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THE MULTINATIONAL CORPORATION AND HOME COUNTRY FOREIGN POLICY: A RESEARCH AGENDA

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FOR DISCUSSION PURPOSES ONLY

PREFACE

In December, 1979, Soviet tanks rumbled into the streets of Kabul, Afghanistan. In January, 1980, President Carter announced that present U.S. export licensing policy toward the U.S.S.R. would be reviewed, and pending the completion of that review the sale of high-technology items by U.S.-based firms to the Soviet Union would be disallowed. When the review was finished in March, the Administration adopted a new, more restrictive policy for controlling U.S. outbound trade with the U.S.S.R. Primarily affected by these new more stringent controls were multinational corporations (MNCs) who tend to be the main purveyors of esoteric technological hardware to the Soviets. This latest incident re-emphasized the MNC's relationship to and involvement in home country foreign policy formulation and implementation.

Generally, the MNC may play two roles vis-a-vis the home country foreign policy-making apparatus:

1. The MNC may, in response to legislative prohibition or selectively applied economic sanctions, serve as an extra-territorial arm through which national foreign policy is implemented via the global organizational network of the MNC.
2. The MNC may, at its own behest, serve as an initiator of foreign policy agenda items; lobbying for a home country foreign policy which reflects the interests of the firm.

While the relationship of the MNC to the host country has been widely explored in international business literature, the MNC interface with the home country has received relatively little research attention.

When scholars have looked at the MNC's relation to home country interests, the discussion has normally focused on the macroeconomic effects of foreign direct investment. The MNC's role in foreign policy formulation and execution has been almost totally ignored by international business researchers, although political scientists have provided some insights.

The purpose of this paper is then to:

1. synoptically review and organize the literature and anecdotal evidence concerning the MNC's role in home country foreign policy administration; and,
2. present the research issues which may lead scholars to an investigation of this aspect of MNC behavior.

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INTRODUCTION

Objectives of the Study

This paper seeks to describe the role of multinational corporations (MNCs) in the formulation and execution of home country foreign policy. Nye[1] identifies three general roles which MNCs play in world politics:

1. Help unintentionally and intentionally to set the agenda of issues that arise among governments.
2. Serve, usually unintentionally, as instruments of power by which governments try to influence each other.
3. Act independently to influence political actors and political structures.

We will look at the last two roles, focusing specifically on the MNC's relation to foreign policy-making. The questions to be addressed are:

1. To what extent are home country foreign policy goals achieved through the use of MNCs?
2. To what extent are MNC goals achieved through the influencing of the home country foreign policy-making apparatus?

Another objective of this paper will be to identify research issues relevant to international business management. There is a growing recognition on the part of international business scholars and practitioners that international business managers must not be only

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[1]J. S. Nye, "Multinational Corporations and World Order," in George W. Ball (ed.), Global Companies and the Political Economy of World Business (Englewood Cliffs, N. J.: Prentice-Hall, 1975), p. 127.

knowledgeable economic actors, but must also be informed political actors. Phil Grub goes so far as to call for the development of a field of study in "entrepreneurial politics."[1]

This study attempts to draw together some of the theoretical constructs and anecdotal evidence that may someday form a portion of the base for such a field of inquiry. More importantly, suggestions are made concerning potential topics for further research, research that would provide a more complete understanding of the role of the multinational executive in world politics generally, and in foreign policy-setting specifically.

Nature of the Study

Little or no empirical research has been carried out on the role of the MNC in foreign policy formulation and execution. This fact no doubt results from the difficulty inherent in collecting information on the often private intercourse of business and government in the area of foreign policy. The writing that has been done on this topic is primarily anecdotal in nature, or based on personal conjecture and extemporaneous theorizing. In recent academic literature, research on the political relations of MNCs has tended to focus on facets of MNC/host country relations. When scholars have turned their attention to MNC/home country relations, the traditional points of interest have been the effects of foreign direct investment on the domestic employment level, on the general economic health of the nation (i.e., balance

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[1]Jeffrey M. Brookstone, <u>The Multinational Businessman and Foreign Policy</u> (New York: Praeger Publishers, 1976), Foreward.

of payments, inflation, G.N.P.), and on tax policy, rather than on the relation of the MNC to foreign policy-making.

This paper thus attempts to distill a variety of anecdotal writings on a subject that has received virtually no rigorous research attention. The purpose of this exercise is not to provide empirical answers to questions concerning the MNC's relation to domestic foreign policy, but rather to provide a conceptual framework which will enable researchers to set an agenda for the exploration of this heretofore neglected aspect of MNC behavior.

The remainder of the paper is organized as follows: Section One will develop further background, exploring the nature of the MNC, the nature of the nation-state and their mutual interests in foreign policy-making. Section Two will review the role of the MNC as an influencer of foreign policy; Section Three will look at the MNC as an instrument of foreign policy. Section Four will look at the unique position of the multinational manager in the foreign policy issue; and Section Five will discuss questions for further research.

SECTION I

BACKGROUND

In order to understand the MNC/nation-state foreign policy interface, it is necessary to become acquainted with the unique attributes and goals of transnational companies and national governments. These two entities operate under different assumptions, serve different constituencies, have different geopolitical spans, and work toward the attainment of different goals. Once the dissimilarities between the nation-state and MNC are understood, the lines demarcating the MNC/nation-state interface become more easily discernible.

Nature of the MNC

The multinational corporation is arguably the first truly global economic organization in history. There are members of the genre which operate in over one hundred countries and have a capital stock greater than that of some nations.

With more or less unified global strategies, multinational companies tend to be anational in outlook. The criterion for corporate decision-making is the benefit which will accrue to the global organization, rather than the benefit to be derived by any single national unit. The oft-stated goal of the MNC is the maximization of firm wealth on a worldwide basis.

As Nye points out, the significance of the MNC's anationality is that profits and growth come to depend on economic and political conditions in national jurisdictions other than that of the home government. The result is that MNCs

> gradually develop a view of their short-term interests coinciding with different governments at different times, and of their long-term interests as different from the interests of any particular state.[1]

Gilpin notes that this fact encourages the MNC to maximize its freedom from the control of all governments as it strives to act solely on the basis of self-interest, unfettered by nationalistic regulation.[2]

Of further significance is the fact that the MNC serves a constituency radically different from that served by the nation-state. The constituency of the corporation is an international assemblage of customers, suppliers, employees, and stockholders, to name the most important. On the other hand, the constituency of the home country is primarily national in character, encompassing all citizens of the state. It is likely true that the MNC's constituents possess more homogeneous expectations regarding the performance of the firm than do the nation's constituents with regard to the performance of the state.

Nature of the Nation-State

In sharp contrast to the anationality of the MNC, the character of the nation-state is parochial and fiercely national. Domestic welfare is the basis for decision-making here, as national executives and legislators attempt to maintain and enhance the country's economic and social well-being and military security. Government serves a wide constituency, at least in the democratic countries, and the election and re-election of public officials depends on their ability to satisfy

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[1]Nye, p. 137.

[2]Robert Gilpin, U.S. Power and the Multinational Corporation (New York: Basic Books, 1975).

a majority of their constituency--a constituency with sometimes frustratingly heterogeneous expectations and desires. The goals of the nation-state thus reflect a high degree of compromise among various subsections of the constituency, and serve no easily defined economic or political principle.

A further distinction between the MNC and the nation-state can be made. In the MNC there is normally a fairly well-defined and hierarchically-ordered organizational framework through which corporate policy is implemented. In contrast, national policy implementation often proceeds through a bewildering array of Departments, Bureaus, and Offices, where conflicting goals, joint jurisdictions and overlapping interests are the norm rather than the exception.

Divergent Interests

We have identified important differences between the multinational corporation and the nation-state:

1. MNC goals are relatively explicitly defined, while country goals are normally ambiguously defined.
2. MNC goals are largely defined in economic terms, while country goals are not only economic, but also social, political, and military.
3. The MNC serves a unique international constituency with demands and expectations quite different from those of the national constituency which the state serves.
4. The MNC is globally anational, the country is parochically national.

5. The MNC has a relatively taut and unidirectional policy formulating and implementing network while the nation-state possesses a loose and omni-directional policy apparatus.

Given these differences, it is not surprising that on occasion the interests of MNCs and nation-states differ with respect to the formulation and execution of foreign policy. If government and MNC interests were always identical, there would be no reason for the international business manager to be concerned with the role of the MNC in foreign policy formulation. But a consensus on foreign policy is often absent among government and business leaders. Where such a consensus does not exist, the MNC executive _must_ be concerned with the effect which the government's foreign policy actions have on the interests of the MNC, and how those effects can be ameliorated, or foreign policy directed to the firm's advantage.

Numerous examples can be cited of divergent foreign policy interests on the part of MNC managers and government policy-makers:

- During the 1973 Arab-Israeli war, several American oil companies were strongly opposed to the pro-Israeli position of the U.S. government. In accordance with the Arab oil boycott, U.S. oil companies refused to supply oil to the U.S. military, despite the charge that the firms were not acting in the national interest.[1]
- During the Angolan civil war in 1975, Gulf Oil paid substantial royalties to the Popular Movement for the Liberation of Angola,

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[1] _Ibid._, p. 145.

the Soviet-backed group which eventually won the war, despite the fact that the U.S. opposed the Communist group and was providing support to the other side. In December, 1975, the U.S. State Department ordered Gulf to withhold a $100 million dollar payment to the Popular Movement whereupon the Popular Movement closed down Gulf's facility. However, when the State Department eventually conceded that the Popular Movement had won, Gulf was able to make the payment and subsequently negotiate a reopening of its facilities.

- Gilpin claims that

> Perhaps the greatest divergence between corporate interest and "national" interest can be found in the example of American policy toward Japan...in the interest of national security the United States actually promoted Japanese expansion into the American market. Even more important [from the viewpoint of U.S. MNCs] it tolerated Japanese exclusion of American investment.[1]

- Behrman notes another conflict situation. To comply with a U.N. resolution prohibiting commercial transactions with (then) Rhodesia, a U.S.-based MNC was denied access by its home government to supplies and materials produced by its Rhodesian subsidiary; this notwithstanding Rhodesian government pressure on the subsidiary to increase its exports.[2]

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[1]Gilpin, p. 145.

[2]Behrman, Jack N. National Interests and the Multinational Enterprise (Englewood Cliffs, N. J.: Prentice-Hall, 1970), p. 106.

- Yet another example is the new, more restrictive system of export controls on trade with the U.S.S.R. which President Carter has implemented in response to the Soviet invasion of Afghanistan.[1]

The list could go on and on, and further examples of conflicting interests will be presented later. The fact that the foreign policy interests of the nation-state are not necessarily those of the MNC suggests that there may be an incentive for the MNC manager to take, whenever possible, an active role in the formulation and execution of home country foreign policy. And of course there may be an equal incentive for government foreign policy-makers to use the MNC as an instrument of foreign policy.

The Inevitability of the MNC as a Foreign Policy Actor

Both nation-states and MNCs are international actors. One carries out international activities through diplomacy and military action, the other through a global corporate organization. The international activities of each affect the other, sometimes positively, sometimes negatively. It thus seems inevitable that governments will attempt to secure the cooperation of home-based MNCs in achieving foreign policy objectives, and that the MNC will counter with an attempt to direct the foreign policy of the nation in a way most favorable to corporate interests. Clearly this interface has as its central element the potential for conflict and disagreement between the two parties with respect to how foreign policy is formulated and executed. The nation-state and

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[1]U.S. Department of Commerce. Business America, Vol. 3, No. 7 (April 17, 1980), p. 4.

the MNC can both be expected to use whatever resources they command, and their respective powers of influence to resolve foreign policy conflicts in ways that will contribute to the attainment of their own unique goals. This conflict and the method of resolution is the focus of the remainder of the paper.

SECTION II

THE MNC AS AN INFLUENCER OF FOREIGN POLICY

As mentioned above, the multinational corporation may be both an instrument and determinant of home country foreign policy. In this section we will discuss the role of the MNC in determining foreign policy.

The Motivation to Influence

There are several situations in which the MNC may be motivated to attempt to influence the formation and execution of foreign policy. One such situation arises when the MNC's foreign subsidiaries are faced with the threat of expropriation or nationalization. An interesting case study of corporate reaction to this threat is the history of the Hickenlooper amendment.[1] Following the seizure by the Brazilian government of ITT's telephone operations in Brazil, and the nationalization of Texaco, Esso and Standard Oil gas stations in Ceylon, a number of firms lobbied in the U.S. Congress for legislation designed to protect American foreign direct investment from expropriation. The result of this effort was the Hickenlooper amendment of 1962. The amendment was passed over the protests of President Kennedy and State Department officials, i.e., the individuals with primary responsibility for foreign policy decision-making. The Hickenlooper amendment set up

[1]See Charles Lipson, "Corporate Preferences and Public Policies: Foreign Aid Sanctions and Investment Protection," World Politics 28/3 (April 1976): pp. 396-399.

a supposedly "automatic" mechanism whereby aid to countries which expropriated or nationalized the subsidiaries of American multinational firms would be suspended. Corporate interests were served again in 1973 when the President was given formal authority to waive the Hickenlooper requirement of aid suspension in expropriation cases. According to Lipson, the demise of the Hickenlooper amendment came about because

> many corporations reconsidered the problem of protecting their investments and decided that formal mandatory sanctions were self-defeating. Their use would pointedly raise issues of sovereignty, thereby reinforcing nationalism in the affected country and possibly elsewhere.[1]

The threat or reality of the expropriation of U.S. investments has, at times, affected aspects of America's foreign policy toward Cuba, Peru, and Chile. The case of ITT in Chile has been so well-publicized as to not need repeating. Thus one aspect of U.S. foreign policy, protection of the foreign direct investment of U.S. MNCs, bears the <u>indelible mark of MNC influence</u>.

The MNC may also enter the foreign policy debate in situations where existing foreign policy does not allow uninhibited exploitation of global markets. For example: the Carter administration has followed a policy of restricting the sale of nuclear technology by American firms to Communist countries. Recently, however, Westinghouse's French subsidiary was granted permission to sell a nuclear reactor to China.[2] In lobbying for approval of the sale, Westinghouse argued

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[1] *Ibid.*, p. 411.

[2] "U.S. to Let France Sell Two Reactors with Westinghouse Technology to China," *The Wall Street Journal* (Dec. 27, 1978), p. 5.

that a foreign firm would deliver the equipment to China if Westinghouse were not allowed to do so, and that as a consequence, U.S. balance of payments would suffer and the U.S. would lose all control over how the technology was used. Apparently this logic appealed to U.S. policy-makers for they adjusted their policy in a way favorable to the interests of Westinghouse.

Yet another example of MNC influence in foreign policy-making can be seen in the fact that one of the preconditions for U.S. support of the Treaty of Rome, which established the European Economic Community in 1958, was that member countries follow a policy of non-discrimination toward the subsidiaries of U.S. MNCs.[1] So although many business-persons feared that the E.E.C. would be trade-diverting rather than trade-creating, they were able to gain assurances that U.S. MNCs would have the opportunity to compete within the Common Market on an equal footing with indigenous firms.

An element common to all these cases is that in each instance the impetus for the MNC's attempt to influence foreign policy comes from pragmatic economic considerations. This fact agrees with what we know about MNC behavior in general, that it is directed toward maximizing the economic worth of the firm, however that economic worth may be defined and measured.

Avenues of Influence

Brookstone, in a pioneering work, has explored the methods whereby multinational executives can and do influence foreign policy. Brookstone

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[1]Gilpin, p. 108.

developed a schematic of the channels of corporate influence in the formulation of foreign policy. Channels of influence are dichotomized along two lines: direct and indirect, formal and informal.[1]

<u>Channels of Corporate Influence in the Formulation of Foreign Policy</u>

<u>Formal</u>

Direct	Indirect
Participation in, or direct access to key policy-making units.	Access to key policy-making units through intermediaries.
1. recruitment of foreign policy-makers into business organization, or vice versa	1. through foreign governments
2. joint ventures with government	2. through Congressmen
3. government contracts	3. through private foundations
4. consultation to policy-making units	4. through study groups
5. lobbying	5. through trade associations

<u>Informal</u>

Direct	Indirect
Personal and/or group ties to authorative and legitimate policy-makers.	Intermediary non-business groups communicating knowingly the preference of the corporate elite to the foreign policy makers.
1. recruitment	1. general public opinion
2. common socialization	2. voting behavior
3. family ties	
4. school ties	
5. elite club ties	

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[1]Brookstone, p. 5.

There are many ways in which MNC executives can influence the foreign policy decision-making process. Additional avenues of influence, not mentioned by Brookstone are bribes to government officials, covert collusion with intelligence agencies, and even more nefarious methods, ala United Fruit in Central America and ITT in Chile.

Limitations to MNC Influence

Despite assertions that the MNC has an almost unlimited ability to set the nation's foreign policy, (e.g.,

> There is a sufficient number of cases of American intervention on behalf of foreign investors to give plausibility to the leftist argument that corporate interests determine American foreign policy.[1]), there is a definite limitation to the extent to which the MNC can impact upon the foreign policy decision-making process. Specific examples of foreign policies which fly in the face of MNC interests attest to this fact.

The ability of MNCs to determine home country foreign policy is primarily limited by the fact that government policy-makers must serve a variety of interests besides corporate interests. Whereas business evaluates the desirability of particular foreign policy measures strictly on the basis of economic criteria, national policy-makers must take into account many non-economic factors in formulating foreign policy. In attempting to influence foreign policy, the MNC will probably find itself competing against other interest groups, including perhaps other MNCs, with interests quite at variance with the firm's own unique interests.

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[1]Gilpin, p. 143.

The diversity of American interests limits the government's ability to respond affirmatively to all corporate requests for international intervention on behalf of the MNC. One example here should suffice. In 1968, Exxon's International Petroleum Company was seized by the Peruvian government. Exxon, of course, sought U.S. assistance in obtaining adequate compensation for the expropriated property. U.S. efforts to obtain relief for Exxon had to be tempered, however, by the realization that several hundred other American enterprises in a dozen or so industries were continuing to operate in Peru and these firms were strongly against a hardline U.S. approach.[1]

It may be concluded that although U.S. MNCs are able to influence U.S. foreign policy, and have in fact done so in a number of cases, their ability to do so is strictly limited. The radical neo-imperialist hypothesis that the MNC is the sole determinant of home country foreign policy is not supported.

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[1]See J. P. Einhorn, Expropriation Politics (Lexington, MA: D. C. Heath, 1974).

SECTION III

THE MNC AS AN INSTRUMENT OF FOREIGN POLICY

Home country governments in general, and the U.S. government in particular, show a great propensity to use the international network of home-based MNCs for the transmission of foreign policy. In this section we will review the motivations for, avenues of, and limitations to U.S. government use of MNCs as instruments of foreign policy.

The Motivations for the Instrumental Use of MNCs

Anecdotal evidence indicates that it is the desire to accomplish three things which motivates government policy-makers to use MNCs as foreign policy actors:

1. to disseminate American ideology
2. to ensure the security of the United States
3. to ensure access to vital raw materials

Examples of the instrumental use of MNCs for the achievement of these foreign policy goals are presented below.

Disseminating American Ideology

A reaccurring aspect of U.S. ideology has been anti-Communism. There are several incidents where the international activities of U.S.-based MNCs have been constrained in ways reflective of the anti-Communist orientation of U.S. foreign policy. In 1957, Ford of Canada tentatively explored the possibility of shipping trucks to mainland China. This was at a time when Canada was eager to build its trade with China and the United States was doing everything it could to discourage Western countries from trading with Communist nations. A U.S. government "frown of displeasure" toward Ford's U.S. headquarters was all that was needed to quash the deal. Understandably, Canada was bitter over this expression of U.S. ideology through a Canadian incorporated firm.[1]

Along similar lines was an incident involving the sale of British Viscount passenger aircraft to mainland China. In this case the U.S. tried to halt the sale on the grounds that the aircraft carried navigational equipment manufactured by a U.S. firm.[2]

Yet another example of an attempt by U.S. policy-makers to disseminate American ideology extraterritorially involved the French subsidiary of Fruehauf, a U.S.-based manufacturer of truck trailers. In 1965, the U.S. government tried to halt the sale of trailers by Fruehauf's French subsidiary to another French company that planned to incorporate the trailers in products bound for China. In this case, French minority interests, through French courts, thwarted the efforts of the U.S. government.[3]

One more example: The Johnson-Vanik amendment to the Trade Reform Act of 1973 created a link between U.S. business' trade with the U.S.S.R. and domestic Soviet political reforms. Specifically at issue were restrictions limiting the emmigration of Jews from the

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[1]Raymond Vernon, Sovereignty at Bay (New York: Basic Books, 1971), p. 235.

[2]*Ibid.*

[3]*Ibid.*, p. 236.

Soviet Union. The intent of the amendment was to restrict U.S. trade with the U.S.S.R. in order to encourage the Soviets to liberalize emmigration requirements.[1] Again, U.S. business was used as the mouthpiece for the preaching of America's ideological gospel. In none of the above cases was U.S. security threatened. The only reason for government interference was a desire on the part of policy-makers to publicize political viewpoints.

Ensuring American Security

Vernon notes that

> Many multinational enterprises are important producers of key military hardware. The capacity of such enterprises to communicate complex ideas among their affiliates has increased the difficulty of sealing in technical ideas at the borders of the United States. Although there is no way of testing the point objectively, it is difficult to resist the conclusion that technologies that the military would prefer to maintain a U.S. monopoly can now slip over the borders more readily.[2]

Recognizing the veracity of Vernon's observations, U.S. policy-makers have taken specific steps to ensure that certain technologies developed by U.S. MNCs are confined to the U.S. or to the West.

The Trading With the Enemy Act of 1917 required that sales to certain nations be cleared with the government. Under this act the export of certain equipment, e.g., computers, has been prohibited on grounds that the equipment could be used by an unfriendly recipient country in military applications.[3]

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[1]U.S. Congress, House Committee on Foreign Affairs, Detente Hearings before the Subcommittee on Europe, 93rd Congress, 2nd session, Washington, D.C.: Government Printing Office, 1974, p. 242.

[2]Vernon, Storm Over the Multinationals: The Real Issues, p. 105.

[3]H. J. Behrman and J. R. Garson, "United States Export Controls--Past, Present and Future," Columbia Law Review, May 1967.

More recently, the Export Administration Act of 1979 has given the President authority to regulate the trade of so-called "dual-use" items. Dual-use items are defined to be those goods which have both civilian and potential military applications. The Act indicates that U.S. outbound trade in dual-use goods can be curtailed for one of several reasons:

- to safeguard U.S. national security
- to further specific aspects of U.S. foreign policy
- to protect the U.S. economy from an excessive drain of strategic materials.[1]

As a signatory to the nuclear nonproliferation treaty, the U.S. has sought to restrain U.S. companies from selling nuclear technology abroad, the rationale being that the global proliferation of nuclear technology would, in the long run, impair U.S. and world security. No doubt the U.S. government desires to maintain an American monopoly in advanced nuclear technology. On the basis of this logic, the United States refused to allow I.B.M. to export specialized nuclear-related computers to its French subsidiary.[2]

Another way in which U.S. MNCs have been used to further the security interests of the U.S. is through cooperation with U.S. intelligence agencies. Brookstone comments:

> U.S. multinational businessmen may be used wittingly or unwittingly by the government to further foreign policy objectives. The information gathering potential of U.S. multinational business

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[1]U.S. Department of Commerce, Business America, Vol. 3, No. 7 (April 17, 1980), p. 4.

[2]Vernon, Sovereignty at Bay, p. 236.

> executives remains considerable. Cyrus Eaton, for example, was recruited by the C.I.A. to spy in the Soviet Union, but refused. Equally important has been the use by the C.I.A. of corporate leaders with government ties to front for its clandestine activities.[1]

Ensuring Access to Vital Raw Materials

One of the most interesting and extensive cases of U.S. government use of home-based MNCs as foreign policy agents involves U.S. oil companies operating in the Middle East. Although a historical account of the instrumental use of American oil firms by the U.S. government would be far beyond the scope of this paper, a review of pertinent literature leads one to conclude that since World War II there has been an almost hand-in-glove relationship between U.S. oil MNCs and the State Department for the purpose of meeting U.S. foreign policy objectives in the Middle East.[2]

One particularly interesting incident concerns U.S. efforts in the 1950s to support the Shah of Iran who assumed the leadership of Iran with the help of the Central Intelligence Agency. In an effort to secure for Iran the oil revenues which had terminated with Mossadeq's expulsion of British Petroleum, the U.S. National Security Council, and Departments of Defense, Interior, and State requested that U.S. oil companies extract, process and market Iranian oil. This despite the following factors: U.S. companies had never before had any arrangements to buy or market Iranian oil; British Petroleum threatened to sue

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[1]Brookstone, p. 2.

[2]For a complete account see U.S. Congress Subcommittee on Multinational Corporations, "Multinational Oil Corporations and U.S. Foreign Policy," January 2, 1975, U.S. Government Printing Office.

any firm which sold oil British Petroleum claimed as belonging rightfully to itself; Iranian oil was not needed to meet world demand. In the end, U.S. oil companies colluded, with the government's blessing, to restrict oil production in other countries so as to provide for the sale of Iranian oil at prevailing world prices. As part of the bargain struck with the U.S. government, the oil companies succeeded in having the government drop a criminal anti-trust investigation which was proceeding against the oil companies.[1] Below is the exact message sent to the chief executive officers of the five major oil companies by the State Department on January 28, 1954.

> ...the National Security Council has determined that it is in the security interests of the United States that United States petroleum companies participate in an international consortium to contract with the Government of Iran, within the area of the former concession of the Anglo-Iranian Oil Company, Ltd., for the production, refining and acquisition of petroleum and petroleum products, in order to permit the reactivation of the petroleum industry in Iran and to provide the friendly government of Iran substantial revenues on terms which will protect the interests of the Western world in the petroleum resources of the Middle East.[2]

Avenues of Influence

There has been no categorization of the avenues through which home governments utilize MNCs as disciples' of foreign policy. The reason for this is simple: many, if not most, of the alliances formed between government foreign policy-makers and MNCs are not created or maintained within the public view. While legislation such as the Johnson-Vanik amendment is part of the public record, and certain policies governing

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[1] Ibid., pp. 59-74.

[2] Ibid., p. 69.

the international behavior of MNCs are explicitly stated, much of the actual control over the MNC is "behind the scenes." For instance, only recently has the extent of the government's direct use of oil companies in foreign policy roles become known. In investigating incidents of MNCs acting as unwilling instruments for the transmission of foreign policy, one consistently finds oblique references to the application of government pressure on the firms involved. The case of Ford of Canada described above is typical, to wit: the government's "frown of displeasure" halted the sale of trucks to China. An interesting and relevant question is, what exactly is a "frown of displeasure?" What were the sanctions employed by the government? What threats or promises were made? Given the sensitive nature of the topic at hand, it is unlikely that questions such as these will be easily answered.

What can be answered is the question of why the topic at hand is so sensitive. It is because the issue of extraterritoriality is at the base of every attempt by the U.S. government to carry out its foreign policy objectives through the overseas network of home-based MNCs. In most cases, as seen above, the use of the MNC by the home-country government as a medium for the transmission of foreign policy presents a direct challenge to the sovereignty of another nation. American foreign policy-makers could, in effect, impose on foreign nations their peculiar predilections by exerting informal pressure on foreign subsidiaries through the American parent firms (e.g., Ford of Canada and Fruehauf of France) and by applying the provisions of the Johnson-Vanik amendment. In this age of ardent nationalism, it is not surprising that countries which have been subjected to the extraterritorial reach of U.S. foreign policy have reacted strongly against such outside interference. To avoid the conflict and controversy which inevitably accompany any attempt by the government to use home-based MNCs as instruments of foreign policy, both the government and involved corporations have sought to pull a shroud of secrecy over their dealings. Hence the difficulty in discerning the specific methods through which companies are induced or coerced into service as agents of American foreign policy.

We are not prevented, however, from making a general observation regarding the avenues for the transmission of foreign policy through U.S. MNCs. First of all, it should be noted that it is the global nature of the MNC which makes possible its use as an instrument of foreign policy. The MNC is not a set of discrete national operating units, but is rather a unified organic global structure. Because the units which make up the MNC are linked, national authorities are able to tap into the global network and thus extend their influence extraterritorially by exercising some degree of control over the corporate unit located in their country. Normally the parent company is the most vital link in the MNC; thus control over the parent allows national authorities greater opportunity for extranational influence than would control over any one of the MNC's other operating units. Home countries, and particularly the U.S., have therefore been most able to extend national foreign policy transnationally. Rubin notes that the reasons (historically), for the United States' preeminent ability to extend its edicts and policies extraterritorially through home-based MNCs are twofold: First, U.S. MNCs are dominant in the world economy--there are more MNCs based in the U.S. than in any other country; the U.S. has the most extraterritorial actors. And second, the U.S. more than any other capitalist country is willing to cover its business citizens with a web of regulation and prescription[1] that provides the medium for the application of sanctions to achieve MNC compliance on foreign policy issues.

Limitations to the Use of MNCs as Instruments of Foreign Policy

The home country's ability to use MNCs as instruments of foreign policy is not unlimited. There are a number of systemic factors which set bounds on the government's ability to express foreign policy through home-based MNCs. These limiting factors are discussed below.

The Countervailing Power of Host Nations

From the point of view of the home country government, foreign subsidiaries of indigenous MNCs must be viewed as hostages as well as outposts. These subsidiaries may be used as effectively, or perhaps even more effectively, by the host government as by the home government. Host countries can also tap into the MNC network and thus may be able to counter or supercede home country influence. As Nye points out:

> Manipulation of transnational corporations...is an instrument available to the host as well as the home government. The most dramatic recent example was the 1973 oil embargo. While the companies exerted some independence in diverting non-Arab oil to the Netherlands and U.S., the Arab countries were able to obtain

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[1]Seymour J. Rubin, "The Multinational Enterprise and the 'Home' State," in George W. Ball (ed.), Global Companies: The Political Economy of World Business (Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1975), pp. 45-46.

> enough company compliance in regard to Arab oil to be able to promote their foreign policy objectives. Even a small country like the Philippines was able to use a threat to nationalize American corporations in the 1960's to induce the U.S. government to extend trade preferences.[1]

Host countries hold the ultimate power over the foreign subsidiaries of U.S. MNCs located within their borders. The threat of nationalization, expropriation, or retaliation is always there to constrain the sometimes overzealous reach of U.S. foreign policy-makers.

Developed countries with their own home-based MNCs can exert yet another type of countervailing influence. Vernon points out that:

> There is another aspect of government influence that can be stated in formally symmetrical terms. Though the U.S. government can influence International Harvester in ways that affect the management of the British subsidiary, the British government can surely influence British Petroleum, or the Italian government Olivetti, with regard to the management of their U.S. subsidiaries.[2]

In summary, the discretionary power of the U.S. to act unilaterally through home country MNCs for the purpose of achieving foreign policy goals is increasingly limited by the ability of host nations to react in kind.

The Countervailing Power of U.S. MNCs

It would be wrong to create the impression that MNCs have no power of their own to counter home country demands. Referring to the Brookstone schematic, it can be argued that the avenues available to the MNC for the influencing of the foreign policy decision-making process can also be utilized to counter home government demands that the MNC espouse the nation's foreign policy.

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[1] Nye, pp. 130-31.

[2] Vernon, Sovereignty at Bay, p. 234.

Again, it is hard to know the exact form of the countervailing pressure which an MNC might bring against the home government, but given the MNC's role as foreign exchange earner, domestic employer and taxpayer, and perhaps political fund raiser, it can be reasonably assumed that the MNC commands bargaining power. For example, recall the success of the oil companies in having a criminal case against them dropped in return for their cooperation in Iran. Certainly the government did not drop the suit as a unilateral gesture of good-will, but did so as part of a bargain struck with the multinational oil firms.

The Effectiveness of MNCs as Instruments of Foreign Policy

On numerous occasions, the use of MNCs as instruments of foreign policy has achieved nothing substantial, save a reiterative expression of foreign policy goals. A couple of anecdotes illustrate this point. In the 1960s, U.S.-owned subsidiaries in Canada were advised not to sell flour to Cuba or drugs to Vietnam. The Canadian response was simply to find competing Canadian firms willing to make the sales. And in the end, the Cubans and North Vietnamese obtained the products they desired.[1] Another incident: in criticizing the Johnson-Vanik amendment, Lewis Bowden, former acting deputy assistant of Commerce for East-West trade remarked that:

> We must disabuse ourselves of the notion that the U.S. has technology and products so distinctly superior to those of any competitors that we can extract major political concessions from the Soviets in exchange for our willingness to trade with them.[2]

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[1]Vernon, Storm Over the Multinationals: The Real Issues, p. 104.

[2]U.S. Congress, House Committee on Foreign Affairs, p. 242.

Today, host countries have sufficient alternatives so as not to have to rely strictly on U.S. MNCs for the benefits which accrue from international trade. This fact has of course limited the extent to which U.S. MNCs can actually be used as effective foreign policy agents. From the perspective of U.S. policy-makers, the MNC may be no more useful than a rhetorical device.

Recognizing that attempts to use U.S. MNCs as instruments of foreign policy may simply result in trade diversion with a concomitant reduction in tax revenues and international regard for U.S. foreign policy, policy-makers have of late paid some attention to the question of what real results can be achieved through the instrumental use of home-country MNCs. For example, in deciding upon applications for the export of an item controlled for national security reasons, the Office of Export Administration, Department of Commerce, now examines the application in light of the degree to which the similar equipment is readily available to purchasers by non-U.S. suppliers.[1]

We must conclude, then, that there are definite limitations to the extent to which the U.S. government can use MNCs as instruments of foreign policy.

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[1]Business America, p. 14.

SECTION IV

THE MULTINATIONAL MANAGER, THE CORPORATE RESPONSE

We have reviewed the ways in which MNCs attempt to influence home country foreign policy. We have also looked at methods the home government employs in order that it may use home-based MNCs as instruments of its foreign policy. This leads us to the next logical question, which will be addressed here: how does the multinational manager respond, in a very general sense, to governmental attempts to transmit foreign policy through the foreign subsidiaries of the MNC? As mentioned before, it is difficult to discover managerial responses to government pressure in specific cases; however, an overall theoretical acquaintance with the nature of the MNC allows us to draw some inferences regarding the role of the MNC manager in the corporate/government foreign policy interface.

To use Joseph Heller's phraseology, the MNC manager is faced with a "Catch-22" situation when it comes to responding to home-country demands. Vernon points out that the foreign subsidiary of the MNC has

> the burden of demonstrating [to the host government] that it is not the agent of some foreign interest, public or private. At the same time the parent in its home country must be prepared for periodic waves of other's doubts regarding its commitments to the interests of the homeland.[1]

If the MNC manager succumbs to home country demands that the MNC act as an agent of foreign policy, he or she will be branded by host

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[1]Vernon, Storm Over the Multinationals: The Real Issues, p. 175.

countries as being neo-imperialist. Yet to ignore home country desires could result in an equally serious break in relations with the home country. Thus the multinational manager must tread a narrow line, steer a neutral course, appearing to all governments to be an "independent agent." This does not mean that in the short-run the MNC may never ally its interests directly with those of a particular nation-state, only that the benefits from such an alliance must be carefully weighed against the costs incurred by the MNC in nations hostile to the alliance. In the long-run we can expect the MNC, as a global entity, to surround itself to as great a degree as possible with a mantle of neutrality and anationality.

The MNC manager must be especially wary of playing a home country foreign policy role in less developed countries. These nations, often newly independent and eager to assert their sovereignty, are at times less able to counter the power of MNCs than would be developed countries, and thus _feel_ more vulnerable to the extraterritorial application of power. While developing host countries no doubt overestimate both the willingness and ability of foreign-based MNCs to bring pressure to bear on the host country in response to home country demands, the MNC manager must appreciate the fact that the unease of host governments is real and likely to be acted upon if the MNC appears even faintly to be the instrument of home country foreign policy.

Without question, host governments, and particularly the governments of developing countries will continue to view the MNC as an agent of the home government. And home country governments will continue to view the foreign subsidiaries of domestic MNCs as outposts through which foreign policy goals can be achieved. In such a world the MNC manager, as the "man-in-the-middle," must at all costs create and preserve an appearance, if not an actual situation, of national foreign policy neutrality.

SECTION V

RESEARCH ISSUES

As host countries develop greater sophistication in monitoring and regulating MNC subsidiaries operating within their borders, and as home governments demand that indigenous MNCs be more responsive to domestic interests, including foreign policy interests, it is likely that the MNC manager will devote an ever-increasing amount of energy to the management of the corporate/government interface. It is this fact which prompted Phil Grub to call for the development of a field of study in "entrepreneurial politics." It seems entirely possible that in the future this field of investigation could become as important to international business practitioners and scholars as international management and finance are today.

At the moment, there is a great need for study of the MNC/home country political relationship. For while there has been a substantial amount of research conducted on MNC/host country relations, the MNC's political relationship to the home country has received rather scant attention. Rubin notes that in examining the political role of the MNC

> from the viewpoint of multinational-home nation relations, one encounters attitudes which find curiously little reflection in the various international studies which have characterized the 1970's. [Research] focuses almost exclusively on conflict with the host--not home--states.[1]

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[1]Seymour J. Rubin, "The Multinational Company as a Superpower," in George W. Ball (ed.), Global Companies: The Political Economy of World Business (Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1975), p. 148.

Of course the particular area we are interested in here is the role of the MNC in the formulation and execution of home country foreign policy. This paper has presented synoptically the existing work on this topic.

An attempt has been made to systematically organize this material into a more or less unified body of knowledge. The purpose has been not to answer pre-existing questions regarding the foreign policy role of MNCs, but rather to provide the anecdotal and conceptual background necessary for the intelligent development of research issues.

Although not comprehensive, a list of tentative research issues is presented below.

1. The MNC management response to home country demands that the MNC serve as an agent for the transmittance of foreign policy. The most interesting question, and probably the question hardest to answer, concerns the way in which home government demands are internalized within the MNC and acted upon. How are home-country demands weighed against host country demands? What type of "cost-benefit" analysis is carried out? Is such analysis explicit? How are the benefits and costs of acting as a foreign policy agent measured? Who in the organization participates in the evaluative process? Since these questions can be answered only if one is allowed an intimate glimpse into the internal goings-on of the MNC, the opportunity for systematic broad-based research is probably slight. However, information on even a few cases would add valuably to our understanding of corporate management's response.

2. The bargaining process. Related to the above, and no doubt also difficult to research empirically, is the question of what bargaining strategies are employed by the home government and the MNC. Specifically, what are the pressures which the home government can bring to bear in order to coerce the MNC into service as an instrument of foreign policy? What inducements can the home government offer? And what exactly is the countervailing power of the MNC? What can the MNC extract from the government?

3. The MNC initiative to influence foreign policy. The question here is under what circumstances will the MNC seek to influence the foreign policy decision-making process in the home country? What are the rationales used by the MNC in arguing that a particular foreign policy stance be taken by the home government? In what ways does the MNC attempt to demonstrate that home country interests and MNC interests are synonymous, or at least compatible? What are the costs of influencing the foreign policy decision-making process and how are such costs measured? Who in the organization takes the initiative to influence foreign policy?

As a relatively unexplored area, there is much opportunity for research on the MNC's role in foreign policy formulation and execution. Certainly such research would increase our understanding of this complex phenomenon called the multinational corporation.

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