

Regulation of Multinational Enterprises by Host Countries

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Abstract. Currently, there exist numerous multinational enterprises situated in various regions across the globe. Since the 1990s, the exponential surge in the quantity of multinational enterprises has undeniably contributed to the economic advancement of diverse host nations and the global community. However, concurrently, the management of these multinational enterprises has also emerged as a formidable challenge confronted by host countries. This paper examines the international economic environment as the backdrop, incorporating economic principles and international trade agreements. By conducting a comprehensive analysis of various agreements and real-life instances, it delves into the specific measures implemented by host countries to regulate multinational enterprises within their borders. Subsequently, the paper discerns the fundamental objectives behind the host country's regulation of MNEs. Furthermore, it scrutinizes the two primary challenges encountered by the host country in regulating multinational enterprises, ultimately identifying the crux of the issue, namely, the distribution of benefits between the host country and the MNEs.

Keywords: Multinational enterprises (MNEs); Host countries; Regulation.

1. Introduction

With the continuous development of world trade, multinational enterprises (MNEs) have gradually become an indispensable part of the world economy. According to the statistics of the UNCTAD, as of 2020 alone, there are more than 100,000 MNEs in the world; the international direct investment stock of global MNEs exceeds \$37 trillion; not only that, some MNEs have millions of employees, such as Amazon. MNEs involve various industries and fields, including manufacturing, financial services, technology, energy, retail, etc [1]. In recent years, some MNEs have even been able to participate in the construction of public utilities in some countries. However, the rapid development of MNEs has also brought many problems, including the regulation of MNEs that will be discussed in this paper.

The management of MNEs often affects two countries, namely the home country and the host country. Usually, the home country has almost complete control over the MNEs. And the host country will be a little overstretched in the regulation of these enterprises. However, the operation of MNEs in the host country will affect the interests of the host country. Therefore, how to deal with the regulatory relationship between the host country and MNEs is very meaningful in balancing the interests of the two. This paper will comprehensively analyze the different management models of MNEs in the host country, find the problems, and propose feasible solutions.

The rest of the paper is organized as follows. In section 2, The mainstream methods, means and purposes of the host country's management of MNEs will be analyzed. The main questions will be raised in section 3. While the section 4 presents the corresponding solutions, and section 5 provides the conclusion.

2. Analysis of Host Countries' Regulation of MNEs

2.1. Mainstream Management Models of MNEs from All Over the World

At present, there are six mainstream models for the host country to regulate MNEs. The first is completely dominated by the enterprise itself, which is called self-regulation. This management method makes full use of the "adaptability" of the enterprise itself and increases the enterprise's

benefits [2]. However, the operation of the enterprise is always based on its own interests, and allowing the company to develop freely may harm the interests of the host country or other parties [3]. In addition, National regulation, i.e., a power organization of the host country directly supervises MNEs; regulation by third-parties, i.e., a third-party independent regulation of multinational enterprises that does not involve the interests of both host country and the MNE; regional regulation, for example, the regulatory authorities in the European Union have the right to supervise all enterprises in the EU; bilateral regulation, commonly known as "double taxation", such as the bilateral investment agreements, in which both the home country and the host country jointly supervise the MNEs; multilateral supervision, such as the signing of multilateral investment agreements. The last five regulation models are essentially the same, that is, to supervise the operation of a MNE by establishing an institution independent of its own.

2.2. Main Measures of Host Country Regulation to Regulate MNEs

This section summarized the main measures of host country regulation of MNEs in general two types, policy-based and incentive-oriented.

The manifestation of policy-based regulation is that the authority of the host country has passed special laws or bills to regulate the operation of MNEs. For example, the United States passed the Foreign Investment in the United States (FIUS) as early as 1975. The bill stipulates the procedures and requirements for foreign investors to invest in the United States. Also, these policies promulgated by the host country are not immutable. In fact, in the following years, the United States passed the Foreign Investment and National Security Act (FINSIA), Foreign Investment Risk Review Modernization Act (FIRRMA) and the Economic Security Review Act (ESRA) to cope with the rapidly changing international investment environment and protect the economic security of the US.

Incentive-oriented regulation is generated by the continuous development of the world economic system. With the increasing status of MNEs in the world economic system, the host country no longer have the privilege of unilaterally selecting MNEs. When choosing a host country, excellent multinational companies tend to choose countries that give themselves more favorable conditions. The relationship between the host country and MNEs has also gradually evolved into a mutually selective relationship [4]. For example, China introduced a series of preferential measures for multinational enterprises as early as 1999, and continues to optimize these measures to this day [5]. Multinational companies are attracted by these preferential measures, so they have clarified the rules they must follow before entering the host country. And the host country itself has benefited from this, so this kind of regulation is more like a kind of cooperation.

2.3. Core Objective of Host Country Regulation of MNEs

The core objective of the host country's management of multinational enterprises is to safeguard the interests of the country. For a host country, the national interests involved in MNEs cover many aspects. This paper summarizes these aspects into three major sections: economic interests, industrial development and international competition. Unlike domestic enterprises, MNEs are usually more powerful and efficient in cross-border activities such as cross-border logistics, cross-border trade and cross-border production [6]. Therefore, host countries with weak economic development tend to make up for their disadvantages in international trade by increasing the number of domestic multinational companies. Therefore, the host country usually supervises the corresponding multinational companies according to its own economic interests. In addition, the technology used by multinational enterprises, especially from MNEs in more technologically advanced regions. These innovative technologies not only directly or indirectly improve the MNEs' "productivity", but also help improve the "productivity" of the whole industry [7]. In the end, these technologies can help the host country improve the overall development level of an industry and promote the development of the sector.

Finally, for the host country, whether it is economic interests or industry development, these are ultimately reflected as part of the national "soft power". Nowadays, all countries in are competing with each other on this track. The host country not only needs MNEs to help its economic

development, but also prevents the home country of MNEs from harming its own interests. In this way, it is necessary for some countries to attach so much importance to the regulation of multinational enterprises.

3. Main Problems Facing By Host Countries When Regulating MNEs

3.1. Tax Losses In the Host Country

Regarding the tax issue in the host country's regulation of multinational enterprises, this part will not analyze the common situation of profitable enterprises such as tax evasion, but focus on the tax issues that only multinational companies will occur. At present, when the host country deals with the tax issues of MNEs, one of the most important and difficult problems is the "legal tax avoidance" of multinational enterprises. Because of the special nature of "multi-country operation", most multinational companies will avoid paying relevant income tax by transferring profits to the "tax havens" [8]. For example, from 2011 to 2015, more than \$100 billion in profits have been transferred to Ireland from all over the world every year. World-renowned MNEs such as Apple, Google and Amazon have transferred almost all their profits to Ireland, while Ireland's corporate income tax is only 12.5%, which is far lower than the most countries in the world. These taxes avoided by multinational enterprises are a huge loss for their host countries. Take Apple as an example. Apple has always avoided huge taxes around the world through a tax payment scheme called "The Double Irish". Apple's sales profit exceeded \$39 billion in 2014, but Apple paid less than \$20 million in taxes around the world, accounting for only five-ths of Apple's total profit [9-10].

3.2. The "Legal" Monopoly of MNEs

In addition to tax losses, the host country may also face the monopoly of multinational enterprises. As mentioned above, some MNEs may come from some more developed home countries with more advanced production methods and business strategies than host countries. These advanced technologies and strategies may not only inject vitality into the host country market and promote the development of the industry, but also make multinational enterprises monopolize the market. Although the host country may have passed the anti-monopoly-related laws, it still cannot prevent some multinational enterprises from "legally" monopolizing the host country's market. The monopoly of multinational enterprises will not only hinder the development of the same type of enterprises in the host country, but also prevent the economic development of the host country. The study found that multinational companies may use monopoly power and their sole ownership and utilization of stock of knowledge-based assets in the production of service industries, resulting in a distortion of relative prices and masking the optimal allocation of resources between the national and the MNEs sectors [12]. In the end, the development of the same industrial enterprises in the host country may be seriously hindered, resulting in a reduction in employment opportunities in the host country, a soaring unemployment rate and a sharp decline in national income.

4. Countermeasures

4.1. Increase International Cooperation Related to MNEs

Increase international cooperation, that is, mutual cooperation between the host country and the home country of multinational enterprises. Countries can cooperate by means such as signing multilateral agreements. Different agreements have different focuses. The host country can find countries with strength and the same willingness to develop. This is not only conducive to the host country's selection of favorite MNEs, but also allows the host country and the parent country to formulate a mutually satisfactory cooperation plan at the beginning of the cooperation. Although this plan cannot be perfect, such an effective plan will be conducive to the host country's regulation of MNEs. For example, the Regional Comprehensive Economic Partnership (RCEP), initiated by ten

ASEAN countries. RCEP focuses on traditional trade in goods and the interests of developing countries, which is conducive to cooperation between developing countries and multinational enterprises that focus on traditional trade in goods. Moreover, the RCEP agreement consists of more than 20 chapters and other parts, which directly includes economic and technical cooperation, government procurement, general terms and exceptions, institutional terms, dispute resolution, etc., covering almost all the disputes that host country may encounter in the future when regulating multinational enterprises [13]. There are many other similar multilateral agreements, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which is attended by many countries such as Japan, Australia and Canada. It sets strict standards in terms of labor and environmental rules, Internet rules, intellectual property regulation and digital economy. Also there are The United States-Mexico-Canada Agreement (USMCA) and many other international trade agreements. The host country can more easily regulate MNEs by participating in or signing the agreements, which can not only effectively protect the interests of multinational enterprises, but also safeguard their own interests.

4.2. Host Country's Policy

The policies formulated by the host country for multinational enterprises will directly affect the host country's regulation of MNEs. The host country can further improve these policies or laws. Whether it is policy-based or incentive-oriented rules, a better system means more detailed regulation of MNEs. The host country should not only improve the legal rules only for multinational enterprises, but also pay attention to the organic combination of these rules with other laws of the host country, and use laws in different fields to weave a set of regulation that cover all aspects of multinational enterprises. Both multinational companies and domestic companies must abide by the laws under the same system, which is not only fair, but also reduces unnecessary investment. In addition, the host country can appropriately increase the proportion of incentive supervision. The transformation of the supervision relationship between the host country and multinational enterprises into a cooperative relationship is also conducive to the distribution of interests between the two parties.

5. Conclusion

This paper predominantly concentrates on the regulation of multinational enterprises (MNEs) by the host country. It conducts an exhaustive analysis of the models, objectives, and measures employed by the host country to regulate MNEs. This analysis is undertaken in conjunction with the evolution of international trade, international trade-related treaties, real-life cases, as well as authentic reports and data. Moreover, this paper delves into a comprehensive examination of the primary challenges encountered by the host country in overseeing multinational enterprises, and subsequently proposes appropriate remedies to address these challenges.

The paper found that the fundamental cause behind all disputes arising from the host country's regulation of multinational enterprises lies in the mutual pursuit of self-interest by both the host country and the multinational enterprises, and inevitable conflicts between these interests. Consequently, the key to resolving the challenges faced by the host country in regulating multinational enterprises lies in striking a delicate balance between the interests of the host country and the multinational enterprises. This entails optimizing the distribution of benefits between the two parties and ultimately devising a profit-sharing scheme that satisfies both sides under the most favorable circumstances. In order to attain this solution, the host country must effectively and judiciously exercise its "supervisory authority" since the primary objective of multinational enterprises is always to maximize their own interests.

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