Spillover Effect Caused by the MNEs on the Host States

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Abstract. Being a prominent promoter in the process of economic globalization, the MNEs help promote the development of the economy both in the parent country and the host states by acting as an indispensable market subject. The MNEs root the host states' or even the global market, relying on the advanced technology of the parent country-usually developed country. During the process, the companies focus on training not only relevant but also extraordinary employees and promote the proportion of exporting and renewing the structure of manufacturing, establishing maker factories directly in the host states, thus accelerating the process of the spillover effect invisibly. From this perspective, the technology spillover effect seems to bring a win-win result. But it is worth noticing that the technology which can be transferred to the host states or provided by the MNEs is limited both in quality and quantity. Furthermore, the economic spillover effect may also cause the capital crowding out from the host states' market, the suppression of the national enterprises, and the formation of monopolies are also worth studying. However, the current researches on the spillover effect mainly are about solving the practical problems, and the general plus comprehensive study is in deficiency. Therefore, this study focuses on the different aspects that the spillover effect can impose on the host states. Finally, it finds out that the spillover effect can operate in both negative and positive manners, which provides a groundbreaking perspective to deeply discover the MNEs and the spillover effect.

Keywords: Spillover effects; MNEs; host states.

1. Introduction

The spillover effect is originally a concept from microeconomics, but now it can be widely used in many different areas. It refers to the impact of the Foreign Direct Investment (FDI) on the host states' technology, management, labor force, and many other factors, which is not the original purpose and is unintentional and not designed deliberately. The influence of the spillover effect can be classified into the economic, political, cultural, and the legal aspect. In terms of the economic spillover effect, it can be divided into more detailed manufacturing factors such as capital, technology, and labor. In terms of the political spillover effect, the spillover effect is regarded as the core of the neo-functionalism and is also the prominent point when studying the neo-functionalism. As one of the representatives of neo-functionalism, Ernest Haas introduced the concept called "spillover" based on argument that economy and technology have relatively distinguished possibilities with politics [1]. According to Haas, spillover can be seen as "the experience that regional corporation organizations can gain from different tasks that they have finished or are carrying out. And the experience can be used to apply to other tasks, which will enable them to show dynamic expansion when performing other affairs [1]. "If all the actors involved in the integration choose to act based on the interests, using the experience from one field and applying it to other fields, thus promoting the spillover effect [2]. " Neo-functionalists believe that the spillover effect has made great contributions to European integration, and they believe that the Spillover effect refers to a way where the creation and the deepening of the integration will happen both inside the department and outside the department and also generate a greater level of authority at the European perspective [3]. In order to further understand the spillover effect, neo-functionalists classified it into functional spillover, induced spillover, cultivated spillover, social spillover and exogenous spillover [4].

The formation of spillover can not be without the gap in the technology and the information between the host states and the parent country. The nature of host states' industry determine that it has the instinct to learn new things and the host states often bear the open policies in order to attract

more talents to promote economic growth. The third technology revolution also accelerates the process of spillover, which focuses on the significance of the latest technology, and the third industry has become more and more vital in economic growth. If one country can hold the most advanced technology, it will sure to be competitive in international trade, which can explain the process of manufacturing factors flowing worldwide.

Nowadays, the study about the spillover effect mainly focuses on its combination with practical problems, for example, the study about the spillover and the investment risks [5], the residential spillover in metropolitan areas in relation to railway lay [6], the low-carbon economy based on the spillover effect [7], the lowest hourly wages in related to the high-tech talents [8]. Moreover, There are also plenty of researches focus on the MNEs and most of them choose to explain from one specific perspective about the influence that the spillover can impose on the host states. This essay will discuss the spillover effect caused by the MNEs on the implication of political, economic, and legal perspectives, both positively and negatively, from a general scale in order to provide a comprehensive perspective to understand the spillover effect, hoping to make the host states take advantages of the spillover effect and develop their economy.

2. The Spillover Effects Caused by the MNEs on the Implication of Economy

In order to promote economic growth, on the one hand, it needs to meet the requirements of the capital, land, factory building, and the input of other fixed assets. On the other hand, the progress of the system, the management methods, and the technology need to meet certain standard. The Liberalism marketing theory suggests that the economy will develop steadily after all the requirements are met before. Even though there are some unpredictable risks or accidents that might occur, these are all considered to be short-term and small probability events. Thus in the long term, the economy still remains on a constant upward trend [9]. Because of this, the different interests among various market players can be met, and harmony can be obtained. And the following discussion about the spillover caused by the MNEs to improve the economy after the conditions needed for the growth of the economy is possible.

MNEs play a positive part in promoting the economic growth in the host states. From the perspective of the management spillover effect, MNEs will provide the employees in the host states with relevant and systematical training, thus, the quality of the employees will be improved, and the skills they handle will be enriched. In order to attract more and more extraordinary staff with high qualities, the MNEs will also choose to cooperate with the college to conduct special training courses for talents. On the one hand, it helps save costs, reducing unnecessary expenses, thus improving profits. On the other hand, the sources and the qualities of talents are guaranteed. In addition to train stuff in the host states, the MNEs also establish relevant training centers overseas and talents may choose to return after considering the attractiveness of the host states or accepting the assignment offered by the company. They act as the advanced talents to fill the vacancies in the host states and also introduce the latest management menthols worldwide, thus promoting the update and upgrade of the methods used so far. The endogenous growth theory suggests that investment can bring more jobs and the latest management methods could change the structure of obtaining employment, the mixture and qualities of skills and its productivity to some extent [10]. The employees will improve themselves and promote competitiveness after the training, and the chance of getting a higher pay is promising. They will realize their self-value in the company at the same time. Additionally, the proportion of women in the workforce will be increased and the employment environment will be improved.

From the perspective of the industrial correlation effect, the implication of spillover on the industrial chain can be classified into forwarding linkages and backward linkages [11]. For forward linkages, the investment from the MNEs to the host states promotes the development of the commodity marketing market, semi-product market, raw and processed materials market, and other downstream markets. For backward linkages, the raw and processed materials market will also be

developed as the demand continues to expand. The enterprises in the upstream and the downstream of the industrial chain are correlated by the MNEs with some new industries emerging and supporting facilities appearing. While the productivity of the labor force has risen, the cost of the industry has been reduced. It also helps refine the division of labor and further facilitate communication among industries, thus promoting the industrial agglomeration effect.

Moreover, the spillover effect which implicates the technology is said to be the most obvious and there are three methods to obtain the spillover: (1) on the one hand, the MNEs set a great example for the local one to follow and learn from. On the other hand, these foreign companies also bring invisible pressure upon the local ones. In order to maintain their dominant position in the local market, they need to do something new to upgrade. (2) the MNEs help transfer the latest technology as they spread to different regions of the whole world. They renew the local original product methods and imperceptibly improve the local productivity by seizing the proportion of the market and carrying the mass production, forming the spillover effect among different industries. (3) the industrial transfer of the MNEs brings the flowing of the relevant talents. They also have been trained systematically, which makes them very competitive human capital. For the host states, they become the necessary carrier of the technology spillover effect [11]. The MNEs not only bring pressure upon the local companies but also bring the opportunities, such as the industrial agglomeration effect mentioned above. Due to some restrictions of the host states, the MNEs need to establish cooperation with the local company to root in the completely strange market, including the establishment of distribution agreements or the production agreements or public-private partnerships with lower cooperate level [12]. These all activate the local enterprises, opening up a wider market for them and making contributions to the host states' economic growth.

However, the discussion over the economic implication of the spillover effect will not be defined only from a positive perspective. From the general trend worldwide, developed countries often have more advanced technologies, and high-end industries with low pollution, forming a monopoly over the latest innovations and remaining the peak status of the whole world's economy. For the developing countries, they can compete neither in the development of scientific achievements or innovation capabilities. They mostly rely on low-cost raw resources, a cheaper labor force, and untapped market to attract FDI from developed countries. However, the industries transferred to the developing countries are often those who are lost their enthusiasm in the parent countries, including low-end industries with heavy pollution or low technology level. So the technology the host states can get from this process is very limited compared to the core technologies hidden in the parent company, which are never accessible. The MNEs use the host states to avoid the cost of environmental protection by taking advantage of low standards and slight punishments. They plunder the non-renewable resources of the host states in order to guarantee the security of the raw resources in parent countries. Besides, the MNEs bring plenty of capital into the host states' market, promoting the gathering of capital factors. The stockings which can be used to invest are accumulated and can make up for the investment gap in the host country to some extent. And the new markets and capabilities of products can be formed at the same time, thus helping economic development. But during this process, the capital crowding out effect will emerge invisibly. The local companies may be squeezed out of the market considering they can't get enough investment from the foreign capital compared to the MNEs with obvious advantages, resulting in a hollow industry, which is detrimental to the economic security of the host states. For the host states, the investment from the MNEs is kind of like a double-edged sword, with equally significant benefits and risks [13].

3. The Spillover Effects Caused by MNES on the implication of Politics

3.1 The MNEs being as an interest groups

The politics of society is often regarded as equalizing pressure among different groups, and the MNEs can also become interest groups with unique advantages. The MNEs have abundant resources, including financial, organizational, and information resources. It is undeniable that the MNEs hold

substantial capital, which is not only valued in quantity but also in its convenience of convertibility. They can be used as tempting competitive conditions to attract fresh henchmen also the hard currency to buy or bring in high-quality leaders or political elites who play an important role in decision-making. Capital can also be used to support politicians as bargaining chip in exchange for loose and preferred policies, which is similar to the relationship between bureaucrats and chaebol in Japanese factional politics, where capital can put a spin on themselves or the politicians they support, leaving good impressions through the media publicity thus accumulating public support and earning votes. From the financial resource perspective, the MNEs often have their own subsidiaries in many countries or regions. The abundant capital and the strong anti-risk ability provide the companies with the chance to spread abroad and give them sufficient money to support politicians. This kind of "who has wealth speaks louder than others' is hard for other interest groups to compete with. From the organizational resource perspective, the interest groups formed by the MNEs have invisible but strict threshold restrictions, for example, the European Round Table of Industrialists is a business group consisting of 60 multinational giants [14], whom themselves have great influence in their respective field, and it is not difficult to imagine what degree of influence will be when they join together. With their own networks and political details, the companies are closely connected with each other and maintain a relatively harsh requirement in setting the intangible barriers to enter in order to maintain the efficiency and high standards of the organizational resources. From the information resources perspective, with the development of today's world, the emphasis on the significance of the information can't be too much. It has become an invisible competitive chip. Sometimes the company can be successful not only rely on strong capital but also something do with the control of the information gap. The MNEs need to keep a close connection with the government and pay special attention to the political trend behind policies so as to deduce or even know in advance the next move of the government. Apart from the government, the MNEs also need to focus on the movements of competitors or groups in the same market or industry in order to make a plan for future development. In addition to R&D employees for relevant products, there are also analytical experts in the company. They provide solid information guidance for the company through big data and think tanks.

It is undeniable that the MNEs, as interest groups, plays an important role in promoting politics which help provide the government with a professional market perspective to make decisions, broadening the horizons for the government. The MNEs use legal and reasonable ways to express their political aspirations to directly take part in political activities, which change the long-term situation that politicians and factional remain dominant, promoting political pluralism. It is regarded as an embodiment of political demonstration, which should be praised and encouraged.

3.2 The political actions of the MNEs

The political actions of the MNEs can be classified into three types: the political actions of the parent company towards their parent country's government; the political actions of subsidiaries towards the host states' government, and the political influence of the MNEs on the international society and the discussion will be focused on the latter two perspectives.

The political behaviors of the subsidiaries toward the host states' government mainly include:(1) political negotiation. It is the bargaining between the MNEs and the host states over the endless discussion about whether to loosen or restrict the productive conditions. (2) political cooperation. In order to seek sustainable development and more lenient business policies, the MNEs may choose to cooperate with the local government. (3) political bribery. The MNEs may use money to buy the officials in the certain apartment in order to implement favorable policies or reduce the regulatory penalties of punishment or to obtain the qualifications which was originally not be qualified for. (4) political lobbying. The MNEs impacts the formation and implementation of certain policies through buying or manipulating the political behaviors of the lobby group so as to make profits. The MNEs can also affect the host states through the diplomacy of their parent country or play the "lobbyist' role between two countries, exerting influence through their unique role and position [15].

The spillover effect of the implication of the MNEs' political actions can be seen that, on the one hand, the MNEs will influence the political process of the host states through political behaviors to achieve the target. In the 1970s, the Lockheed scandal was very famous when the former Japanese Prime Minister Kakuei Tanaka was suspected of accepting 500 million yen from the Lockheed through Marubeni Corporation during the process of state purchase of airplanes. And in the 1984, the chairman of the Japanese real estate company Rikulut gave unlisted shares from its subsidiary to political officials and the recipient gain profits of about 600 million yen from sailing the shares. The money politics between the MNEs and the government reveals the vein of dark dealings which lead directly to the loss of power of the Liberal Democratic Party of Japan (LDP) for the first time since the 1993 election and the LDP decided to abolish factional politics-a special form of organizing parties with long history in Japan. Although the abolishment of the factional politics was an inevitable result of the development of history and the option in response to the world democratic trend. The factional politics has been criticized repeatedly for its organization form, its ethics and the rigid leadership. The spillover effect of the political behaviors has made it clearer that what extend that money can corrupt democratic politics which has become the last straw that breaks a camel's back. It gives inspiration and teach the host states lessons to fight for integration and against corruption. The reason why the MNEs can profit from the political bribery and political lobbying is closely related to the lack of openness and transparency of government bidding and purchase. Therefore, when establishing democratic politics, it is prominent to take the influence of relevant money behaviors of the MNEs on politics into account. Use the supervision of the public to bring the government approvals under management of society and enterprises so as to purify the market environment and to truly build a service-oriented government thus promoting democratization. Meanwhile, the government should analyze the political requirements of the enterprises for the host states and to maintain the continuity and integrity of policies thus promoting the long-term development for companies. Reduce unnecessary administrative intervention to relieve burdens on enterprises and adopt a positive attitude towards the introduction of new technologies to improve the society labor productivity. The spillover effect of the MNEs not only affect the political process but also makes the host states consider the MNEs as an important subject in the policies-adjusting thus promoting the diversification and improve the formulation of policies, establishing purity government and increasing people's satisfaction.

The political influence of the MNEs on the international society mainly includes: (1) the social network controlled by the non-tradition MNEs has become a platform for political operation apart from the original one. The politicians, the parties rely on the power of the Internet to expand their influence. The western world often regards the supervision of social media as the forth right in addition to the legislation, execution and jurisdiction. (2) the MNEs can help maintain the stability of the international society. For example, if two countries have the possibilities to declare the war, then the MNEs with direct interest involved will use their power or influence to reduce the possibility of war in order to reduce their loss of interests [16].

4. Legal Sggestions on the Spillover Effects of the MNEs

Since the spillover effects of the MNEs has such obvious disadvantages and causes many serious problems, the law, considering its efficiency and high implementation can be introduced as a convincing way to help solve this problem.

4.1 Fulfill the legal gap for the MNEs to shoulder the social responsibilities

Considering the requirements of the host states to attract the FDI and develop the economy, they choose to lose the regulations set for the MNEs and engage in race-to -bottom to get investment, which gives the opportunity for the MNEs to make profits and shoulder fewer social responsibilities. The lack of specific provisions in the host states' legal system and the sight enforcement result the weakening of the MNEs' responsibilities. The MNEs constantly exploit the workers which infringe

on labor's interests. They emit toxic and harmful substances and pollute the environment relying on the low standards of environment protection and sight punishments. The host states do not set strict inspections mechanism for the qualities of products and the lack of external monitoring mechanism make it easier for the low-quality products to enter the market which violates the interests of consumers.

In order to change the phenomenon that the MNEs is lack of social responsibilities, the host states need to implement the relevant regulations. Even from the international society perspective, the international law is regarded as soft law considering its sight punishments and its effectiveness is constantly being questioned and there are not enough regulations to restrain from the international organizations upon the immoral behaviors of the MNEs. Therefore, the host states, with the compulsory institutions to help implement the law, based on the social contract theory [17], should bear the responsibilities of fulfill the blanket of domestic legal system. Improve Corporation Law, Labor Law and set maximum working hours and minimum hourly wages for workers [18]. The clear and guaranteed bonus or benefits should also be included. The scope of stakeholder protection should be extended to protect not only the shareholders or the creditors, but also the common employees, consumers and the community where the company is located. There is also need to deeply refine the regulations on the social responsibilities so that the enterprises are reminded of the prominence of human rights so as to respect the legitimate interests of people. Government should establish information disclosure mechanism to publish the non-compliance company and improve the efficiency of supervision and the level of regulations at the same time. These will urge the MNEs shoulder social responsibilities and make contributions to protect human rights.

4.2 Fulfill the legal gap for commercial bribery

Due to the profits-seeking nature of capital, the MNEs tend to use commercial bribery to influence the national power in order to obtain the most benefits with the lowest cost. Given that the relevant penalty mechanism is not enough and the cost of not obeying is respectively low, bribery is very common, which can be seen as challenges to the democratic rights and the manifestation of company upon legal authority. In 2000, the 55th session of the UN General Assembly adopted The UN Convention against Transnational Organized Crime. And in 2003, the 58th session of the UN General Assembly adopted The UN Convention against Corruption which further regulates the corruption crime [19]. The UN Convention against Corruption puts emphasis on the prevention mechanism for corruption, the co-existence of multiple actors during fight against corruption, the pursuit of corporation liability [20]. It also focuses on the significance of international cooperation during the process of anti-corruption and the expansion of extradition. Apart from the UN, other international organizations like the Organization for Economic Co-operation and Development (OECD), Organization of American States (OAS) and Asia-Pacific Economic Cooperation(APEC) also make clear and strict provisions against commercial bribery. These all serve as available example for the host states to follow and learn from in order to regulate the MNEs better, fulfilling the gap for commercial bribery and improve the domestic legal system.

4.3 Fulfill the legal gap for antitrust

The parent countries of the MNEs are mostly developed countries and they hold the most advanced and sophisticated technology. In the market where the same products are produced, they can get dominant with cheaper price, more delicate packaging and better consumer experience. The MNEs, under the help of the trade policies promised by the host states, are easy to capture the market of the host states and use the political ways to annex or exclude other competitors, thus forming monopoly. Therefore, the antitrust is not only to maintain a fair market and effective competition for every company but also to obtain the host states' economic security and legal justice. Antitrust is not just confined between the host states and the subsidiaries of the MNEs, it also contains the interests between the parent countries and the host states and even many other countries considering that the competition policy of one country definitely affect the interests of other countries and impact the

international trade and investment, becoming a part of zero-sum game among countries. Game theory offers a tempting and effective proposal for solving monopoly problems but its theoretical premise is the assumption that every market subject is completely rational with the reality is that neither the MNEs nor even the countries can be perfectly rational which makes the proposal not entirely feasible enough in practical terms [21]. Combining the domestic law with international law and supplementing each other may be regarded as a feasible approach to help solve the monopoly issues. However, the international law today regulating on the antitrust is confined by the unreasonable standards of corporation declaration, excessive government jurisdiction, fragmentation of the enforcement power which resulted in conflicted powers and the unreasonable relationship between the administrative institution and the supervision mechanism. The antitrust law has been developed as the pace of the interests bargaining between the MNEs and the host states. Since the MNEs have the abundant experience and economies of scale to escape from being punished which enforces the host states to improve the law in accordance to the MNEs' actions, constantly narrowing the space available for the MNEs to operate and fulfilling the law gap. In the terms of the international law, the WTO, the international organization with huge impact on the international trade and business, has also contributed to the promotion of both in trade fairness and antitrust field. In the Agreement on the implementation of General Agreement on Tariffs and Trade (GATT) 1994, also known as the Anti-Dumping Agreement, the article 8 clearly states that "anti-dumping considerations and decisions should be applied with specific caution in cases where the extend of the injury caused by the dumping import poses [22]. In 2002, on the basis of the clarification and deepening of the GATT 1994, the Agreement of Safeguard Measures emerged with the more advanced and up-to-date explanation above the terms such as 'serious injury' and 'domestic industries' thus further expanding the targeting subject of the GATT 1994 to meet the need of the legitimate interest of the greatest number of countries.

5. Conclusion:

The spillover effect caused by the MNEs is like a double-edged sword, whose benefits and risks are both obvious. Considering the need to develop economy and the open national politics, the host states should not regard the FDI as some evil things and dismiss all the MNEs but to see the indispensable role that the MNEs can play in promoting the economic growth. The MNEs are not just one separate market subject but contain many other countries, including their parent ones. They connect the world in a more invisible but indestructible way than the communication technology with interests. In the process of global production, countries have shouldered different roles and become an indispensable part of the whole world industrial chain, promoting the invisible classification between the upstream and downstream. With the international division of labor, the political and economic landscape of the world also changes, gradually forming a situation of 'strong north and weak south' and 'strong west and weak east'. For developed countries, they rely on the profit-seeking nature of the MNEs to obtain the transformation and the upgrading of their industrial and achieve the better usage of resources. While for developing countries, even though their people bear the risks of having their mind shaped, their willing imposed and their behavior changed and the environmental protection may not be completely guaranteed, in the terms of keeping up with the world's latest trend, attracting the FDI to develop is still a tempting option. The MNEs has provided the wrong examples and lessons for democratic politics reforms, showing the democratic world what the influence the money can impose on the politics which will deepen the further development for the politics. The behaviors of the MNEs should be restrained both in international law and the domestic law. The international organization, including the World Trade Organization (WTO) and the Trans-Pacific Partnership Agreement（TPP）are also taking every effect to regulate the unfair competition among the MNEs in order to guarantee the justice of the market and break down trade barriers. The spillover effects on the implication of political, economic and legal aspects caused by the MNEs are all double-edged. For the host states, it is prominent to minimize the negative effects and maximize the benefits

effects of the MNEs. Although it is considerably tough and long, it is still promising and in response to the public's aspirations worldwide.

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