment, and extraction of natural resources will only worsen in the times to come. However, according to Barnet and Muller, such a fate is not only reserved for the poorer countries, but even rich countries will be affected in the long run. With the increasing migration of factory and even company headquarters away from the United States and other developed countries, the problem of unemployment and the attendant maldistribution of incomes will only accentuate further in the industrial West. Finally, the main argument of the MNC-skeptics is that multinational corporations are "colonising" poorer countries and "progressively weakening and destabilising" rich countries while becoming huge profit making bodies themselves. They conclude, on a rather pessimistic note, that governments in the Third World as well as in the industrialised West will be'unable to stop this process of the concentration of wealth in the hands of a few multinational corporations while everyone else becomes impoverished.

10.8 SUMMARY

What comes out quite clearly from the above discussion is that multinational corporations have not only become very important transnational political actors, but also that they have become so rich and so powerful that they can influence much of the outcomes in the world today. However, the complex interdependence between host countries, home countries, and firms that is created by the MNCs' global networks will continue to generate controversy in the future. It is also a fact that while few countries are in a position to refuse international investment, they will continue to question the MNCs' impact on the national interest. No matter, how powerful the MNCs have become today, the nation-states simply cannot be written off, if for no other reason than the factor of sheer territoriality. Nation-states continue to exercise military and political control over clearly demarcated territories and their inhabitants. Multinational corporations can neither threaten the prerogatives of the states nor match the political clout that they wield, for they are universally accepted as "the sole legitimate unit of political rule". The principle of nation-state as a viable political organisation is likely to gain in strength in the times to come. For example, the creation of 18 new states in the later part of the twentieth century, if anything, is a pointer towards this trend. The continuing strength of the state lies in its inherent power of maintaining both cultural cohesion and political unity, thus allowing those who share a common cultural or ethnic identity to exercise the right to independence and self-government. The protagonists of state are all one in holding the view that no other social group can ever claim to constitute an alternative political community. Implicit in such contention is the argument that even supranational bodies such as the European Union or multinational corporations will never be able to replace the state, and command the same kind of popular allegiance as that of the state.

10.9 EXERCISES

1) What do you mean by multinational corporations? Discuss the changing nature of MNCs in the age of globalisation?

2) Outline the key features of the state and explain the changing nature of state in the wake of growing significance of MNCs?

3) How do transnational corporations affect the sovereignty of governments?

4) Outline the key arguments of MNC-enthusiasts and MNC-skeptics.

5) Critically examine the impact of multinational corporations on the developing nations of the world.

6) Some feel MNCs are a vital new road to economic growth, whereas others feel they perpetuate under-development. Explain.