The Regulation of Multinational Corporations

Introduction

Multinational enterprises are recognized as a dominant force in the world of today. European and Japanese based multinationals have rivalled US ones in their growth and economic impact on many nations in recent years. Undoubtedly multinationals are of great importance. Recently a new explanation of the multinational enterprise has been developed by economists, called the theory of internalization. In this section the implications of internalization theory are applied to answer questions concerned with the regulation of multinational enterprises by host nations such as Canada.

Canada is a wealthy nation; indeed it is one of the richest nations in the world. It is also a small, open economy, dominated by multinational corporations, mainly of US origin. Is Canada rich because of US foreign direct investment, or is it wealthy despite the pervasive presence of multinationals? This section addresses this issue – one which has caught the attention of generations of Canadian social scientists, but one which has never been fully reconciled.

As the principles of internalization theory are explained in the previous chapters, the present section assumes a knowledge of some economic theory and it sketches in an outline of internalization in a Canadian context. It then builds upon this foundation, and places primary emphasis upon the application of the new theory to the issue of regulation of multinationals in Canada. In this next section the principles of internalization theory are applied to the issue of regulation of multinationals in Canada. This extension of internalization
theory in a Canadian context is required since the main contribution of the MNE to Canada is its ability to add net investment and technology to the economy. In fact, since the only advantages of the MNE are economic ones, these are identified here and explored at length. There are many other authors who choose to explore the political effects of the MNE and suggest that the MNE has sufficient economic power to bargain with the nation state. Yet we should be careful to catalogue the net economic benefits of the MNE in a precise manner, so that our natural concerns for sovereignty and independence do not lead us to confuse good economics with bad politics.

The second part of this chapter examines the performance of the 50 largest US based MNEs and contrasts this with the performance of the 50 largest non-American MNEs (mostly European or Japanese). Data on the profits of these firms over the last ten years are analyzed. If excessive profits are found it increases the strength of the argument for regulations of the MNEs. If profits are not excessive, the converse holds.

The final part of the chapter extends the issue of regulation of the MNE to less developed countries. It does so in terms of the equity versus efficiency trade-off implicit in economic theory in general and internalization theory in particular.

Regulation of the Multinational Enterprise in Canada

At least four arguments are advanced by those who favour increased regulation of the MNE. These are:

(a) to preserve independence by the development of an indigenous manufacturing sector,
(b) to improve sovereignty by the reduction of foreign ownership of major industrial or resource sectors,
(c) to ensure an appropriate transfer of technology to the host nation,
(d) to reduce the perceived excessive profits earned by MNEs.

Each of these arguments can be applied in a general manner to any host nation, either an advanced nation or a less developed economy. In this section these arguments are examined in the light of internalization theory, with special reference to Canada, although the general principles are widely applicable.