China

- World's factory - export powerhouse
  - low costs
  - large amounts of capital

- World's fastest growing GDP rate - greater than 9% year
  - ½ of GDP state-owned companies

- Economy has doubled ($) every 8 years for last 30 yrs.

- China surpassed Germany in 2009 as the world's largest exporter

- 2009: Chinese government bought financial interest in Energy Industries

- Recession -> big drop in demand for Chinese products

- Consumer protections not significant

- Questions about economic + political environment
  - human rights issue
  - google
Policies to Help MNCs to Confront Concerns About Ethical Behavior and Social Responsibility

1. Develop a worldwide code of ethics
2. Build ethical policies into strategy development
3. Regularly assess the company's ethical position
4. If you cannot resolve or avoid ethical confrontations, withdraw from market

General Electric withdrew from Nigeria due to corruption.
Managing Subsidiary—Host-Country Interdependence

Common Criticism of MNC Subsidiary Activities

love/hate relationship between the host government and the MNE or subsidiary

- love econ growth
- hate

1. MNCs locally raise needed capital contributing to increased interest rates in host country

2. most (often times all) of the stock of the subsidiary is owned by parent company Host country has little control over the firm's operations
Common Criticism of MNC Subsidiary Activities Cont.

3. MNC generally save key managerial positions for expatriates. Result is that the subsidiary does not contribute to the development of host country high-level positions.

4. MNC do not adapt their technology to host country

5. MNC concentrate R&D activities at home, which restricts the transfer of modern technology to the host country

6. MNC often give rise to the demand for luxury goods at the expense of other consumer goods

7. Sometimes MNC, rather than starting a new facility, purchase existing facilities

8. MNCs often dominate industrial sectors, which contributes to inflation & stimulates demand for scarce resources

9. MNC are not accountable to their hosts, they only respond to home-country governments
# MNCs Benefits and Costs to Host Countries

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Costs</th>
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<tbody>
<tr>
<td>1. Access to outside capital</td>
<td>1. Competition for local, scarce capital</td>
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<tr>
<td>2. Foreign exchange earnings</td>
<td>2. Increased interest rates as the supply of local capital decreases</td>
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<tr>
<td>3. Access to technology (employees trained in modern tech?)</td>
<td>3. Inappropriate Technology?</td>
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<tr>
<td>4. Infrastructure development</td>
<td>4. Development investment by government exceeds the local benefits</td>
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<tr>
<td>5. Economic growth</td>
<td>5. Increased pollution</td>
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<td>6. Creation of new jobs, more humane employment standards</td>
<td>6. Limited skill development competition for scarce skills</td>
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<tr>
<td>7. Local management development</td>
<td>7. Few managerial jobs for locals</td>
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<td>8. Income multiplier effect</td>
<td>8. Employment by MNC is unstable</td>
</tr>
</tbody>
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Managing the Interdependence

The Risks of Interdependence

1. **Nationalism** → public opinion rallies in favor of national goals and against foreign influences
2. **Protectionism** → the host country institutes a partial or complete closing of borders designed to withstand competitive forces from foreign products
3. **Governmentalism** → a government uses its policy-setting role to favor national interests

Issues in Managing Environmental Interdependence

1. Taking advantage of weaker environmental regulations
   - E-waste to India
2. Exporting chemicals that are banned in U.S.
   - DDT
3. Overall Ethical Dilemma: Contradictory requirements of selling at low prices (minimizing costs) and then at the same time being environmentally and socially conscious
Recommendations for MNCs Operating in and Doing Business with Developing Countries

1. Do no **Intentional** Harm. This includes respect for the environment and consumer safety.
2. Produce more **good** than harm for the host country.
3. Contribute to host country's development.
4. Respect the human rights of their employees.
5. To the extent that local culture does not violate ethical norms, respect the local culture and work with, and not against it.
6. Pay their fair share of taxes.
7. Cooperate with local government in developing and enforcing just background institutions.