

Committee: Special Political

Topic: The influence of states in international corporations



Summary

Multinational corporations with business operations in several countries across the globe have great power and influence. An increasing concern for member states is that other countries will cooperate with these companies and exploit their power and influence for malevolent purposes. It is the responsibility of the United Nations to act as an impartial body and help introduce protective measures to prevent this from infringing on its member states' national sovereignty and disrupting international peace and security.

Key Words

Multinational (/Transnational) corporation = businesses with a headquarters in one country but facilities and assets in at least one other country

State = possesses a permanent population, defined territory and recognised sovereignty

Sovereignty = ability of a government to control its territory within recognised borders and make decisions independently of those made by other national governments

Global influence = the ability of global actors (e.g. national governments, multinational corporations) to affect the actions of other global actors

Global actor = any social structure which is able to act and influence the global or international system

Tax haven = a country that offers foreign individuals and businesses little or no tax liability, shares limited or no financial information with foreign tax authorities, and does not typically require residency or business presence for individuals and businesses to benefit from their tax policies

Tax avoidance = the use of legal methods to change a corporation's financial situation to lower the amount of income tax they owe

Background

Chapter 1 Article 2 of the Charter of the United Nations states that “the organization is based on the principle of the sovereign equality of all its Members”. This shows that the right of states to sovereignty (being able to control what goes on within their recognised borders) is one of the founding principles of the United Nations, and therefore the United Nations seeks to protect the national sovereignty of all its member states. Today one of the biggest threats to national sovereignty is the influence of multinational companies, and in particular the misuse of multinational companies by states to gain power over, thereby breaching the national sovereignty, of other states.

Multinational corporations can have the advantage of lower labour, energy, property, transport and distribution costs, as well access to large markets overseas, resulting in an increased sales turnover. As they turnover large profits they grow rapidly, and as they get larger they have greater power and influence, especially if they locate in developing countries.

Key example issues

1. China and Huawei

Huawei is a Chinese multinational technology company that is the world’s largest supplier of telecommunications network equipment and second-biggest maker of smartphones, with revenue of about \$121.72 billion last year. According to the Fortune Global 500, Huawei is China’s largest private company (not state or government-owned) and therefore has huge power and influence in China, but is also reliant on a good relationship with the Chinese government to remain in that position of power. Both the founder of Huawei Ren Zhengfei and the president of China Xi Jinping claim that Huawei is entirely employee-owned and not in cooperation with the Chinese government. However, a Chinese law passed in 2017 legally requires all companies and individuals to cooperate with Chinese intelligence services if asked, which has led to fears among other nations that the Chinese government could potentially use Huawei for surveillance/intelligence purposes in other states.

These fears are amplified given Huawei’s significant role in the current development of 5G technology. 5G technology will be more software-based, making it more vulnerable to exploitation by hackers and malevolent powers (i.e. other national governments).

The US currently views Huawei as a threat to National Security and has been quick to take action to regulate it, for example by banning government agencies from purchasing Huawei technology to prevent confidential information possibly being leaked to the Chinese government. In addition, the US government has warned the international community of Huawei and China’s growing influence on smaller nations in Eastern Europe including Hungary, Slovakia and Poland, which the US also claims “have a higher propensity for corruption”.

2. Russia and Facebook

There is a wealth of evidence to show that the Russian Federation used social networks and online services, particularly Facebook, to influence millions of Americans before the 2016 presidential election. For example, Facebook has revealed to the US Congress that the, Internet Research Agency, a shadowy Russian company linked to the Russian government, had posted roughly 80,000 pieces of divisive content, often focusing on race, religion, gun rights, and gay and transgender issues, which was shown to about 29 million people between January 2015 and August 2017.

These findings are made even more significant by the fact that Facebook knew about the Russian interference taking place on its platform. Several times before the election Facebook's security team discovered threats targeted at employees of the major American political parties from a group called APT28, an agency linked to Russian military intelligence operations. This suggests a level of cooperation between Facebook, a multinational corporation, and Russia, a state to influence the election of another state, the United States of America, and thereby breaching the United States' right to national sovereignty.

3. Corporate taxes

Corporate tax rates range around the globe, from 27% in the US, to 19% in the UK, to 0% in many nations, including the Bahamas, Bermuda and the Cayman Islands, which are known as tax havens. Low tax rates in some nations can encourage multinational corporations to use these tax havens to pay less tax than they would have to in their native countries, known as tax avoidance. For example, American companies can establish their headquarters in Panama, so they only pay taxes to Panama at a lower rate than they would have in the US, known as the 'Panama Scoot' which is a form of corporate profit shifting. Another common method is for corporations to move their patents, code, formula or algorithms to lower tax countries so that these valuable assets belong to the branch of the corporation in the tax haven. The native branch of the corporation can then funnel its profits to the tax haven, disguising them as payments for the patents.

This demonstrates how the tax rates of certain states can influence the actions of multinational corporations in ways that disadvantage other states because their government miss out on vital tax money from corporations which are native to their state.

However, as part of their right to national sovereignty, tax haven states are allowed to require only low tax rates, and to many of these states tax avoidance of multinational corporations is a vital component of their economy. Their low tax rates give these states a financial services industry, and they can also benefit from job and business creation as they can offer services such as trust management.

Possible solutions

- UN member states who could be negatively affected by this issue can introduce laws to regulate the multinational corporations involved. For example, the U.S. Commerce Department placed Huawei Technologies on a trade blacklist due to its national security concerns, and the UK has also introduced a number of limitations.
- States who lose out on large amounts of money due to corporate tax avoidance can modify and improve their tax laws to crack down on the problem.
- The United Nations, as an impartial body, could produce reports on situations where it is suggested that states have influenced multinational corporations, such as in the case of China and Huawei, and Russia and Facebook.
- The United Nations could produce an agreement for its member nations to sign that would commit them from influencing multinational corporations in secret, and allow the UN to hold them accountable if they did.
- The United Nations could recommend sanctions against its member states when they have influenced multinational corporations in ways which are contradictory to the United Nations' goals and principles, and multinational corporations who have cooperated with these states to infringe upon the rights of other states.

It is important to remember that any solutions to this issue must respect the national sovereignty of all the states involved.

Resources

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<https://www.bbc.co.uk/news/resources/idt-sh/Huawei>

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