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A DOCTORAL THESIS FOR  
THE CITY UNIVERSITY

THE CONTROL OF MULTINATIONAL COMPANIES: POLITICAL  
PROBLEMS AND POLITICAL SOLUTIONS.

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## INTRODUCTION.

This study considers the political implications of controlling multinational companies since the author is a student of politics.

In the late 1960's and early 1970's multinational companies became a common topic of discussion. From this came a general conclusion that they were 'threatening' and methods of control were debated. Active trade unionists suggested that unions must unite across frontiers and bargain internationally. Academic economists wanted international control organisations. Active politicians acted upon multinationals in a variety of ways, some successful, some not. Little work on the control of multinationals has come from the academic student of politics. This is such a contribution and it is basically concerned with the type of organisation most suited to the control of multinational companies.

Chapter I examines the political role of multinationals as this appears in recent literature. Chapters 3 to 6 consider actual examples of attempts of politicians to come to terms with multinationals and the various problems that different levels of response face. Chapter 2 prepares for this by developing a methodological framework and Chapter 7 attempts to develop a strategy for control based upon the case studies. At the end of the thesis there is a note on sources.

This thesis is not an anti-multinational manifesto. The author believes that multinational companies are excellent international organisers of resources and have a significant

role to play in the future development of the world. Yet the bias, implicit or explicit, is that they must ultimately be subject to appropriate control. The need for this can be argued as follows.

(1) THE UNIVERSAL NEED FOR CONTROL.

All social phenomena should be subject to appropriate and adequate control. Individuals should be subject to the control of the law; governments to the people they govern; and, similarly, multinationals should be controlled. Such pervasive control is necessary to ensure the best possible existence for the peoples of the world, and that the capacities available be co-ordinated to this end. Multinationals, as the most efficient international organisers of resources available, must be controlled in so far as is necessary to ensure that they use their skills for the benefit of mankind. With regard to this control, it is the conclusion of this thesis, after considering alternatives and reviewing a number of case studies, that national governments are best suited to this purpose. But this is a considered conclusion based on research; it is not an ethical justification. An attempt to do this will now be made.

(2) WHY NATIONAL GOVERNMENTS SHOULD CONTROL MULTINATIONAL COMPANIES.

National governments are concerned with the general interest of the people they govern, with their general welfare, with their protection, and with the provision of the basic necessities of life. This may be referred to as the 'national interest'. This is, of course, subject to the possibilities within which the

national government has to operate. The following statement can be made: A national government has generalised concerns with respect to the people it governs. In contrast, it can be said of multinationals that they have a narrower particularistic concern; that of successful business in whatever field of expertise they operate. Their logic is the logic of the businessman. Their bosses have the responsibility of successful survival in a competitive environment. No part of its modus operandi is concerned with the welfare of populations (perhaps, though, with the welfare of its employees) or with the provision of the basics of living. The national government, with its concern for the national interest, must control the multinational company to the extent that it sees fit, so that its competitive nature and expertise be utilised in the best possible way to further the national interest.

The multinational, with its particularistic concerns, must be subject to the control of the national government with its generalised concerns.

In practical terms this means that the national government will allow in, and allow to continue in operation, only those multinationals which are of benefit to the economy. They will have to fit in with long term planning of the national government and their operation should be on terms thought appropriate.

It may be queried where national governments get the right to so control. In democratic countries such a query is easily answered; the government gets its legitimacy from, and is accountable to, the electorate. It can justify its policies by reference to the outlines of future policies it offered at the last election and by the possibility of removal at the next if they are unsuccessful. The operation of a multinational

will be legitimate if it is subject to the control of a democratically elected government. But, of course, not all countries are democracies. Some countries are one party states and the political decisions are relatively immune to election processes. Other countries are controlled by the military and, in some, a family holds the reigns of power. The world offers a variety of types of government with very different ideas about what constitutes national interest. There are extremes of Marxism and religious fanaticism. They may be capitalist or socialist. Yet, whatever the nature of the government, it still **has** responsibility, by the very fact that it is the government, for the general welfare of the population under its control. This fact gives it the legitimacy to control organisations with narrower concerns including multinational companies.

It might be asked, what of the totally corrupt government which is prepared to sacrifice the interests of the population for its own corrupt ends? Does such a government have the right to give multinationals significant concessions for short term selfish political gains? On this, two things may be said: Firstly, all governments are ultimately responsible to the people they rule and if they become totally corrupt the people must fight to liberate their country and remove the corrupt government. Secondly, the argument that multinationals must be controlled by national governments does not preclude multinationals from behaving in a moral way even within the logic of business enterprise. Multinationals should resist the blandishments of a corrupt government. Even so, that which follows is directed towards legitimate governments. The behaviour of totally corrupt governments is beyond the scope of this discussion.

Thus there is a need for control and national government should be the instrument of that control. Yet a further strand of this argument is the nature of the multinationals.

(3) SUCH ARE THE MONSTERS THAT THEY MUST BE CONTROLLED.

The operations of multinational companies, up to 1970, were growing rapidly in most parts of the non-communist world. By this date they were producing about a sixth of the world's entire output of goods and services - more than five hundred billion dollars annually. "Direct foreign investment had replaced trade as the major economic activity."<sup>(i)</sup> This growth, which has slowed somewhat since 1970, is not only of American multinationals; European, Japanese and Canadian have contributed to the 'globalisation' of production.

But size is only one aspect of the threat, for there is of course their multinationality. This has immense implications in that it threatens national sovereignty. Countries compete with each other to offer concessions to multinationals to induce them to invest. Having invested, multinationals can threaten to withdraw if favourable terms are made less favourable although this may mean abandoning costly physical investment. Multinationals can transfer large amounts of currency between subsidiaries in different host countries and threaten these countries' financial policies. They can manipulate transfer prices to avoid paying tax. In conflicts with host countries they are backed up by powerful parent countries.<sup>(ii)</sup> A third aspect of the threat is that

(i) Carl H. Madden. "The Case for the Multinational Corporation". Praeger. 1977. pI.

(ii) These topics are discussed more fully in Chapter I.

multinationals are usually the most advanced in their particular field of operations. They often have a vast superiority in a particular brand of expertise and technology which nation states often need for their development but of which they have no real understanding.

Such is the size of these organisations, such is their technical superiority and multinationality, such is the effect they can have on individual countries, that the need for control cannot be doubted.

## CHAPTER 1

## THE POLITICAL ROLE OF THE MULTINATIONALS: A REVIEW OF LITERATURE OF THE 1960's AND 1970's.

There has been a recent upsurge of interest in a phenomenon often referred to as 'multinational companies'. Academics, journalists, politicians, trade union leaders, and T.V. commentators have participated in this topic of discussion. Members of the last four professions often deal superficially with the most sensational aspects of multinationals, although a few excellent and detailed studies have been written. Much of the academic study has been performed by academics with a formal training in economics and this has channelled the endeavour towards the economic problems which multinationals pose and current economic methods of analysis are commonly used. Many of the works which have come from this mainstream touch upon the political role of multinationals and many have implicit in them much more that is relevant. Yet very few give extended discussions of the political aspects of multinationals.

Some of the explicit discussions are organised around the concept of 'national sovereignty'. A United Nations study of multinational companies stated: "Multinational corporations, through the variety of options available to them, can encroach at times upon national sovereignty by undermining the ability of nation states to pursue their national and international objectives".<sup>(i)</sup>

However, a diminution of national sovereignty is not necessarily a diminution of desired political freedom. National sovereignty is eroded by participation in the United Nations

(i) Quoted in The Times. August 13th, 1973. p13.

and more so in the European Economic Community. Involvement in various international agencies such as the World Bank or the I.M.F. can at times lead to a loss of sovereignty, as can reliance on non-national agencies for advanced technology. All of these contribute to a loss of national sovereignty, yet they are not necessarily unwelcome, indeed many are positively valued. Often, that which is considered a threat to national sovereignty by some writers, such as foreign direct investment (F.D.I.), is being enthusiastically promoted in government circles.

Many of the prevailing definitions of multinational companies are economics based. John F. Dunning considers that a "multinational producing enterprise" is one "which owns or controls producing facilities (i.e. factories, mines, oil refineries, distribution outlets, offices etc) in more than one country".<sup>(i)</sup> The emphasis placed upon production is not of great use to the student of politics for it tells us little if we are to understand the relation of multinationals to governments, both parent and hosts.

One prominent economic analyst of multinationals defines three distinct types of corporation. The "national firm with foreign operations"...."knows where it belongs. It is first and foremost a citizen of a particular country. Foreign operations are small in the scheme of things". The second type, "the multinational firm"...."seeks to be a good citizen of each country where it has operations. It hires local executives, uses local directors to more than a token extent, and possibly admits local capital". The third type, "the international corporation"...."has no country to which it owes more loyalty than to any other country, nor any country where it feels completely at home".<sup>(ii)</sup>

(i) John F. Dunning. "The Multinational Enterprise". George Allen & Unwin. 1971. pl6.

(ii) Charles P. Kindleberger. "American Business Abroad". Yale. 1969. ppl80-182.

The first distinction is plausible enough but many writers cast doubt on the second and third. It is argued that companies which have a sizeable F.D.I. maintain a residual loyalty, if loyalty is the correct word, to their parent country and very little to their host countries. There are a number of reasons given for this: The corporation is likely to have its largest investment in its parent country which gives the parent government the greatest leverage over the corporation, as the pressure a government can exert is related to the size of the corporation's investment within its jurisdiction. It is also likely that the corporation will draw its modus operandi from the parent country as this was the country where it first developed. Often the parent country houses the corporation's centre of operations or its logistical control and it is here that its endeavours around the world are coordinated. As Tugendhat puts it: "...the head office is the brain and nerve centre while the subsidiaries are the limbs carrying out appointed tasks".<sup>(i)</sup> Subsidiaries of a corporation, foreign as well as parent country based, operate under a tight discipline geared to a global strategy. This is evolved and implemented from head office by the very top management. Roy Vernon sees fit to base a definition of multinationals partly on this fact. He writes: "The term 'multinational enterprise' is sometimes confusing and always imprecise; but what I have in mind is simply a cluster of corporations of diverse nationality joined together by the ties of common ownership and responsive to a management strategy".<sup>(ii)</sup> It is pointed out that it is extremely rare to find a foreigner with executive responsibilities as a member of the main parent board at headquarters. The home-bred managers, having been brought up in a country and having absorbed its culture, if they

(i) C. Tugendhat. "The Multinationals". Eyre & Spottiswoode. 1971. p.4.

(ii) Raymond Vernon. "The Economic and Political Consequences of Multinational Enterprise". Boston. 1972. p8.

feel loyalty above that to their company, it will be to their country.

For these reasons many writers cast upon Kindleberger's second and third distinctions. They would argue that the loyalty of multinational companies to parent governments is, at best, loosely based upon self interest. Governments have a much wider area of application than multinationals, the vast majority of which are privately owned and while it is too simple to point to the profit motive as their only guiding principle, it is an important one. The profit motive apart, there are other principles which guide multinationals. Hugh Stevenson suggests they are "primarily concerned with the status quo: with preserving their share of the market; with ensuring that the market remains orderly". Charles Levinson points out that this means

"corporate growth and expansion through maximisation of retained profits and cash flow".

Thus writers of this persuasion would not accept Kindleberger's distinction between the 'multinational corporation' and the 'international corporation'. They would say that multinational companies are orientated towards parent countries and that the parent country has an influence that host countries do not.

In an article which introduces some of the themes of this and subsequent chapters, Professor Nye attempts to classify the political roles of multinationals. Nye suggests that they have three political roles. "They help both intentionally and unintentionally to get the agenda of issues that arise among governments. They serve, usually unintentionally, as instruments

- (i) Hugh Stephenson. "The Coming Clash". Weidenfield. 1972. p. 17.
- (ii) Charles Levinson. "Capital, Inflation and the Multinationals". Allen & Unwin. 1971. p69.
- (iii) Joseph Nye. "The Longer Range Role of the Multinational Corporation". Contained in "Global Companies". Edited by George Ball. Prentice Hall. 1975. p162.

of power by which the governments (and other groups) try to influence each other. And sometimes they act quite intentionally and quite independently to influence political actors and political structures".<sup>(i)</sup> Of the last classification Nye gives the examples of ITT in Chile, United Fruit in Guatamala, and Union Miniere in Katanga. He considers that if direct political actions by multinationals are conceived on a scale ranging from "the hiring of private armies, the bribery of host country soldiers or politicians, campaign contributions to political parties, legitimate lobbying of host government legislators, and advertising to influence the climate of ideas" most would be at the low end of the scale.<sup>(ii)</sup> In considering the direct political role of the multinationals, Nye suggests that it is useful to see societies made up of a number of groups or with governments composed of competing bureaucracies pulling in different directions and "one can see policy coalitions composed of parts of different governments and corporations".<sup>(iii)</sup> The example of Anaconda is quoted: this multinational in an unsuccessful strategy for defense and protection formed an alliance with the conservative elite in Chile.

As regards the second classification Professor Nye comments upon 'extraterritoriality'. This is the parent country controlling the sales of multinationals abroad to extend its foreign policy embargoes into the jurisdictions of other states. Nye also states that in the 1960's the United States used guidelines on capital transfers by multinationals to strengthen its international monetary position and has on occasion been able to use the information gathering capacities of global corporations for intelligence purposes. However, this can work both ways: Nye states that the Arab oil host states have

- (i)     ibid. pl27.
- (ii)    ibid. pl28.
- (iii)   ibid. pl29.

used multinationals as tools to achieve foreign policy objectives. Even a small country like the Philippines was able to use a threat to nationalise American multinationals in the 1960's to induce the U.S. government to extend trade preferences. (i)

A further topic which falls under this classification is multinationals as hostages. Multinationals as hostages have provided a valuable instrument whereby non-state groups can use them as a source of finance and a means of destroying a government's credibility. In 1974 guerillas in Argentina kidnapped twelve multinational bosses and raised some thirty six million dollars in ransom.

Of the first classification, multinationals sometimes set the agenda by lobbying for a particular policy of their parent government with respect to a host government. An example is the International Petroleum Corporation which "became the tail that wagged the dog of American policy towards Peru". (ii)

Canada and the Soviet Union have also benefited from multinational lobbying of the parent country for more liberal trade and tariff policies. Multinationals unintentionally set the agenda in three ways: Firstly, as mentioned above, extraterritoriality in such matters as antitrust capital controls, trade restrictions and taxation policies have given rise to conflicts between states. Secondly, the enormous growth of intra-company financial transfers which at critical times can affect host government economic policies. Thirdly, multinationals have stimulated other social groups in host countries to press for particular government policies. As Professor Nye states:

"The recent struggle between transnationally mobile corporations

(i) *ibid.* p131.  
(ii) *ibid.* p132.

and the relatively immobile labour unions over the Burke-Hartke bill affecting the trade and investment policies of the United States is an apt example".<sup>(i)</sup>

One writer, in an important book, has examined in detail the relationship between one multinational and its parent,<sup>(ii)</sup> government. The book is a study of governmental corruption. The multinational I.T.T., controlled by Harold Geneen, used a great deal of pressure in two attempts to distort the accepted procedures of the U.S. government and to obtain two outcomes that were desired.

One was the acquisition of Hartford Insurance which was the subject of an anti-trust suit by Richard Nixon appointed anti-trust chief, Richard McLaren. The anti-trust procedures were moving to a climax in June 1971. By coincidence it was during these months that the Republican Party was searching for a venue for its convention at which Mr Nixon would be nominated as Presidential candidate. Nixon, it seems, wanted the convention to be held in San Diego. Both parties of American politics were asking for a cash guarantee of 800,000 dollars in exchange for bringing their business and publicity to a city. San Diego, a city in which I.T.T. owned three hotels and a cable plant, was not in the running until May 1971 but then interest quickly developed. At an I.T.T. gathering there, Geneen talked with Bob Wilson, the key Republican in the political circles of San Diego. Wilson suggested there was a chance of holding the convention in San Diego if it could put up 800,000 dollars. Geneen said:

(i) *ibid* p.134.

(ii) Anthony Sampson. "The Sovereign State". Hodder & Stoughton. 1973.

"Look, if you'll check and get some local support, I'll guarantee up to 400,000 of that commitment". The other 400,000 was raised and San Diego became the site of the Republican Convention. Sampson comments: "At the same time as his lawyers were trying to negotiate an anti-trust settlement 'at arms length in Washington' he (Geneen) was providing the Republican Party, and Nixon in particular, with what they wanted most - the underwriting of the convention in San Diego".  
(i)

But Geneen was also working in other directions. Sampson tells us that Mrs Dita Beard was I.T.T.'s only registered lobbyist but that I.T.T. had a large staff of lobbyists for every purpose of which Geneen was the most expert. With the lobbying came more favours for politicians from I.T.T.'s many subsidiary companies. Between 1969 and 1971 these lobbyists persisted in a relentless lobbying against McLaren. Bob Wilson spoke up for I.T.T. in Congress. In New York, Washington and all important U.S. cities an army sought out Congressmen, editors, journalists, and subjected them to pro-I.T.T. arguments. Geneen pressed I.T.T.'s case to many top administrators. One of the most important converts was Richard Kleindienst, Deputy Attorney General; a person who had direct access to McLaren. Kleindienst allowed I.T.T. to present its case to a full meeting of the anti-trust officials. Kleindienst later denied having any involvement and stated that the anti-trust suit had been 'handled and negotiated exclusively by McLaren'. This led to the 'Kleindienst Hearings' by the

(i) *ibid.* pp173-174.

Senate which questioned his fitness for the post of Attorney General for which Nixon designated him.

Sampson says of the I.T.T. lobbying: "Geneen, as he intended, had succeeded in creating an atmosphere in which opposition was simply not worth it. The pressure was literally inexorable". (i) In June 1971, after two years of I.T.T. lobbying and shortly after Geneen's pledge of money, McLaren abruptly and mysteriously allowed the I.T.T. Hartford merger.

Whilst the Hartford merger affair was continuing, information was becoming available which indicated that Geneen had attempted corruption in one of I.T.T.'s many host countries, that of Chile, in collusion with the C.I.A. Sampson states that on July 16th, 1970, William Broe, a top C.I.A. man, arrived for a meeting with Geneen. At this meeting Geneen said he was willing (as he had been in the 1964 election) to assemble a substantial election fund for Torge Allesandri, the conservative candidate in Chile's presidential elections. Allesandri was opposed by Salvador Allende, a Marxist candidate, and Rodomiro Ionsic, a Christian Democrat. Broe told Geneen that the C.I.A. could not serve as a funding channel. On September 4th, Allende won the popular elections by a narrow margin, but he still had to be ratified by the congressional elections although this was unlikely. The next day Geneen spoke to John McLone, an ex-director of the C.I.A. and now a director of I.T.T., telling him he was prepared to put a million dollars in support of any government move designed to bring

(i) *ibid.* p228.

about a coalition of parties in opposition to Allende. But no such policy materialised.

Two weeks later I.T.T. received a memo from one of their men in Chile. The memo was optimistic that Allende could be stopped. Allesandri was hopeful of getting a majority of votes in Congress whereupon he would resign in favour of Frei, the president whose reign was drawing to an end, and who would then call new popular elections. But there was a difficulty: Frei could only act so if there was a serious constitutional crisis, so the memo suggested the threat should be provided one way or another. I.T.T. informed Allesandri that it was ready to contribute what was necessary in terms of finance. However, by the middle of October the prospects of stopping Allende were rapidly waning and on the 24th October he was elected.

I.T.T. did not give up and they began lobbying in the U.S. for a hard line American foreign policy towards Chile. An I.T.T. policy statement advocated an uncompromising line towards Chile. Geneen again began to have meetings with top administrators and the I.T.T. public relations team moved into action. Charles Mayer, Assistant Secretary at the State Department, was accused in an I.T.T. memo of being the weakest Assistant Secretary in twenty years.

In September 1971 Allende appointed an interventor to manage the I.T.T. telephone company in Chile. Geneen was made very angry by the move. He ordered the drawing up of an eighteen point plan for intervention in Chile: "Everything", it said, "should be done quickly, but effectively, to see that Allende does not get through the next six months".<sup>(i)</sup> It suggested that

(i) *ibid.* p225.

the White House should create a special task force to put pressure on Chile; that all loans to Chile should be stopped; that discontent should be fermented in the Chilean military and that Allende's diplomatic plans should be disrupted. Sampson does not know if this plan, which was forwarded to Pete Paterson, the President's assistant for international economic affairs, had any effect. But the U.S. economic isolation of Chile was already under way.

These two examples indicate the resources which a multinational can bring to bear to achieve a desired and politically selective outcome. No other societal groupings have such resources.

Sampson's detailed study is concerned only with the relationship between one American multinational and its parent government. He does not suggest that all multinationals act in this way and he does not go on to generalise or theorise.

One writer that does is Lewis D. Solomon. <sup>(i)</sup> He analyses the impact of U.S. multinationals on U.S. politics. He states: "In the making of the post World War II American foreign policy, corporations played a key role in setting the dominant ideology and supplying top policy makers". <sup>(ii)</sup> In the 1950's U.S. business wanted the U.S. government to promote an 'open door' for American economic penetration. They wanted a world made safe for business activity and one based upon expansionist business ideology. Solomon goes on: "Individuals holding many of the key foreign policy and national security posts were drawn from the business community, including attorneys serving the needs of corporate clients". <sup>(iii)</sup> To protect American

- (i) Lewis D. Solomon. "Multinational Corporations and the Emerging World Order". Kennikat Press. 1978.
- (ii) *ibid.* p68.
- (iii) *ibid.* p68.

business abroad, the United States provided economic and military assistance. This included the Marshall Plan and the C.I.A. Solomon states: "The Central Intelligence Agency intervened in Iran in 1953 and Guatemala in 1954 to remove governments considered an actual threat to business interests". (i)

This interpretation of American foreign policy as a reflex of business interests became less convincing in the 1960's. Vietnam is to be understood from the perspective of militant anti-communism and not specifically as a protection of business interests. But the American government continues to promote American business abroad generally without applying overt sanctions against an offending country. Solomon notes that the U.S. government has resisted aggressive action to protect multinationals from nationalisation in Latin America. Nixon's 'economic warfare' against Chile was a 'major exception'. Solomon goes on: "The trend of separation of government and business interests in the foreign policy arena is best exemplified in the Middle East. Despite strenuous corporate efforts, American policy makers have heeded interests other than those of American corporations. On the other hand, during the 1973 oil embargo, United States oil companies curtailed shipments of petroleum to the United States armed forces, confirming fears that the companies feel little direct allegiance to the United States". (ii)

Other writers have considered the relationship between multinationals and host governments. These writers take it as axiomatic that most non-communist countries of the world want investment by foreign multinationals. They go on to argue that the freedom of governments to make policy and bring that policy to successful fruition is in some ways inhibited by the

(i) *ibid.* p70.  
(ii) *ibid.* pp70-71.

multinationals.

Multinationals will often only respond to a country that offers financial concessions. Northern Ireland did so to attract investment from multinationals such as Courtaulds, Monsanto, Du Pont, British Enkalon, I.C.I., B.P., and Hoechst, and with concessions from British government, I.B.M., N.C.R., Remington Rand, Honeywell, Olivetti, and Burroughs Machines, have established themselves in Scotland. This often means that foreign direct investors are favoured at the expense of national companies. Such bidding is a deterrent to agreements between countries with regard to common policy stances towards multinationals as each country wants foreign direct investment at the expense of neighbouring countries to make its economy more competitive in relation to others. In part, individual governments have lost some freedom of action as to introduce rules and regulations more stringent than other countries is to risk alienating multinationals or losing possible future investment, although as pointed out earlier multinational investment may be valued above this political freedom.

The multinationals for their part often have complex rating scales for assessing a country's suitability for direct investment which includes such things as political stability, ideology and rate of inflation, etc. (i) The President of St. Gobain has stated: "There is a little game which consists of a multinational company doing the rounds of all the European countries to find out which will offer the most advantageous conditions for a given investment. The states in question find themselves competing with each other". (ii)

- (i) See C. Tugendhat. "The Multinationals". Eyre & Spottiswoode. 1971. pp170-171.  
(ii) Arnoud de Vogue. "Multinationals in a Market Economy". International Management. January 1973.

Once an investment has been made a host government is a little better situated regarding bargaining with a multinational as multinationals are reluctant to discard an investment especially if profitable. Also most multinationals are competing with a few other giants in a system of international oligopoly the logic of which is expansion, not withdrawal. To withdraw may mean a loss of ground, with respect to ones competitors and there are a few examples of multinationals actually withdrawing. So if they are pressured too much, or their investment is permanently unprofitable, they might withdraw as General Motors and Ford did from India in 1953 and as Roberts Arundel did from this country in 1967. They may threaten to transfer some operations or allocate future investment elsewhere. Anglo Dutch Shell, for instance, led the British government to understand that it would be forced to base most future expansion in the Netherlands, if its operations in the United Kingdom were excessively hampered by official regulations. Shell did transfer its European operations centre from London to The Hague in 1966.

A further example is that of Shell actions in Nigeria. Nigeria in the late sixties entered the ranks of top oil producing countries but it was also concerned to make use of a resource of natural gas which came with the oil. The extra revenue would further help its economic development. Yet, Shell, the main oil multinational involved, along with others, was reluctant to establish a Nigerian petrochemical industry because the project was considered uneconomic and it did not fit with Shell's already formulated investment plans. Here the policy of the government conflicted with the policy of the multinational. Countries, in this case Nigeria, sometimes have to accept the benefits a multinational's strength brings

as it cannot muster its own resources. At the same time it has to accept that the wider interests of the multinationals may override its own industrial aspirations.

Even the United States is not immune from such pressures. Tax reformers in the U.S. were attempting to end some tax deferral privileges of their multinationals. Frankling E. Agnew, Senior Vice-President of H.J. Heinz, said in response: "If Congress passed this bill, Heinz would give serious thought to disincorporating in the U.S. and moving its headquarters to another country".<sup>(i)</sup> And in order to escape the high cost which anti-pollution laws would impose on them, a number of oil companies have begun building refineries in the Caribbean.

The investment choices of the big multinationals restrict and transform government policy, but once a multinational has a wide network of foreign direct investment it can further undermine a government's policies, often the fundamental policies of currency stabilisation, balance of payments success, and inflation controls. Writers who have considered this subject state that these threats come from the transactions between the various subsidiaries of the multinationals. One estimate states in 1966, the only year for which figures are available, twenty two percent of British exports were accounted for by intra-multinational transactions. A similar assessment for the United States indicates the level was twenty five percent.

When a government is faced with economic problems it will institute various policies to remedy these and hope the economy will respond. But the integrated nature of transactions

(i) "The Push to Make Them Pay More Taxes". Fortune. August. 1973. p57.

between the various component parts of multinationals is such that they will not be responsive to the governmental policies. Many of the multinationals link their plants in different countries in the production of a single product. Outside the United States I.B.M. does not manufacture a complete 360 series computer in any single country. Ford, in the construction of its tractors, makes transmissions at Antwerp; Basildon makes the hydraulics and engines; and Highland Park U.S.A. makes the gear boxes. Such integration is used mainly in computer, automobile, and agricultural machinery production, but multinationals in other fields are moving towards this. There is also another form of multinational specialisation: This is to allocate to a subsidiary the task of manufacturing a particular product or a range of products. Philips produces flat irons and mixers in Holland; tape recorders in Austria; refrigerators in Italy. It is top management which decides what and where a subsidiary will produce. It decides in what countries the product will be sold. An example of this occurred in 1960. The Vauxhall Victor was exported to the U.S. with reasonable success but in what was purely a managerial decision, General Motors, the owners of Vauxhall, switched responsibility for the U.S. small car market from Vauxhall to Opel, another of its subsidiaries. Such decisions are taken from the point of view of the best interest of the multinational. A multinational cannot cut down its intra-company trade if such trade is necessary to complete products manufactured on a world wide basis, or fulfil contracts in other countries, in one response to a particular country's deflationary policy. A report by the United Nations Group of Eminent Persons estimated that more than one quarter of the value of all international trade is in goods of an intragroup

character and concludes that: "The scope for price manipulation (i) is therefore quite extensive". Multinationals constitute very large industrial sectors which are to quite a degree independent of governmental policies and thereby force governments to more extreme measures they may not want to take.

The financial transfers of multinationals cause similar problems. It has been estimated that in 1970 liquid assets in the hands of U.S. companies and banks with international operations, amounted to thirty thousand million dollars, or to three times the size of the U.S. government reserves. In an article in 'The Guardian' the short term liquid assets of all multinationals were estimated at around two hundred and seventy billion dollars. But in terms of total liquid assets, including bank credit, the figure is probably double that. The writer states that this exceeds by two hundred to three hundred percent the short term liquidities of the national reserve banks and financial institutions and he goes on: "It was sufficient that the companies moved only around 8 billion dollars or three percent of this short term liquidity in February 1973 to close the foreign exchange offices" (ii).

Professor Joseph Nye has stated: "The ability of a few score of corporate treasurers, thinking globally and acting nationally, to transfer vast sums with extraordinary rapidity was one of the factors that contributed to the inability of countries to maintain an international monetary system based on fixed

(i) U.N. Economic and Social Council. Report of the Group of Eminent Persons. "The Impact of Multinational Corporations on the Development Process and on International Relations". (E/5500) June 12th, 1974.

(ii) Charles Levinson. The Guardian. June 22nd, 1973. p14

(i) exchange rates". A report to the United Nations added:  
 "It is possible that in the long run the natural tendency of the multinational corporations to concentrate their vast funds in hard currencies, coupled with their enormous ability to shift these funds internationally even in the presence of strict capital controls, will tend to increase the frequency of parity changes or amplify exchange rate fluctuations". (ii)

The financial transfers, such as provision of new funds for investment, repatriation of profits, payments of dividends, royalties, interest, goods services and know how, cross national frontiers as the headquarters pursue its global goals. Many of these financial transfers are intra-multinational. In normal situations they flow to and from countries and tend to offset each other. Yet occasionally the movement may be in unison. This usually occurs when there is a threat to the value of multinational money holdings which may come from a devaluation or to a restriction on money flows which tend to accompany financial crises. So that they will not be taken by surprise, multinationals engage economists who interpret economic trends and attempt to give early warning of impending crises. Ford has an economist who claims accuracy in sixty nine out of seventy five forecasts predicting currency devaluations. A slight doubt about the stability of a currency can lead to a concerted outflow of money from the country concerned turning doubt into crisis. The government will of course respond with a policy of financial restrictions as it protects its currency. Many of these can be circumvented

- (i) Joseph F. Nye. "Multinational Corporations in World Politics". Foreign Affairs. 53. October 1974. pp160-161.
- (ii) United Nations. Department of Economic and Social Affairs. "Multinational Corporations in World Development". (ST/ECA/190). 1973. p65.

due to the international integration of multinationals. They can manipulate transfer prices - the price paid between different subsidiaries of the same company for goods - such that the threatened subsidiary pays out more than it receives in. For big multinationals in a big economy, manipulations of a few percent can amount to millions of pounds over quite short periods of time. Repatriation of earnings, royalties and interest payments can be speeded up. Multinationals can also switch their holdings of the currency under threat in foreign exchange markets. If a devaluation takes place they can buy back at a profit.

Brooke and Remmers point to the British Labour Government of 1964 to 1970 as one who has suffered in this respect. In a survey they found that when in 1964 and 1965 the devaluation of the pound seemed possible, 30 percent of the one hundred and fifteen foreign owned subsidiaries in Britain who were included in their study, who had not paid dividends in the previous three or four years, quickly did so. A few sent home virtually all their earnings and one paid a dividend of 3 million dollars to its parent in 1964 alone. <sup>(i)</sup> In the months leading up to the 1967 devaluation there were similar happenings. Other writers have noted a similar process in the United States: "That these largely American multinational corporations precipitated the devaluation of the American dollar in the monetary crisis of March 1973 as speculators unloaded dollars and purchased German marks and Japanese yen <sup>(ii)</sup> is beyond doubt". Of course multinational operations were

(i) M.Z. Brooke and H.L. Remmers. "The Strategy of the Multinational Enterprise". Longmans. 1970. p168.

(ii) Abdul A. Said and Luiz R. Simmons. "The Politics of Transition". Contained in "The New Sovereigns: Multinational Corporations as World Powers". Prentice-Hall. 1975. p11.

not the only factor involved in these or any other devaluations, but they do contribute to them.

The multinationals will often use similar tactics to escape from paying tax. Manipulation of transfer prices can be used to this end. In a high tax country a low price will be placed upon intra-company goods, and vice-versa. This allows the final product to be priced less, thus making the multinational concerned more competitive, or if goods are marketed from a tax haven greater profits can be made. This pricing flexibility obscures from governments the actual market price of the product at its various stages. At the most extreme of such malpractice is outright currency speculation. Writers state that some multinationals engage top level financial managers to use their funds around the world's currency markets hoping to make quick but large profits.

The relationship between multinationals and their parent government, and the relationship of multinationals to their host governments has been considered. Another broad topic which writers have dwelt upon is the relationship between multinationals, their parent government and the host governments. The writing usually concentrates upon American multinationals: America as the parent government and most of the countries of the non-communist world as the host governments. At the most extreme of this writing are the Marxists.

It is argued that in most cases there is a congruence of interests between the multinationals abroad and the parent government, in the multinationals dealings with host governments. When a multinational is threatened the parent government usually brings its powerful resources to bear.

The use of governmental support is most obvious against the developing countries, but it is also manifest against developed countries.

The congruence of interest exists for a number of reasons: If a host country is aggressive towards a multinational's subsidiary, even to the extent of nationalising it, this is a symbolic threat to the economic system of the parent country. The United States has a strong attachment to a particular way of doing economic things and sees its multinationals as an extension of that system. A threat to them is a threat to the system and more; a threat to a way of life and a concept of freedom.

But there are much more tangible reasons. The multinationals are channels for the raw materials from the developing countries. Advancing technology has led the once self-sufficient United States to depend upon the developing countries for a variety of raw materials which it needs for its industry to continue. Access has become essential and multinational interests become national interests. As Roy Vernon notes: "In the case of oil, any interruption in foreign supplies is likely to be followed by hurried consultations between the companies and key government departments".

(i)  
 A recent survey in 'Fortune' indicates another important reason. (ii)  
 The article states that the U.S. multinationals contribute positively to the U.S. balance of payments. Between 1966 and 1970 the U.S. trade surplus was just about halved, but the trade generated by the multinationals did not fall at all. In both 1966 and 1970, the multinationals roughly bought about

(i) Roy Vernon. Adelphi Papers. 1971. Number 74. p13.

(ii) "A Big Boost for the B.O.P.". Fortune. 1973. pp64-65.

2 billion dollars more from the U.S. than they sold there. Between the same years the U.S. trade surplus was just about halved, but the trade surplus generated by the multinationals did not fall at all. If we consider the multinationals current account, that is service and trade together, and subtract the deficit on the capital account, that is long and short capital flows, the multinationals contributed 6 billion dollars to the U.S. economy. A recent survey on Britain's balance of payments (i) confirmed that multinationals contribute positively.

With these considerations in mind it is not surprising that parent governments are concerned with the interests of their multinationals.

The multinationals are major components of the international capitalist system. They give the parent governments a profound interest in controlling the politics of the developing countries. The attempt at control has been called a 'new imperialism' and the protection of multinational interests is only one element in it. Important for this theory of new imperialism is the role of the United States. The United States is the strongest and most committed capitalist country. To protect capitalism it has militarily intervened in such countries as Korea and Vietnam. Its intelligence agencies have been active to the same end and it has established military bases in many non-communist countries. All this is not, of course, just for the protection of multinational companies and more important is the U.S. influence in the international financial agencies and selective use of foreign aid programmes. If a country wants access to these it must

(i) The Guardian. August 13th, 1973. p14.

implement suitable policies which means a capitalist orientation and one in which F.D.I. is allowed and ensured of a friendly environment.

All this, the theorists points out, is made all the more effective because in comparison with other developed and undeveloped countries the U.S. economy is much larger and relatively more self-sufficient. Roy Vernon has noted: "Besides the reserve power of the U.S. economy behind its selected agent, however large or small that agent may be, seems awesome in potential force from the viewpoint of the country being operated upon".<sup>(i)</sup> A small proportion of America's trade with many other countries is a big percentage of the foreign trade of these countries. In 1966, for example, 42.5 percent of Peru's total exports and 18.2 percent of India's were to the United States, but the exports of these two countries to the United States came to only 1.2 percent of this country's imports. This asymmetry holds also for developed countries. Japan, the United Kingdom, and France sent respectively 30.7 percent, 12.3 percent, and 6 percent of their exports to the United States in 1966. The respective shares of United State's imports that these percentages represent were 11.8 percent, 6.8 percent and 2.5 percent. Kenneth Waltz notes: "Smaller countries are strongly constrained to make domestic economic decisions with one eye on their external accounts. The U.S. is much less constrained to do so, and yet its domestic decisions will affect other states more than theirs will affect us".<sup>(ii)</sup>

(i) Roy Vernon. Adelphi Papers. 1971. Number 7<sup>th</sup>. p13.

(ii) Kenneth N. Waltz. "The Myth of Independence". From "The International Corporation". Edited by C. Kindleberger. The M.I.T. Press. 1970. pp212 to 213.

The conclusion that can be drawn from these writers is that the U.S. has the resources to pursue and protect an open environment for F.D.I. around the world and an economic interest in doing so. Some Marxist writers have constructed a coherent theory which is relevant to this present topic. (i)  
One such pair of writers is Magdoff and Sweezy.

They say that capitalism understood as a large number of small homogeneous units requires extreme modification in the light of developments in the twentieth century. In such a situation each firm will produce to a point where the cost of turning out an additional unit is equal to the market price. To increase profit at this point the firm must bring down costs which means expanding the scale of production and introducing new and improved techniques. Those who are successful at this will grow; those not will lose competitiveness and go out of business. The class relationships of such a situation are between the relatively small class that owns the means of production, even though the units are small, and there is a relatively large number of workers who own no capital and have to sell their labour to live. It is the owners of capital, Magdoff and Sweezy say, the capitalists, that control the state machine.

Capitalism thus develops into a situation in which each firm produces a significant proportion of the industry's total supply - a situation of oligopoly. At this stage it is in the interest of every firm to get itself into the position of a monopolist either through eliminating the few others or

(i) H. Magdoff and P.M. Sweezy. Notes on the Multinational Corporation. From "Readings in U.S. Imperialism". Edited by K.T. Fann and D.C. Hodges. Porter Sargent. 1971.

engaging in cartel arrangements. At such a stage capitalism becomes 'monopoly capitalism'. The firm no longer produces to a point where the cost of turning out an additional unit is equal to market price, rather it produces to a level of maximum profit. The volume of output may fall far short of that at which the cost of producing an additional unit equals market price.

At this stage, to continue to grow, the question becomes not one of reducing costs and expanding output of a homogeneous product, but both geographical and industrial diversification - to become a conglomerate and a multinational company. Of course an economy does not come to consist entirely of multinationals. Within an economy particular demands and needs produce different developments in different sectors. Some capitalists grow larger than others. There are immense differences in national development due to geographical, natural, and political factors, and some states arrive at the conglomerate and multinational stage before others. Some states take an entirely different course and some lag behind and never reach this stage of capitalist development. In these latter stages, which have capitalist class relationships, the bourgeoisie, interested in maximising its profits, may find it in its own interest to permit injections of capital by other national bourgeoisies. This occurs with the extension of capitalist organisation - the multinational company. Different national bourgeoisies may enter into coalition but the coalition is never one of equality. This is because, as Magdoff and Sweezy argue, "relationships of production, implying as they do exploitation of some classes groups by other classes and groups, were established through violent

struggles and can be maintained in existence only through a sufficiently powerful apparatus of coercion - a state. Capital without a state is therefore unthinkable. But in the world as it is constituted today only nations have states: there is no such thing as supranational states. It follows that to exist capital must have nationality".<sup>(i)</sup> More simply, multinational companies are ultimately under the control of a single national bourgeoisie. Whilst multinational in the sense of having operations and maximising profits in a number of countries, they are national in the terms of ownership and control. The process logically culminates in the domination of the capitalist world by a few giant corporations.

Multinationals have the greatest sway in undeveloped countries. The local bourgeoisies are often divided and are unable to act independently. One faction works, explicitly or implicitly, for the multinationals and the rest cannot act for fear of precipitating a social revolution. Thus the bourgeoisie in undeveloped countries is usually pro-imperialist and reactionary. Such rule is favoured by multinational parent governments and as most are American, the U.S. is the chief backer of the bourgeoisies of the undeveloped countries. Magdoff and Sweezy conclude their argument by saying that the government of the U.S. is controlled by the corporations.

Such is the analysis of these two Marxist writers. A third Marxist, Andre Gunder Frank, applies a similar analysis to Latin America.<sup>(ii)</sup>

(i) *ibid.* pp99-100.

(ii) Andre Gunder Frank. "Capitalism and Underdevelopment in Latin America". Penguin. 1971. Part 5.

He states that the first European trips of discovery to Latin America were prompted by a desire to find precious metals and cheap labour. The indigenous social organisations encountered were not suitable to repulse these explorations which were followed by the construction of colonial economies based to a great extent on plantations. This was made possible mostly with small capital flows from European centres, but the resulting triangular trade in slaves, rum, grains and timber from the colonies to Europe and manufactured goods vice-versa, greatly benefitted the 'metropolis' and the net capital flow was heavily in favour of Europe.

This outward flow of capital and the gearing of the colonial economies to the export of 'primaries' and import of manufactured goods created a social, political and economic structure of underdevelopment in Latin America and a dependence on foreign finance for investment. Investment went into mining, agriculture, transport, and those commercial enterprises concerned with export/import. Very little went into the development of manufacturing for an internal market and only in a few isolated provincial regions did internal economies not geared to export develop.

After the Napoleonic Wars, Latin America gained independence and Great Britain came to economic and political ascendancy in the European centre. Within the Latin American countries two groupings came into conflict: nationalist elements from the provincial regions sought to force their governments to protect the 'incipient non-export internal economies' with tariffs; another grouping, the European orientated bourgeoisie, concerned with the import/export interests of mining, agriculture and associated interests, opposed the introduction of tariffs because it took place at the cost of their interests.

The European powers aided this group in whatever manner was required. With its victories, and thus the continuation of free trade, the economies of Latin America became ever more subordinated to Europe. The result of free trade was to produce a balance of payments deficit in these countries which were covered by foreign loans, which in turn had to be serviced.

What private indigenous investment there was in Latin America went into expanding the infrastructure necessary for an export/import economy and into some raw material ventures. Frank states: "Only after this proved to be booming business.....did foreign capital enter into these sectors and take over as well the ownership and management of these initially Latin American enterprises by buying out, often with Latin American capital, the concessions of these nationals". Frank also states: "Latin American governments also transferred national enterprises and capital to foreign hands - for a payoff to themselves. If the existing government was unwilling politically or politically unable to do so, a military coup with metropolitan assistance soon installed a military government which needed only three or four years of existence to grant, in the name of foreign finance, enough ninety year concessions to foreign monopolies....".<sup>(i)</sup> Frank's argument leads to the conclusion that a European orientated bourgeoisie benefitted to the detriment of the Latin American poor. At the same time the Latin American economies were converted into monoprodukt export economies.

(i) *ibid.* pp318, 319 and 321.

After World War I the pattern began to change and the economic centre shifted from Europe. For a while there was some indigenous Latin American development in manufacturing. However, with the rise of American economic power, and especially with the end of the Korean War, U.S. multinationals with superiority in finance, technology and with political backing, expanded into this region. This expansion, by multinationals, went from the installation of industry, to the incorporation of Latin American small and medium manufacturers, to the joint venture - the partnership of the American bourgeoisie with the Latin American bourgeoisie. Such an arrangement allowed multinational expansion on the basis of Latin American capital and capital flow was mainly from the undeveloped economies to the United States. Frank says: "The international monopoly corporation then proceeds to take full advantage of its technological monopoly, its financial reserve, and its direct or indirect political power, to draw increasingly more profits than its Latin American partners out of their common enterprise, to reinvest these and to gain increasing control over enterprise, sector, (i) economy and country of Latin America in which it operates".

Such is the case Frank claims not only in manufacturing industry, but also in banking, finance, and the domestic and international wholesale and retail trade. With the capital flow basically to the U.S., the Latin American countries become ever more dependent on U.S. finance and influence. Some of the capital flowing out as profit flows back in again as loan capital upon which interest has to be paid.

The next step, as Frank sees it, is the absorption of the Latin American as a whole into American 'monopoly capitalism'.

American multinationals manufacture in one country for export to another. To finance the inevitable Latin American deficits world financial organisations such as the World Bank or the I.M.F. are created. For Frank, the process is ultimately one which incorporates the Latin American economy, society, polity, and culture into American neo-imperialist capitalism.

In their book "Global Reach", Richard J. Barnet and Ronald E. Muller, take this type of analysis about as far as it can be taken. They state: "In the first place, the rise of the global corporation represents the globalization of oligopoly capitalism.....has put the world economy under the substantial control of a few hundred business enterprises. Finally, this global economic process is producing a new concentration of political power in what are, in legal and political terms, private hands. In short, the managers of the global corporations are neither elected by the people nor subject to popular scrutiny or even popular pressure, despite the fact that in the course of their daily business they make decisions with more impact on the lives of ordinary people than most generals and politicians".<sup>(i)</sup>

The literature reviewed in this discussion so far, and the political roles of the multinationals which has come from it, has for the most part been implicitly critical in that multinationals are seen as limiting the possibilities of governments to act and as changing the direction of government action. It is not the purpose of this discussion to argue for

(i) Richard J. Barnet and Ronald E. Muller. "Global Reach". Jonathan Cape. 1975. pp213-214. For another Marxist analysis see: Norman Girvan. "Corporate Imperialism: Conflict and Expropriation". Sharpe. 1976.

one view as opposed to another but only to review the range of comment. Argument which explores a completely positive role for multinationals is quite hard to find but some sympathetic material is now considered. One strand of it argues that the power of multinationals has been over rated or is now less than it was.

One writer sees multinationals as the latest victim of a continuing myth concerning political power in society. He writes: "The myth is tenacious. Before creating the title of multinational corporation, our detractors fought against other phantoms; they spoke of the power of 'the two hundred families', the banks and the trusts. Thus the myth can renew these images with the passing of time".<sup>(i)</sup> The myth "feeds" on "outdated knowledge". One obvious exceptional case is the ITT/Chile affair. The myth is a serious threat to multinationals because it leads to political concepts critical of multinationals which are capable of influencing the future. All of these have something in common. The author states: "All the serious criticism directed against multinationals emanates from factions or parties which favour an all powerful state, whether their political sympathies lie to the right or to the left. Its exponents are to be found among partisans of a unitary and centralising power".<sup>(ii)</sup>

However, in spite of the myth, the author argues that multinationals are really good democrats. They have flourished in democratic decentralised societies. They have economic power but this is only one type of power among other types.

(i) Eric Gabus. "The External Relations of the Multinational Companies". From "The Multinational Enterprise in a Hostile World". Edited by G. Curzon and V. Curzon. Macmillan. 1977. p.130.

(ii) *ibid.* p132.

Gabus argues that: "Economic groups exercise power as long as they are socially useful and render desired services"<sup>(i)</sup>.

This is because the multinational must satisfy its clientele to continue in existence. Its clientele is the multinational's international consumers. And, "Finally", the author asserts, "and this is important, the multinational realises that it, like any other group, must submit to the rules of the nation state"<sup>(ii)</sup>. If it does not the state has, subject to checks by the electorate, the power to bring it back into line.

In the same book Rainer Hellman accepts that multinationals may have at one time had excessive power but argues that this is no longer the case. Rainer argues: "Developing power is mostly recognised too late; existing power is seen as a threat generally only after it has passed its peak. In the 1950's and 1960's multinational firms were able to embrace, octopus like and without interference, Europe and the developing countries. The full implications of this evolution were recognised only in the late sixties when these firms had already attained their maximum power". Now they "float in a more choppy sea"<sup>(iii)</sup>. They are subject to participations, nationalisations, and joint ventures. They are 'known' and their activities publicised. They are subject to price, anti-trust and accounting controls.

In the "Introduction" to "The Case for the Multinational Corporation" a full argument in favour of multinationals is made.

(i) *ibid.* p132.

(ii) *ibid.* p132.

(iii) Rainer Hellman. "The Multinational Enterprise, the Nation State and Regional Groupings". *ibid.* p117.

"It is not by accident that multinationals have been seen as 'arguably the most creative international institution of the twentieth century'<sup>(i)</sup>". As opposed to 'virulent nationalism', the argument goes on, multinationals offer an adaptable way for people of different cultures, ideologies, and values to work together. Against the background of modern communications and transportation making the world into a 'global village', multinationals are part of a broad movement towards international cooperation. The alternative to this it is suggested, is "stagnation and war". Multinationals promote peace and understanding by increasing the mobility of people from developed to developing countries, both industrial and Third World. Against the main charge put forward by such writers as Raymond Vernon that multinationals diminish national sovereignty Carl H. Madden states: "It is not so much that they challenge sovereignty as that they unite groups of people across borders giving them a world-wide perspective that casts light on the limitation of national goals"<sup>(ii)</sup>. An article in Monsanto magazine takes this argument further.<sup>(iii)</sup>

The article accepts that multinational companies are motivated by the search for profit but this search brings technology, organisational ability, and marketing ability, to many countries of the world. In fact, it is claimed, ".....they are often the only instrument that can make things happen". The multinationals, competing against other

(i) Carl H. Madden. Editor. "The Case for the Multinational Corporation". Praeger. 1975. p3.

(ii) *ibid.* p7.

(iii) Monsanto Magazine. "Multinational Business: A Force for Progress". Summer. 1975.

multinationals and sometimes against national firms, "...do all this with a large element of risk". Nation states are not suitable for these tasks because they "are confined within physical borders, and their governments must concentrate on their most pressing domestic problems".<sup>(i)</sup> Thus multinationals assist governments by extending the resources over which they have ultimate control. The article suggests that, rather than decreasing national sovereignty, the multinationals extend it. A statement by Arnold Toynbee in another magazine article quoted: "...the multinational corporation fills a vacuum. There is an increasing misfit between the fact of global economic life and the political organisation of the world, in 140 local so called sovereign states. They aren't really sovereign because they are dependent upon the rest of the world for raw materials, and sometimes for food itself, in order to live...."<sup>(ii)</sup> The multinationals extend mining and manufacturing capacities within national states, decreasing outside dependence and extending national sovereignty. The writer points to the actions of O.P.E.C. and to Chile's nationalisation of its copper mines for proof of his argument.

This discussion of the political role of multinationals has been based upon a wide range of books, many of which are not explicitly concerned with politics, yet a wide variety of analysis and opinion is apparent. The discussion serves as an introduction to the subject - some aspects of which are discussed in detail in the following sections but it is apparent that no satisfactory conclusion concerning the

(i) *ibid.* p22.

(ii) *ibid.* p24.

control of multinational companies has been arrived at. The literature coming mainly from economic sources suggests many of the political problems to be faced but gives no coherent analysis of possible political solutions.

## CHAPTER 2

## THE POLITICAL ENVIRONMENT AND FOREIGN DIRECT INVESTMENT

Chapter 1 reviewed the political role of the multinationals and outlined many of the problems a controlling organisation would have to come to terms with. This chapter develops a loose methodological framework within which the following chapters attempt to arrive at a conclusion as to the organisation most suited to the control of multinational companies.

A general definition of politics is the 'process of decision taking and implementation'. From this, politics is involved in a group of people coming to a decision as to which television to watch or a government coming to a decision concerning policy. At the first level the individuals involved will have attitudes as to which program will provide the best entertainment and will use a range of arguments to support their choice. At the second level individuals and groups having different attitudes, better called ideologies, will use what bargaining postures they can to influence a particular governmental policy decision.

The nature of the political environment that flows from this interpretation of politics is that range of ideologies, bargaining postures, individuals, and groups which are contending in any particular government decision. The political environment may not be restricted to a single country. Groups and individuals from many countries may be involved. A political environment may be national, group or international. Any particular national government may have to operate in one or all.

The concern of the following is to understand the political environment in which national governments develop control responses to multinational companies and to draw conclusions from this understanding. The nature of multinationals was much discussed in Chapter 1 and the term will be used generally here and finer distinctions concerning the type of overseas investment by the multinational will not be referred to. The term 'foreign direct investment' (F.D.I.) is also used generally to indicate investment by multinationals in countries other than their parent country.

The term 'national government' is used to refer to the government of a host country regardless of its nature - democratic, dictatorial or other. A control response is possible by a national government at three basic levels: international, group or at the level of the national government. Control responses can be conceptualised into two types: A control response is initial when a response is made to a multinational wishing to invest in a country for the first time; or secondary when an existing control response is made more or less restrictive. The theoretical limits of initial control responses are

- a) to ban completely any initial investment and thus to control by exclusion,
- b) to offer total freedom of operation - the absence of control.

In between these extremes are such responses as voluntary or statutory guidelines, subjection to the same controls as national companies; various levels of equity participation, or dictation of levels of employment of nationals, research and development, etc. Host government control responses may vary from one sector of the economy to another, but most

national governments exclude multinationals from such strategic industries as communications and armaments.

Once a multinational has invested the initial control response will remain until a secondary change is made. The possibilities of a change are

- a) to a harsher level - ultimately to expropriation.
- b) to a softer level - ultimately to total freedom of operation.

In between these limits is nationalisation and the various possibilities outlined above. In practice one of the theoretical limits is never reached because multinational companies are never given complete freedom of operation. The following is mainly concerned with secondary control responses and the term 'control responses' is generally used.

It is the contention of the following that governmental control responses are to a great extent determined by the political environment. Economic considerations, which create the need for F.D.I. and therefore for its control, are less important in determining the nature and restrictiveness of control responses.

The next chapter considers the importance of the political environment at its broadest level, that of the international political environment.

## CHAPTER 3.

## THE IMPORTANCE OF THE INTERNATIONAL POLITICAL ENVIRONMENT FOR CONTROL RESPONSES TO MULTINATIONAL COMPANIES.

The international political environment can be influential in two ways. It can influence the decisions taken concerning control responses, or it can affect the outcome of an implemented control response perhaps assisting its success or causing it to be changed.

Examples of the second influence occurred in Mexico in the 1930's, Iran in the 1950's, and in Cuba in the 1960's. These three countries made the extreme response of nationalising multinational oil investment in their territory.

A major problem facing these host countries was the covetousness felt by parent countries for their oil supplying organisations. Oil is the lifeblood of modern industrialised economies. Governments do not view with favour the loss of such vital investment.

A second major problem was the nature of the oil industry. To participate in the international oil industry large resources of crude oil, refining capacity, and a marketing organisation were required. This meant efficient technicians, administrators, and resources for capital investment at each stage. The marketing stage perhaps presented the most difficult problems to overcome in that it required a fleet of tankers, storage capacity, and buyers. These are difficult things to obtain even without interfering parent countries. One certainly could not develop such capacities overnight, if at all. The greatest expertise in these matters lay with the oil multinationals themselves as most had been with the oil industry since its inception and thus had a tremendous backlog of experience. The oil industry changed

dramatically in the 1970's and the following discussion is not a comment upon it. This brief discussion of the oil nationalisations in Mexico, Iran and Cuba seeks only to understand ways in which the international political environment can influence the outcome of an implemented control response.

Lazaro Cardenas came to the Mexican Presidency with a background of revolutionary activity and he represented a set of humanitarian nationalistic attitudes summed up by the phrase 'Mexico for the Mexicans'. He had widespread public support and had effectively rid himself of opposition within Mexico. On March 18th, 1938, Cardenas expropriated Standard of New Jersey and Royal Dutch. Both had extensive drilling and refining capacity in Mexico. This decision by Cardenas was, by all accounts, not part of a coherent policy but was hasty and unpremeditated. It was apparently precipitated by an oil workers strike.<sup>(i)</sup>

Cardenas was now faced with the problems outlined above and the oil companies were certain of the return of their investment within a year. Mexico's economy was tottering under a depression and widespread demands for reform. The oil companies started a direct boycott and no foreign tanker would move a drop of Mexican petroleum. Mexico had no shipping suitable for this task. Also no American firms would supply Mexico with the equipment necessary to run a nationalised oil industry and they refused to furnish the Tetroethyl essential for making high octane gasoline.

(i) This short discussion of Mexico relies heavily on two books: J. Richard Powell. "The Mexican Petroleum Industry 1938-1950". University of California Press. 1956. and "The Mexican National Petroleum Industry". Antonio J. Bermudez. Stanford University. 1963. A general discussion of Mexican Mining can be found in "The Mexican Mining Industry 1890-1950". D. Bernstein. New York. 1964.

But the Mexicans, who had often in the past had to make do with odds and ends and who were adept in the art of repairing the old and disused, cannibalized equipment and improvised. Those workers who had gained skills in the oil industry - most skilled workers had been foreigners - were promoted. The small core of workers Mexico had developed in Petromex, a government agency formed a few years before to operate small fields, and those with talents useful to the industry were told to take charge.

The expropriation took place against a background of European war clouds. Britain, concerned at the loss of Royal Dutch, would not move against Mexico without United States support. The U.S., with its 'Good Neighbour' policy towards Latin America, was restricted from a forceful intervention and settled for a demand of fair recompense and recommended that the oil companies also seek this.

For a while an impasse prevailed but gradually Roosevelt and the State Department became aware that Mexico was being drawn into the Axis web. Germany, Italy and Japan were eager to obtain Mexican oil. With all other markets shut off Mexico began to barter its oil for much needed manufactured goods from the Axis countries. Totalitarian political influences began to follow economic. Moreover so long as the U.S. and Mexico were at odds with one another no inter-American system could work smoothly. Some Latin American nations were inclined to follow Mexico's lead. Finally, other strategic materials which Mexico had supplied in World War I were increasingly needed by both sides in the struggle. The U.S. was already enmeshed in it as an active non-belligerent; the 'arsenal of democracy'.

With these points in mind the U.S. began to move towards negotiation. Cardenas was certainly no willing ally of totalitarianism. After months of discussion an agreement was reached in November 1941 and a nominal amount of compensation was agreed.

Using oil to stimulate the domestic economy was the key to Mexico's advance in the years after nationalisation. In 1921 Mexico had produced 193 million barrels of oil of which 172 million were exported. In 1942, 42 million were produced and only 5 million were exported. After floundering for nearly a decade after expropriation the nationalised Mexican oil industry moved towards being a successful operation.

Mohammed Mossadeq became Prime Minister of Iran on April 24th, 1951. At the time he had widespread public support and the powerful backing of the 'National Front'. The Shah lost the reigns of power. Mossadeq was a fervent nationalist and was concerned with the 'hidden hand of the British in Iran'. He had long campaigned for the nationalisation of the Anglo-Iranian Oil Company and on May 1st the nationalisation became law. The British Government, a major owner of Anglo-Iranian, appealed to the Security Council of the United Nations but the council withheld action. On September 10th, 1951, the British withdrew trade and financial facilities. British staff was also withdrawn. Tankers from the British Tanker Company, a subsidiary of A.I.O.C., did not dock in Iran. Starved of tankers Abadan refinery had to close. Iran could not get her oil away. (i)

But Mossedeq and his supporters were convinced that they could successfully operate the oil industry by hiring foreign technicians and that they could sell almost as much oil as the

(i) This discussion of Iran relies to some extent on "The Middle East Oil and the Great Powers". E.Shwadran.U.I.P.

former company had done. Mossadeq assumed the Western world would have to have its oil. On the other hand Anglo-Iran prepared to sit out Iran's action. They had alternative oil supplies in Kuwait and continued to serve their markets just as before. They thought that, for economic reasons, Iran would have to sell its oil. Financial bankruptcy would be decisive and indeed Mossadeq did ask the U.S. for a loan of 120 million dollars which was refused.

At the time of nationalisation Mossadeq promised the Iranians a daily income of £300,000 from the oil industry. But on October 16th Mossadeq informed them that relations with the U.K. were being severed and that the budget of the country would be balanced upon the basis of present oil revenues. By this time only a thin trickle of oil was moving out of Iran to Italy and Japan. In fact Iran had never received a great deal of money from oil revenues and 95% of the population had never benefited from them.

Iran and Britain were in dispute: An anxious observer was the U.S. This oil crisis occurred in the midst of the Korean War and President Truman feared a Soviet coup in Iran. Some of the political forces in Iran especially those of the left worried him as did the violent, arbitrary and unpredictable character of Mossadeq who was given to meeting the foreign dignitaries whilst lying in bed. What Russia had not achieved by force in 1946 might now be achieved by making Mossadeq a Soviet puppet.

Another consideration for Truman was that British oil interests in Iran were competitive with those of the U.S. The U.S. was always anxious for an 'open door' for its oil companies.

With these two interests in mind America gradually retreated from an early intransigent position with respect to Mossadeq. Initially the U.S. made it clear that Congress would never sanction the use of taxpayers money to bolster the Mossadeq regime while the country's oil wealth remained useless in the ground. The State Department said: "Ever since the oil ceased to flow and the refinery at Abadan was shut down, the United States has made every effort to assist in resolving the differences between the parties to the dispute. The U.S.A. wished to see, as rapidly as possible, the resumption of Persia's revenue. Also, in the interests of the entire free world, the U.S.A. wished to minimize the dislocation of a great industry and avoid the attendant waste in manpower and monetary resources".<sup>(i)</sup> America advised its nationals not to do business with Iran.

Yet by late 1952 there was already some weakening of attitude by the American government. Small American companies were buying oil from Iran and breaking A.I.O.C.'s embargo. Herbert Morrison M.P. asked Mr. Eden in the House of Commons if this did not indicate "...a weakening in the attitude of the U.S. Government", which had "earlier advised its nationals not to go into this business".<sup>(ii)</sup> Mr Shinwell added: "It no longer seeks to restrain any of these companies from purchasing oil from the Persian Government". And Mr Shinwell asked: "Is this not likely to prove detrimental to the U.K. Government in the long run, and does it not seem as if steps have now been taken, even in this indirect fashion, to gain control of Middle East oil by the U.S. Government?"<sup>(iii)</sup>

(i) U.S. State Department statement. December 6th, 1952.

(ii) Hansard. December, 1952. Volume 509. Column 36.

(iii) *ibid.* Column 37.

The New York 'Journal of Commerce' asserted that the State Department was trying to persuade, or even force, the large American oil companies to market Persian oil by means of a 'package international deal' under which Persia's compensation for the A.I.O.C.'s property was to be paid through a loan from the World Bank. The report stated that a group of U.S. oil companies were to set up a corporation to provide technical assistance to Persia and to market large quantities of Persian oil. <sup>(i)</sup> In September 1953 the U.S. made a 68 million dollar loan to Iran.

At the time of this increasing American involvement the political situation in Iran changed. Many groups were beginning to rebel against Mossadeq as he tried to strengthen his position and increase his powers. There was dissent in the army and a Royalist reaction. The situation was brought to a head when the Shah fled from Persia in mid-August 1953. Mossadeq, now unpopular, and with the National Front coalition breaking up, was overthrown by a Royalist revolt. He was to be tried for treason. General Zahedi was designated the new Prime Minister by the Shah who quickly returned after the revolt.

Negotiations towards an oil settlement continued for a long time. They were not conducted between Iran and the British Government or between Iran and the A.I.O.C. Rather, Iran negotiated with a consortium of oil companies which included Standard Oil of California, Gulf Oil of Texas, Socony-Vacuum, Compagnie Francaise des Petroles, Royal Dutch Shell, and A.I.O.C. The involvement of American companies and the fact that the Iranian negotiators were assisted by two U.S. oil advisers indicates the extent of American

(i) Journal of Commerce. December 9th, 1952.

involvement in the Iranian oil scene. The negotiations were settled on August 5th 1954. The main provisions were:

- (1) An international oil consortium of the above mentioned companies was to be formed in which A.I.O.C. was to hold a 40 percent share.
- (2) This consortium would carry out the functions previously performed by A.I.O.C.
- (3) The National Iranian Oil Company - the company formed by Iran after the nationalisation of the oil industry - was to receive 50 percent of the consortium's profits. It was also to continue to have small operations in Iran.
- (4) A.I.O.C. would receive £25,000,000 compensation from Iran and £214,000,000 from the other members of the consortium.

The dispute was thus solved. Iran, with the Shah regaining political power, retreated from the posture taken by Mossadeq. Foreign oil companies were again to have extensive oil operations in Iran, and America had gained a foothold.

When Castro came to power in Cuba in 1959 a complete change of attitude occurred with respect to the United States business in that country. Castro enacted the Agrarian and Urban Reform Laws and expropriated the big U.S. sugar and fruit companies. The American State Department hit back by cutting the import of Cuban sugar into America. This produced a serious economic situation in Cuba for this country was closely tied economically to the U.S. and sugar exports procured its major income of foreign exchange. This was mainly used to buy oil, for Cuba produced only 600b/d and consumed 60,000<sup>(i)</sup>.

Castro, during his revolutionary activity and take over of Cuba, appears to have been motivated by a Cuban nationalism rather than a communist ideology. But now facing a dire

(i) This discussion of Cuba relies on "Cuba - The Pursuit of Freedom". Hugh Thomas. London: Harper. 1971. And "The Political Economy of International Oil and the Under-Developed Countries". Michael Tanzer. Temple Smith. 1969. pp327-348.

economic situation Castro looked to Russia for help. In 1960 he concluded a deal with Russia in which Cuba would receive 900,000 tons of crude oil in exchange for sugar, rum, tobacco and other Cuban products. A five year agreement assured Cuba a market for one million tons of sugar each year and a credit of 100 million dollars payable in twelve years at 2½ percent. It was planned that the imported crude oil would go to a little refinery which Castro had taken over from the old Batista regime. The capacity of this installation was to be doubled from 2000 b/d to 4000 and a marketing network patched together. The three oil multinationals with investment in Cuba, Standard of New Jersey, Texaco, and Royal Dutch Shell, became nervous as Castro cancelled exclusive marketing contracts with them and Sinclair.

Castro still required more refining capacity and he asked the three oil multinationals to take 11,000 b/d of Soviet crude. This request was made on the 23rd May 1960 and in mid-June the companies were still refusing. Castro warned them to take the oil or face the consequences. The peak of the crisis came on June 29th, 1960, when Castro ordered them to process a token delivery of Soviet crude. Standard and Shell in Havana refused. Castro's first response was seizure or in Cuban parlance, 'intervention'. The United States retaliated by cutting the remaining import of sugar. Castro retaliated by nationalising the Standard and Texaco refineries leaving Shell intervened.

The Cuban Petroleum Institute, created by Castro on November 20th, 1959, now faced the problem of running the refineries, which they managed to do quite efficiently. But Castro faced a crisis of oil and he was forced to turn to Russia for help.

Russia began an airlift of crude to Cuba and the refineries were soon working at full capacity. Any attempt at an embargo was forestalled. The Russian assistance had allowed Cuba's nationalisation to be successful.

The Cuban Petroleum Institute devoted a lot of attention to exploration in an attempt to make Cuba self sufficient in oil. Russia assisted this attempt by sending two drilling rigs able to penetrate to 16,000 ft and a crew and equipment to survey the promising Camaguey Keys. Previous exploration had been performed by U.S. technicians and crews. The director of the Cuban Petroleum Institute set about recruiting engineers from Latin America: thirteen came from Y.P.F., the Argentine national oil company; three came from Mexico, and two from Peru. Expansion of existing refineries was projected for 1961. The Soviets agreed to supply a refinery.

These three examples contain similarities: each response was rather hasty and ill considered; in each case the reaction was an application of sanctions by the mother country and the multinationals in an attempt to reverse the response; and in each case a third country, or group of countries, influenced the final outcome.

The international political environment in these three cases affected the outcome of implemented control responses. In the case study that follows a lengthy discussion of the first type of influence, that of the influence of the international political environment on the decisions taken concerning control responses, is given.

## CASE STUDY NUMBER 1.

## INDIA BETWEEN THE SUPER POWERS.

After independence the new Indian government was drawn from the Congress Party and Pandit Nehru became Prime Minister. The new government adopted planning as a means to industrial growth and began a policy of industrialization. The structure of F.D.I. began to change: There was some British disinvestment and a relatively large inflow of non-British F.D.I. Previous to independence F.D.I. was mainly in agriculture and extraction but most new F.D.I. went into manufacturing and processing. Nehru referred to his foreign policy as 'independent' and claimed an independence of judgement on each issue as it came up. Such policy "based on a rejection of any alignment with East or West in the cold war, made small appeal to an American administration obsessed by the military threat of Communism and eager for strategic alliances"<sup>(i)</sup>. During this period India received little aid from the United States.

After a period of economic and administrative chaos the Industrial Policy Resolution of 6th April, 1948 was announced. It outlined a moderately restrictive control response to F.D.I. F.D.I. would have to be in the national interest and, unless it was very important to this, a majority of the ownership and control would have to be with Indians.<sup>(ii)</sup>

But balance of payment difficulties developed in 1948 and 1949. There were bad harvests and grain had to be imported, other imports increased as did dollar payments but dollar earnings were reduced as some went to Pakistan. Indian industry was

(i) Ronald Segal. "The Crisis of India". Penguin. 1965. p190.

(ii) For a fuller statement see Michael Kidron's, "Foreign Investment in India". Oxford University Press. 1965. p. 97. Much of the detail contained here comes from this book.

not developing very fast and domestic capital was reluctant to invest. There were also political problems: The initial rumblings of the cold war produced anti-government and pro-strike policies by communist unions in India. Industrial development was vital to improve the political climate of the country.

Attitudes towards foreign investment became more favourable although India was more open to F.D.I. than other investment from abroad as the political concessions involved were less and other sources than the United States were available. Nehru made a further statement to the constituent assembly in April, 1949. He referred to a need 'to regulate.....the scope and manner of foreign capital because of its associations with foreign domination in the past'. However, the government felt that in the changed political climate foreign capital had a useful role to play in supplementing domestic savings and in bringing 'scientific, technical and industrial knowledge, and capital equipment'. In the light of these considerations, the statement laid down that 'all undertakings, Indian or foreign' would have 'to conform to the general requirement of their (the government's) industrial policy'. The government also promised that there would be no discrimination against existing foreign capital and that it would allow 'further foreign capital to be invested in India on terms and conditions that are mutually advantageous'. The government also promised that foreign interests would be allowed to earn profits and existing facilities for their remittance would be continued....subject only to 'foreign exchange considerations'. In the case of compulsory acquisitions 'compensation would be provided on a fair and 'equitable basis' and the government would provide reasonable facilities for the remittance of proceeds. In addition the statement noted that while generally control

would be expected to remain in Indian hands 'the government would not object to foreign capital having control of a concern for a limited period if it is found to be in the national interest'. (i)

From about 195<sup>4</sup> onwards there occurred in Indian politics what has been referred to as the 'swing left'. (ii) A number of things occurred to produce this: In the 1952 elections the left wing of the Congress Parliamentary Party was strengthened. Some Indian economists and intellectuals believed that private enterprise was not adequate to the task of meeting the goals of the current five year plan. Also many middle class people believed that to go some way towards socialism would be a protection against the threat of communism. (iii) There was also some general political unrest in the country and unemployment began to increase the support for opposition parties and in 1953 the Praja Socialist Party won an important by-election in Agra. Indian businessmen were also suffering from a shortage of supplies and wanted state action regarding heavy industrialization.

There were also important changes in the international political environment. By 1954 the cold war had settled down into a balance of atomic power and big power coexistence. Competition between communism and capitalism took the form of creeping influence and economic relationships with developing countries. India began to receive Russian support and gained a new freedom in relations with the West.

(i) These excerpts *ibid* pp 101-102.

(ii) This is Kidron's phrase, *ibid*. p128.

(iii) These three reasons are given by Percival Griffiths, 'Modern India'. Earnest Benn. Fourth Edition. 1965. p233.

The main promulgators of the swing left were left wing politicians in the Congress Party. The move left was a move towards a more uncompromising economic nationalism, state capitalism and a more devout non-alignment.

In 1953 India signed a trade pact with Russia; in 1954 a trade mission went to Moscow and Russia offered technical assistance and tractors; and in 1955 there was an agreement for a million ton steel plant. In June 1955 Nehru paid a state visit to Russia and this was reciprocated by Krushchev and Bulganin in November. Aid and trade began to broaden and in 1956 East European countries began to be involved. Most aid went to the public sector but some went into the private sector. During this period there was some nationalisations of F.D.I. - the Imperial Bank in 1955, Life Insurance in 1955, and the Kolar Gold Fields in 1956. A state trading corporation was established to handle trade with the iron curtain countries. Against this background of changing allegiances and control responses, a new industrial policy resolution was adopted in April 1956. K.K. Subrahmanian summarises this as follows: "It was based on: 1. treatment of foreign enterprises on par with Indian enterprises; 2. freedom for current remittances and capital repatriation subject to the foreign exchange considerations, and guarantee of compensation in case of nationalisation; 3. working ownership and effective control in Indian hands except in special cases; and 4. progressive Indianisation in employment."<sup>(i)</sup>

(i) K.K. Subrahmanian. 'Approach to Foreign Collaboration'. Economic and Political Weekly. April 8th, 1978. p613.

Yet India's attitude was ambiguous and remained relatively uncommitted. With Russia backing, India's dire need for aid and F.D.I. from the West had lessened to some extent and some Indian politicians displayed complacency, even mild hostility. Kidron reports Minister for Commerce and Industry, T.T. Krishnamachari as saying in January 1955:"....as far as private (foreign) investment is concerned, India is not a country which was likely to attract 'venture capital'. That would want far more than what the country could afford to give".<sup>(i)</sup> An authoritative spokesman of the Ministry said: "...it is too late to ask India to believe that she 'needs'.....capitalism desperately".<sup>(ii)</sup> And Krishnamachari again: "I do not subscribe to the view that the need for foreign capital is as great as India's poverty".<sup>(iii)</sup> On the other hand F.D.I. was invited into such industries as heavy chemicals, pharmaceuticals, synthetic oil products, heavy machinery, iron and steel, and aircraft manufacturing. Kidron concludes: "The dominant theme at this time was, however, one of independence and reluctance to admit the necessity of compromising with foreign interests. For example, the government shied away from concluding an Investment Guarantee Agreement for which the U.S. was pressing throughout this period".<sup>(iv)</sup> Thus India sat between the two superpowers of the international political environment having a degree of freedom with respect to both.

Generally, the West was concerned with the trends in India. The U.S. came to favour only licensing and investment arrangements

- (i) Kidron. op cit. p 155.
- (ii) Kidron. op cit. p 155.
- (iii) Kidron. op cit. p 155.
- (iv) Kidron. op cit. p 155.

with private Indian enterprises. The World Bank was critical and suggested a better future for India lay in giving encouragement to private enterprise. In 1954 the U.S. concluded a military alliance with Pakistan.

By mid-1956 the impetus of the 'swing left' was declining. Elections in 1955 indicated that support for left wing parties was falling and there were important divisions in the Praja Socialist Party. The government's left moves and the new closeness with Russia had satisfied many sections of opinion. New trends were also emerging in both the internal and the international political environment. There was strong opposition from the F.D.I. sector in the economy and from the West generally. Balance of payments and foreign exchange crises were building up. There were bad harvests in 1955/56 and 1956/57 and food imports trebled. Also there was declining relations with Pakistan and China, and the concomitant need to increase the arms budget and arms imports.

Now the government 'swung right' in an attempt to solve these problems. <sup>(i)</sup> The need for foreign exchange became very serious and the government looked to the West to supply it. The government became more favourable to private capital, both foreign and national as it needed to increase investment and production but it did not have government funds with which to do it. At the end of 1956 private capital began to move into spheres previously reserved for the public sector. A government delegation went to Western countries to ascertain their attitude to investment in India and a government minister

(i) Again this is Kidron's phrase. op cit. p138.

said India was not totally committed to having majority holdings in F.D.I. The role of private enterprise came to be emphasized by the Indian government and an offer by Russia to assist in creating an integrated drug industry was resisted in 1958.

The government allowed multinationals into such industries as drugs, aluminium, heavy electrical equipment, fertilizers and synthetic rubber which were previously reserved for the public sector. In 1969 the India Investment Centre, an autonomous body, was created to promote collaboration ventures between multinationals and Indian companies. The vetting of possible F.D.I. manufacturing projects was streamlined and double taxation avoidance schemes were agreed with Sweden, Norway, Denmark, West Germany and the U.S.

During 1957 and 1958 there was a corresponding change of attitude towards India by the U.S. and relations began to improve. India, the heart of Asia, was now more amenable to U.S. influence due mainly to the foreign exchange crisis and the U.S. was interested in India because of this country's central importance in U.S. cold war strategy especially as regards an increasingly powerful and worrying China. With the swing right, aid to India from the West increased rapidly. The first meeting of what was to become the 'Aid India Consortium' was held in Washington in August 1958 and agreed to aid to the level of a billion dollars. With this success India decided that the third five year plan would rely heavily on Western foreign aid and set up an organisation for the purpose of raising aid. A meeting of the Aid India Consortium to examine the Third Five Year Plan took place in May/June 1961. A sum of 2,286 million dollars for the first two years were pledged and assurances about the remaining three years - about 3000 million

dollars - were given. These were the peak years for aid from the West, particularly the United States.

In the winter of 1961 there was the Himalayan War and Russia began to try to recoup some of the ground lost during the swing right. The relationship with Russia had never been terminated and India still clung to some public sector projects partly because there was much Western resistance to putting funds into this sector. But whenever a Western alternative existed as aid or as F.D.I. this was preferred. A number of Eastern bloc offers were turned down in favour of Western alternatives. Shortly after the start of the Himalayan War a new air agreement was signed. An Indian industrial exhibition was arranged in Russia to take place early in 1963 and talks began concerned with doubling Indo-Russian trade. In 1962 India agreed to buy Russian jet engines for already existing aeroplanes, Migs, and a plant to manufacture both. This was despite a strenuous Anglo-American attempt to bloc the deal. An attempt which prompted Nehru to say: "We are not going to be influenced by pressure from outside. We want aid badly, but not at the cost of our independence".<sup>(i)</sup>

Within the country as a whole the swing right continued and was confirmed in general election of 1962 and in by-elections in 1963. The left wing of the Congress Party sustained heavy losses. Aid from the West began to fall from 1962. Among the reasons were the decision to buy Russian aircraft and a reluctance on the part of India to come to terms with Pakistan over Kashmir.

Throughout this period, including the brief period when Mr. Shastri was Prime Minister, India continued to welcome F.D.I. At the same time it persisted with non-alignment which allowed

(i) The Observer. June 24th. 1962.

'swings' one way or the other and the playing off, of one super power against the other. Kidron's analysis ends in 1964 but he stresses this point in a number of places as the following quotes indicate. On page 175 of his book he writes: "In one way or another, Eastern Bloc aid has sustained the state in many of its efforts to release industries from utter dependence on tightly organised foreign private interests in heavy electrical equipment, drugs, dyestuffs, mining machinery, and much else".<sup>(i)</sup> On page 160 there is a quote of similar import: "The Indian government insisted on maintaining at least the 'core' of the Plan - the heavy industrial and technological base for further development. They insisted, too, on their right to break any foreign monopoly in the country. In both, Eastern bloc aid was invaluable....."<sup>(ii)</sup> More obvious 'blackmailing' is demonstrated in the following quote: "Official spokesmen found it useful to exaggerate the degree of social instability in India as part of the 'bloc blackmailing techniques' they were perfecting at the time. An early illustration was provided by T.T. Krishnamachari on the eve of his first tour of Western capitals as Finance Minister. Interviewed by a New York Times correspondent he said: "We have to be strong enough to defend New Delhi. And it is not just Pakistan.....Take Dange (a leading member of the Communist Party). Maybe some day he will say, ""we are ready for revolution"". And then maybe the Soviet Union or China would like to help him. We could then turn to friends for help. But we have to be able to hold on, say for a month, until help comes".<sup>(iii)</sup>

(i) Kidron. op cit. pl75.

(ii) Kidron. op cit. pl60.

(iii) Kidron. op cit. footnotes pl20.

Further examples of the benefits of being between the super powers occurred in the 1960's. In May 1964 India decided that she wanted a further steel works at Bokaro. The United States Congress prevented American participation because the works were to be state owned. The Bokaro issue figured prominently in discussions of the Clay Committee. It was argued on the one side that the U.S., in its foreign aid programmes, should not attempt to impose its ideological views on other countries. But as the Report of the Clay Committee put it: "countries which would take this (public enterprise) route should realise that while the U.S. will not intervene in their affairs to impose its own economic system, they too lack the right to intervene in our national pocket book"<sup>(i)</sup>.

Russia stepped in and agreed to finance the deal. In 1966 construction of this plant began.

(ii)

A second example is the oil industry. At the time of Indian independence all aspects of the oil industry in India were overwhelmingly in the hands of oil multinationals. These aspects included importing crude, refining, and marketing. The multinationals mainly involved were Esso, Burmah, Shell and Caltex. Eighty percent of oil imported into India was in the form of refined products and not crude oil. Oil consumption began to rise during the First Five Year Plan. This put an increasing drain on India's foreign exchange. To ease this, and somewhat against their will, three oil refineries were built by the oil multinationals so that more of the cheaper crude oil could be imported. The oil multinationals

(i) Vadilal Dagli. "Two Decades of Indo-U.S. Relations". Vora. 1969. p36.

(ii) This review of the Indian oil industry relies heavily on "The Political Economy of International Oil and the Underdeveloped Countries". Michael Tanzer. Temple Smith. 1969. ppl63-276.

agreed because of the attraction of a large and growing market in India and also in the hope of large profits. India now began to pressure the multinationals for local equity participation. The multinationals resisted this pressure thus engendering antagonism with the Indian government.

By the end of the Second Five Year Plan in 1960 crude oil imports were rising fast again putting strain on India's foreign exchange. In mid 1960 it was revealed that the U.S. had offered to supply India with large quantities of oil on a barter basis and to sell India refined products at prices substantially below those of the multinationals. The multinationals refused to refine Soviet crude oil and distribute Soviet refined products in their marketing networks. The Soviet oil was labelled 'political oil'. Whilst making these refusals, the oil multinationals did respond. As Tanzer states: "The most basic step which they could take and did was to lower the prices charged for the crude oil they imported (i) into India, to meet the delivered price offered by the Russians".

In July 1965 a further price reduction was made by the oil multinationals and, although they claimed otherwise, the reason was again a Soviet offer. In April 1965 the government owned 'Indian Oil Company' announced plans to support 2.3 million tons of refined products from the Soviet Union - about twenty percent of total Indian demand. Tanzer stated: "The background developments here indicate that once again the companies chose to use crude oil price cuts to deflect (ii) pressure for handling Soviet oil".

(i) *ibid.* p184.

(ii) *ibid.* p204

The Soviet Union was also helpful in India's search for indigenous supplies of crude oil and the development of an indigenous public refining capacity. The Soviet Union provided the bulk of foreign exchange for importing drilling equipment as well as the technicians which were required to train Indian technicians. The project was successful in producing oil. As in oil exploration for crude, so in the development of indigenous refining capacity. The Soviet Union and Rumania provided the economic assistance which allowed the Indian government to build three government owned refineries.

The Indian government used a second tactic in its attempt to control the oil multinationals in India. It set up two joint venture refineries. The crude for these was supplied by the foreign partners - 'independents' - which were Phillips Petroleum, Amoco, and the National Iranian Oil Company. An Indian commentator, Chaudhury stated: "This tactic of Oil Independents being used by third world countries in their bid to secure better terms from Oil Majors (as well as to thwart the Oil Major's ambitions) is a fairly old one".<sup>(i)</sup>

Thus the agreement was reached in 1963 at a time when the Indian government was trying to get the oil multinationals to agree to revise the refinery agreements concluded in the early 1950's.

In these ways Russian assistance helped India to restrict the oil multinationals. At a broader level Russian aid helped India to maintain her policy on non-alignment and to keep a freedom with respect to multinationals that a country relying totally on American aid and F.D.I. would not have had.

(i) Saumitra Chaudhury. "Nationalisation of Oil Companies in India". From "Economic and Political Weekly".  
March 5th, 1978. p437.

In the early sixties the Cold War relaxed and was to become detente and the more obvious playing off, of one super power against the other, became more difficult. Both Russia and America placed more strings on aid. But if the extremities of the Cold War relaxed, the competition between the super powers continued as did India's importance between them. One prominent commentator stated: "First, within the one-dimensional (East - West) framework that has so largely ordered United States foreign policy decisions since World War II, there is increasing appreciation of the economic wooing of third parties as a less hazardous, more viable form of competition between two rivals who are determined to compete but are reluctant to get blown up in the process. The appreciation of the competitive significance of its aid and other policies towards a country like India has been sharpened for the United States of course, by the serious and skillful way in which the Soviet Union has taken up the game in recent years." <sup>(i)</sup> Jeffrey Cohelan more succinctly makes the same point: "If not at the very beginning, certainly in short order, a large element in foreign aid was to become the non-violent weapon against Communism". <sup>(ii)</sup> Up until 1966 the United States provided India with nine billion dollars - three fifths of the aid utilised by India came from the U.S. Generally speaking the U.S. was enthusiastic for private sector projects, especially when its own multinationals were involved, and unenthusiastic regarding public sector ones. As Tanzer says: "As should be abundantly clear by now, the power of the Western 'aid givers' is usually aligned in favour of the private sector and against

- (i) John P. Lewis. 'Quiet Crisis in India'. The Brookings Institution. 1962. pp5-6.  
(ii) Jeffrey Cohelan. 'India and the U.S. Congress'. From 'Two Decades of Indo/U.S. Relations. (Ed) Vadilal Dgali. Vora. 1969. p28.

the public sector". (i)

Of course all of this is not to say that Russian motives were any different. Tanzer wrote, regarding the Soviet oil offers: "The Soviet Union may well have some direct economic motivation for its offer to barter oil for Indian goods. Nevertheless the background to the Soviet offer indicates that it was at least partly aimed at increasing Soviet influence in India". (ii)

During the 1960's Russia became India's chief arms supplier and U.S. aid included large amounts of grain which was needed to bridge the frequent shortfalls of indigenous production. However, the U.S. became increasingly reluctant to expand all types of aid. As regards grain aid the U.S. came to make it clear that help would only be forthcoming to those who helped themselves and, of necessity, India was prompted to move towards a 'green revolution'. But rapid grain expansion required rapid expansion of fertiliser and, of course, fertiliser supplies. The problem became even more acute with a grain shortage in 1965. India was forced to seek terms with appropriate multinationals in an area where the Soviet Union was not offering help. Tanzer stated: "The U.S. government and the International Bank for Reconstruction and Development have insisted that India provide easier terms for foreign investments as one condition of resumed aid....". (iii) Under pressure India made concessions to secure a number of deals. These included concessions on management controls, prices and distribution. Yet India did not 'cave in'. The Bechtel Corporation of San Francisco was

(i) Tanzer. op cit. p261.

(ii) Tanzer. op cit. p181.

(iii) Tanzer. op cit. p254.

rejected because it stipulated high prices and demanded control over marketing and distribution. Arrangements for four fertiliser plants were finally agreed. They were joint venture projects on favourable terms to the multinationals involved. They also involved U.S. public aid grants.

India's position between the super-powers continued during the 1960's and into the 1970's. <sup>(i)</sup> Under Indira Gandhi's premiership India tilted somewhat towards the Soviet Union, although this wavered at times, and to the public sector as opposed to the private sector. She established 'social control' over the Indian Banks and in 1969 this became outright nationalisation. The Monopoly and Restrictive Trade Practices Act 1969 (MRTP) was an attempt to curb the monopoly positions of some private Indian industrial 'houses'. These measures produced some continuing antagonism between government and industry. During this 'swing left' the Congress Party split between the 'radicals' who wanted rapid social change, and an opposing group who wanted to move more slowly and cautiously. Mrs. Gandhi led the radicals who, although continuing in power, were reduced to a minority group in Parliament. The Communist Party of India (CPI), a pro-Soviet party, offered to support Mrs. Gandhi in Parliament. It did so for two reasons: One was the entry of some of its members into the government. The second was a directive from the Soviet Union. That country's relations with Communist China were in constant deterioration and she was thinking of what Satinda Singh calls a 'cordon sanitaire' around undisciplined China. The policy

(i) For an excellent review of India's position between the super powers see "India and the Super Powers" by Baldev Raj Nayar. Contained in "Economic and Political Weekly". July 23rd, 1977. pp1185-1189.

makers in Moscow advised the CPI to get close to the government of Mrs. Gandhi and establish a triangular relationship. The CPI did accordingly".<sup>(i)</sup>

In March 1971 Mrs. Gandhi was victorious in a general election. Further nationalisations followed this victory. In 1973 Russia gave India a gift of two million tons of wheat. In December of this year a fifteen year agreement with Russia was made with commitments to provide specialised components and technological aid for existing plants. An assessment made in 1973 showed that India had had more aid from the Soviet bloc than any other non-communist country.<sup>(ii)</sup> In January 1974 Russia and Iraq agreed to finance an inland refinery for Indian crude oil. Commenting on India's position between the super powers at this time, Baldev Raj Nayar said: "Over the years, as a result of a clash of roles between the United States as a superpower and India as a middle power, a structure of alignment had developed by the mid-70's whereby the US was linked with China, Pakistan and Iran, while India was linked with the Soviet Union".<sup>(iii)</sup> Yet aid from the West continued, although at reduced levels. On the odd occasion it was stopped when India did something which the U.S. particularly disliked. In 1969 there was an aid pledge of some £800 million.

Throughout this period the control response towards multinational companies remained the same. In the mode of the 1956 Industrial Policy Resolution, the Industrial Policy Resolution of 1970 indicated that the government would be

(i) D.C. Gupta. "Indian Government and Politics". Vikas. Third edition. 1976. p. 413.

(ii) The Economist. "Guns Before Copper". August 11th, 1973. p72

(iii) Nayar. op cit. p1185.

favourable to F.D.I., even allowing majority participation, when sophisticated technology or high export possibilities were involved. The following general statement of the F.D.I. situation was made in The Economist in 1969: "The Indians have been determined - possibly too determined as with fertilisers - to retain control of their own economy, and only about twenty percent of their manufacturing output can be ascribed to foreign controlled companies of foreign minority interests in Indian controlled ones"<sup>(i)</sup>.

The period of swing left was followed by a period of swing right in the middle 70's although at the same time the Indianisation of F.D.I. began. Mrs. Gandhi obtained the support of centre and right factions in the Congress Party for social and economic changes: Taxes were cut, a strike by railway workers was smashed, much of wheat was returned to private trading, large private firms were allowed to expand, licensing procedures were streamlined, price controls were gradually removed on basic commodities, and more freedom was given to private enterprise. A thaw gradually developed in Indo-US relations and the U.S. made some tentative gestures of accommodation with India. Nayar comments: "This process reached its climax with Secretary Kissinger's visit to New Delhi in 1974, when apparently 'a new page' was turned, with Kissinger accepting non-alignment and acknowledging that "the size and position of India give it a special role of leadership in South Asia and in World Affairs"<sup>(ii)</sup>. Joint commissions were established to give more substance to the

(i) The Economist. "The Splitter". November 8th, 1969.p17.

(ii) Nayar. op cit. p1186.

relationship between the two countries.<sup>(i)</sup> This new friendship quickly tailed off. The U.S. opened an arms pipeline to Pakistan and Indira Gandhi declared an emergency in India.

The new policy of 'Indianisation of F.D.I. began in India in 1973. That such a policy could be embarked upon suggests the continuing success of India's non-alignment. In this year the Foreign Exchange Regulation Act (FERA) was passed. K.K. Subrahmanian summarises the implications of the bill as follows:

"Thus financial participation had to be justified as being conducive to import substitution or export promotion, or both, and the ceiling for foreign equity holding was fixed at 40 percent in new enterprises. The existing foreign companies were directed to bring down their holdings to 40 percent, in line with the provision of the Foreign Exchange Regulation Act of 1973. The aim was to facilitate dilution of foreign shareholding and so reduce the foreign control through 'fade-out' arrangement." (ii)

But there were exceptions:

"Under certain conditions exemptions will be given. Industrial companies will be allowed to hold foreign equity up to 74 percent if they are engaged in:

- 1) the core sector, ie, the production of items specified in Appendix 1 of Industrial Licensing Policy, February 1973. These are items classified under 19 product groups and include such products as steel castings and forgings, equipment for transmission and distribution of electricity, agricultural machinery, inorganic fertilisers, manmade fibres, drugs and pharmaceuticals, portland cement, etc.
- 2) predominantly export orientated industries (ie, minimum exports 60 percent of total turnover);
- 3) manufacturing activities which need 'sophisticated technology';

(i) K.K. Subrahmanian. "Approach to Foreign Collaboration". Contained in "Economic and Political Weekly". April 8th, 1978. p613.

(ii) *ibid.* p613.

4) a combination of the above three such that the combined activities account for not less than 75 percent of the total turnover.

Foreign equity up to 51 percent will be allowed if:

- 1) the combined activities account for not less than 60 percent of total turnover; or
- 2) exports account for not less than 40 percent of total turnover.

Companies engaged in trading and other activities like consultancy and construction may be allowed to hold foreign equity up to a maximum of 74 percent if they have developed skills or technology not readily available indigenously. (i)

Fera came into effect on January 1st, 1974. A slow process of consultation and negotiation began between the government and multinationals as to the terms on which the companies could continue to operate in India. This process went on against the background of The Emergency.

Emergency rule began in India on June 26th, 1975. Mrs. Gandhi was confronted with a tremendous challenge from both within and from without the Congress Party. The emergency was associated with a new economic policy. However, this was not a lurch to the left and it was received quite favourably by some indigenous business interests. The budget measures of 1976 appeared to be encouraging capitalism. There were tax cuts, increased development expenditures, investment allowances, helpful adjustments in corporate taxes, and penalties on the consumption of luxury goods were removed.

If The Emergency had not improved ties with the United States, it was not associated with the development of closer ties with Russia. India seemed to be asserting more strongly the independence that had been at the heart of the policy of non-alignment since Independence itself. One commentator suggested

(i) Sudip Chaudhuri. "FERA: Appearance and Reality". "Economic and Political Weekly". April 21st, 1979. p736.

"....the Soviet Union will have to recognise that India is achieving greater freedom of action as she seeks a wider variety of friends throughout the world".<sup>(i)</sup> But if the ties were not made stronger by The Emergency, they were not significantly weakened. In December 1976 Russia and India signed a new trade protocol which included a promise to supply India with 5.5 million tons of crude oil over four years plus two hundred tons of heavy water for her nuclear plants.

In March 1977 Mrs. Gandhi's rule over India came to an end. She was defeated in a general election by the Janata Party - a coalition - and Mr. Morarji Desai became Prime Minister. The new ruling party's basic policy was of a middle path between Western style capitalism and communist state capitalism. It also emphasized rural development as gainst the industrial development of the past thirty years. The public sector would continue to play a dominant role in industry. As regards multinationals: "The Janata government's industrial policy stated that 'after the process of dilution under this Act (FERA) has been completed, companies with direct non-resident investment not exceeding 40percent will be treated on par with Indian companies, except in cases specifically notified, and their future expansion will be guided by the same principles as those applicable to Indian companies.'<sup>(ii)</sup> New F.D.I. would be permitted only on a selective basis in export orientated industries and in fields needing high grade technology. Within a week of the new government's formation, Foreign Minister Atal Bihari Vajpayee ruled out any change of foreign policy: he declared that "foreign policy was not an issue in the campaign", that "there had always been a broad national consensus on external affairs".<sup>(iii)</sup>

(i) Quoted in Nayar. op cit. p1186.

(ii) Chaudhury. op cit. p736.

(iii) Nayar. op cit. p1187.

The change over in Indian politics was of concern to Russia. In April 1977 Mr. Gromyko, Soviet Foreign Minister, went to India to persuade Mr. Desai as to the benefits of continued friendship with Russia. Of the meeting, The Economist wrote: "Mr. Desai explained his government's policy of 'genuine' non-alignment' as meaning just that: no alliance with any of the major powers and no relationship with one country that will stand in the way of a relationship with any other".<sup>(i)</sup>

India dispensed with some Russian technology. She preferred American cold rolling systems to Russian ones, West German design for electricity generators to Russian ones, Italian antibiotics to Russian antibiotics, French and British oil experts to Russian oil experts, and American oil rig designs to Russian ones. Generally, Western technology was in advance of Russia's and India now began to take more advantage of it. India also managed to obtain new credits from the World Bank and other Western countries on favourable terms. The West now seemed more prepared to invest in the Indian public sector. The military support that Russia had long given to India had become less necessary: Pakistan was partitioned and both parts were embroiled in internal troubles. China was more friendly and seemed prepared to negotiate remaining border disputes.

But Russia remained, as had been the case for many years, an effective counterbalance to American economic influence. Russian technology was not discarded in many areas. It was retained in metallurgy, coalmining, and aerial mineral surveys, for example. Nayar quotes Vajpayee as saying: "The bonds of friendship between the two countries are strong enough to survive the demands of divergent systems, the fate of an individual and the fortunes of a political party".<sup>(ii)</sup> Nayar

(i) The Economist. April 30th, 1977. p13.

(ii) Nayar. op cit. p1187.

goes on to comment: "Subsequently, the Gromyko visit ended with an affirmation of the treaty, of their 'identical or close' positions on many international questions, and of their determination to strengthen relations; aid agreements were also signed".<sup>(i)</sup> There was a general awareness of Russia's role in India. Girilal Jain, editor of the Times in India, stated: "It will be dangerous for this country to lean in other directions without the anchorsheet of firm and close ties with the Soviet Union, because it can thereby open itself to manipulation by the West, particularly the United States, which though maimed, has not ceased arrogating to itself the role of establishing a so-called stable world order under its auspices".<sup>(ii)</sup>

Indianisation continued under Mr. Desai. Up to November 27th, 1978, three hundred and fifty companies had been directed to dilute foreign equity; two hundred and thirty six to 40 percent and one hundred and fourteen to 74 or 51 percent. Fifty two firms had or were winding up operations in India. The most famous of these were IBM and Coca Cola. Coca Cola wanted to form two companies in India, one with the equity of 40 percent and another in which they had 100 percent ownership. This second company would guard the secrets of its formula and control quality. Similarly IBM wanted to form two companies. One, in which it held 100 percent equity, would be a totally export company. The second, in which it held only 40 percent equity, would run IBM data centres in India. Further, IBM wanted to import machines for its Indian customers. The Times commented: "This last point proved the chief stumbling block. India's

(i) Nayar. op cit. p1187.

(ii) Quoted in Nayar. op cit. p1187.

Department of Electronics, which recently set up a computer maintenance corporation to undertake servicing and repairs of computers, argued that no special concessions should be allowed to IBM<sup>(i)</sup>.

Both Coca Cola and IBM were turned down after, apparently, the direct intervention of Mr. Desai. It was noted that other companies, including ICL, had agreed to reduce its equity. They ceased operations in India.

During this period Indianisation was going ahead in the tea industry. By the end of July 1977, thirty six firms had complied with a FERA directive to transfer twenty six percent of their holdings to Indian interests. Another one hundred and fourteen sterling tea companies were in the process of complying<sup>(ii)</sup>.

In June 1979 The Economist stated: "Of the 880 companies covered by FERA, over 90 percent have now satisfied its requirements or shortly will do so"<sup>(iii)</sup>. After FERA became law there was a considerable drop in FDI in India, but it slowly moved upwards in the second half of the 1970's.

As the 1960's became the 1970's public enterprise came to increasingly control the oil industry. Onshore oil exploration came to be mainly the province of the Indian Oil and Natural Gas Commission (ONGC). In offshore oil exploration ONGC participates in a number of joint venture projects. The Indian government has come to control over fifty percent of refining capacity. Public sector marketing has come to be important and the Oil India corporation markets the products of the public sector refineries. From 1968 the private sector marketing companies were not allowed to expand their existing

(i) The Times. September 13th, 1977. p17.

(ii) "Dark Side of Indianisation". Economic and Political Weekly November 26th, 1977.

(iii) The Economist. "Computers and Cokes". June 23rd, 1979. p20.

units or to increase the number of their filling stations. In 1974 India acquired 74 percent of Esso in India. In 1976 there was the nationalisation of Burmah/Shell and Caltex.

Such has been India's control response to multinationals and the context within which it has occurred. It is not suggested in the foregoing analysis that India simply by playing one super power off against the other, always, simply, achieved its way. But it is being suggested that by being non-aligned, although tilting at times one way or another, India managed to gain many benefits and concessions from both sides and that she was able to control multinationals much more effectively than if she had been a fully fledged member of the international capitalist system.

## CHAPTER 4.

THE ELIMINATION OF THE INTERNATIONAL POLITICAL ORGANISATION  
AS AN INSTRUMENT FOR THE CONTROL OF MULTINATIONAL COMPANIES.

Detlev Vagts has outlined a number of possibilities for international organisations to control F.D.I. He lists five possibilities in ascending power to apply control responses:

- 1) A strictly consultative organisation.
- 2) One equipped with power to compel the production of information, to investigate, and to make reports.
- 3) One equipped with the power to arbitrate disputes between nations that involve multinational enterprises or disputes between nations and enterprises.
- 4) One fortified with the power to make decisions that the member nations would be obliged to effectuate.
- 5) One with the authority to lay down regulations directly governing the conduct of enterprises and having enforcement powers to see that they are observed, perhaps through a chartering power. (i)

Others have made more specific suggestions such as a G.A.T.T. for investment, or the extension of the United Nations Conference on Tariffs and Trade, or the O.E.C.D., or the World Bank.

Many attempts at some sort of international control of F.D.I. have been attempted. The League of Nations in 1929 tried to construct a code which would protect aliens, property and private interests abroad. It failed because the convention was subject to so many reservations that it became unworkable. In 1948 the United States rejected a proposed Havana Charter for the International Trade Organisation which contained articles for the protection of F.D.I. The developing countries had

- (i) Detlev Vagts. "Formal and Structural Problems of International Organisation for Control of Investment". From the "International Control of Investment: The Dusseldorf Conference on Multinational Corporations".

Ed: Don Wallace. Praeger. 1973. pp236-237.

insisted on so many clauses to protect national sovereignty that the charter was considered unworkable. The United States also made attempts for some international protection of F.D.I. at the Bogota Conference of 1948 and the Buenos Aires Conference in 1957. Both failed.

It is interesting to note that these early attempts at creating an organisation were mainly concerned with the protection of F.D.I. rather than with national interests, a reflection of the changing attitudes with respect to multinational corporations. Criticisms of a G.A.T.T. for F.D.I. and the extension of the World Bank is that they are too closely associated with the interests of the developed countries. Similarly U.N.C.T.A.D. is seen as being too closely associated with the interests of the developing countries.

One existing international organisation which has managed more success than most is the International Centre for the Settlement of Investment Disputes (I.C.S.I.D.). I.C.S.I.D. was sponsored by the World Bank but the connection now is weak. The Convention of I.C.S.I.D. proposes to states - whether capital exporters or capital importers - the acceptance of the principle that a voluntary undertaking by a state and by an investor to arbitrate their investment disputes is a binding obligation that cannot be revoked. The Convention, agreed in 1965, had sixty five signatures by 1973.<sup>(i)</sup>

The success of I.C.S.I.D. is more due to inadequacy than adequacy, if success is surviving to receive sixty five signatures. The I.C.S.I.D. Convention lacks any element of

(i) *ibid.* p136.

compulsion for any of the parties involved as they can refuse to go to arbitration proceedings. The first request for arbitration proceedings was received in 1973, eight years after commencement. A signatory may sign the charter yet may not include any arbitration provisions in its agreement with an investing multinational. The Convention has relevance only where the investing multinational and the host country has a contractual relationship which is often not the case. Although sixty five countries have signed, many have not. No Latin American country has signed partly because of the long standing Calvo Doctrine which places all companies, national and multinational, on a par. This doctrine limits the intervention of third parties in Latin American disputes. Peruvian action with respect to the International Petroleum Company and Chilean action towards Kennecott and Anaconda was unilateral and outside I.C.S.I.D.'s purview. Opposition to I.C.S.I.D. is also widespread in the Middle East and has been practically non functional in some regions of Asia and Africa.

The reasons for the lack of success and lack of any likelihood for success for the international organisation as an instrument for the control of multinational companies are due, fundamentally, to the international political environment. It is not sufficient to say that there is a lack of consensus in the international political environment but rather that there is an immensely wide range of groups, attitudes and bargaining postures.

The developing countries, looking towards the developed parent countries, fear their domination and believe that any international organisation with the powers of (2) and above in Vagt's list would reflect the needs of the developed

countries. They consider that such an organisation would seek to restrain the possibility of unilateral control responses towards multinationals. Rather than risk such restraint they resist any realistic commitment to an organisation.

The variety of the developing countries is enormous and includes countries from Asia, Africa, Latin America and the Middle East. Their ideologies range from Marxism to undeveloped capitalism. They are experimenting with new political and social structures. Political structures are created, tried, and often discarded very quickly. Such will probably be the case for decades to come. Overnight a country's control responses to multinational companies may change from being very open to being very restrictive. Cutting across this variety is a deeply embedded nationalism which demands independence not only in explicit political terms but also in economic terms. The multinational companies are the most obvious enemies of this independence.

The problems of achieving agreement among the developed countries is also considerable. There is some symmetry of relationship which is not the case with the developing countries as most of the developed countries are both parents and hosts to multinational companies. But the United States stands out from the rest as being parent to the greatest number and most of the largest. The American economy is pre-eminent in the developed world, although it is coming to be challenged by West Germany and Japan. Many developed countries feel threatened by the United States and also fear that an international control organisation would serve only American interests.

Throughout the developed countries there are groups which might possibly achieve power through established electoral processes and which are ideologically opposed to F.D.I. Even the established ruling groups have shown little desire to give up any freedom to change existing control responses. The United States has initiated a number of attempts to set up an international control organisation, but has done so only with the protection of F.D.I. in mind and not with much enthusiasm for the protection of host country interests.

The spread of awareness concerning multinational operations which occurred mainly in the sixties has much influenced the developed countries as the developing ones. A moderate nationalism has spread in the developed countries and political parties dependent upon electoral success for power cannot relinquish the possibility of applying unilateral control responses. Often contending party leaders speak out harshly against multinational companies in the run up to elections. Harold Wilson, then leader of the Labour Party, did so in the run up to the 1964 election as did Gorton in the run up to an Australian election.

The political variety in the developed countries is also wide. It is unlikely that agreement could be reached upon anything very substantial between even a small number of them.

The fears with respect to multinational companies are different in nature from the developing and the developed countries. The developing countries have much wider and deeper concerns. Many feel vulnerable when they face multinational companies. The lack of a developed economy may mean that the multinational will immediately come to assume a pre-eminent position in a sector or even in the total economy. It may have a greater impact on the balance of payments and foreign trade

than all the national companies put together and may account for a high percentage of government tax revenue.

The developing countries often lack negotiating skills, expert economists, engineers, and lawyers, and feel insufficient when coming face to face with a multinational in a negotiating position. There is often a lack of suitably qualified national businessmen who could offer advice.

Also sometimes present is a feeling that multinationals are 'alien'. The developing countries still feel strongly the recent history of colonisation and take seriously theories of neocolonialism. The multinational headquarters will be in a far off country and there is always the fear that company objectives and host country objectives in no way coincide. Where the developing country ideology is socialist the multinationals may be considered the embodiment of capitalism. Ultimately many developing countries fear that control of their national resources and national sovereignty will fall into the hands of the multinational company.

The worries of developed countries are more moderate by comparison. They are not so concerned about domination and loss of national sovereignty. They are concerned about such issues as extra-territoriality whereby refusal to allow multinational sales by the multinational parent government prevents the host government exporting goods to a politically sensitive third country. There are also concerns about the domination of some industrial sectors, about technological dependence, the details of financial and trade flows, the prevention of tax evasion, etc.

These are some significant fears but mild in comparison when considered against those of developing countries, and it must be borne in mind that developed countries are both host and parent to multinational companies. To the developing countries this linking appears as an important division between them and the developed countries. Developing countries are only hosts and see the more symmetrical relations of the parent countries as an indication of fundamentally different needs with respect to the multinationals, and they have no hope of symmetrical trade offs. In making a control response, the developing country has first to consider whether to let it invest at all. If so would a joint venture give adequate safeguards or would disinvestment formulas be of use. In making a secondary control response the first question is not how to negotiate, but it is possible to. The developing country has to ask whether it has the resources to take a majority interest or to nationalise. These are basic questions which for the most part developed host countries do not have to grapple with.

These arguments seem to effectively rule out an international control organisation to control F.D.I. Yet it is possible to develop a different range of arguments which are equally effective. The following is a development of those used by  
 (i)  
 Detlev Vagts.

Vagts discussed the more formal problems involved in the construction of an international control organisation. A major problem is membership: Is it to be restricted to multinational parent countries? If so a successful organisation might solve some of the problems of the developed countries but it would, at best, be considered irrelevant by the more  
 (i) *ibid.* pp235-245.

numerous developing countries and thus be unable to solve the most important problems. Even such a restricted organisation would face difficulties in decision making. Would Japan, which has few multinationals, have the same voting rights as the United States, which has most of the biggest. If the United States did not have proportionately more voting power would it abide by decisions, and if it did would the other members?

If the Organisation was to have any chance of solving basic problems it would have to include all countries that have a relationship with multinationals and also those likely to in the future. Again there would be voting problems: Would host countries have the same voting rights as parent countries? If the parent countries had more voting power it is likely the developing countries would claim that the organisation was the tool of the developed countries. If they did not, it is likely that the developed countries would not abide by decisions. Such an organisation would also include a number of communist countries, perhaps Russia and certainly Yugoslavia. Such inclusions might cause problems regarding United States participation.

Consideration for membership might also be given to the multinationals themselves as they are the objects of concern. At what level should they be allowed to participate? Should they have voting rights and above that of their parent countries? If they did the organisation would certainly be biased in favour of the developed countries. If they did not, then they would probably cause problems as regards implementation of decisions - as they probably would anyway. Rather than accept a decision they might withdraw from a country.

The question of vote weighting is of great importance. Automatic majorities one way or another rule out the organisation as being viable as in the case with the World Bank and U.N.C.T.A.D.

The size of the organisation with such a membership would be enormous. It would require a vast bureaucracy to service it, many who would have to be experts in multinational operations. These would probably have to come from the multinationals themselves due to a shortage of experts from elsewhere, which might give the organisation a pro-multinational bias and as Vagts puts it "a complacent harmony between the regulated and the regulators"<sup>(i)</sup>. There would certainly be a lack of experts from the developing countries as nationals there have no training ground.

If the problems of membership, decision taking, and the construction of bureaucracy could be overcome, the executive problem of decision implementation come to the fore. Would the executive actually have the power to implement decisions? If so this would be a significant curtailment of national sovereignty for both host and parent countries. A country might be told, for instance, that it could not exclude a multinational that it wished to exclude and which, presumably, its representative at the international control organisation had argued against. It is unlikely that any countries of the world would tolerate this.

In the event of likely disputes over the precise details of the implemented decision, the organisation might have to

(i) Vagts. *ibid.* p237.

have both judicial and police functions. Appointments to departments dealing with these would become major objects of contention.

This discussion appears to rule out the international organisation as a viable way of controlling multinational companies. As regard this chapter two further necessities remain. One is a case study of the O.E.C.D. attempt at international control. But firstly, a brief comment upon the United Nation's move towards some form of international control.

The United Nations Conference on Trade and Development (UNCTAD), in 1968, adopted a resolution put forward by the American delegation. This resolution accepted the importance of a continuing dialogue between the developing and the developed countries because of the important part played by F.D.I. in the development of the developing countries. The head of the American delegation said: "We believe that one of the important achievements of this Conference would be to launch an inquiry into the legal and policy framework within which private investment and private entrepreneurship are drawn into the development process. Such an effort could make these indispensable factors of growth more readily available to the developing countries. Such a study might lead to widespread agreement on a fair code defining the rights and obligations of foreign business enterprise in the developing countries - a balanced and agreed code which would simplify and speed up investment".<sup>(i)</sup>

The resolution produced a stream of study and debate and was one of the factors producing a resolution by the United Nations

(i) As reported in "The Need for International Arrangements". by Eugene Postow. Itself contained in "Global Companies". Edited by George W. Ball. Prentice Hall. 1975. p157.

Economic and Social Council in July 1972. This led to the appointment of the 'Group of Eminent Persons' to "study the role of multinational corporations and their impact on the process of development, especially that of the developing countries, and also their implications for international relations; to formulate conclusions which may possibly be used by governments in making their sovereign decisions regarding national policy in this respect, and to submit recommendations for appropriate action".<sup>(i)</sup>

Another factor in the setting up of this Group was the role of ITT in Chile. Robert Engler states: "The Allende appeal prompted discussion about comparable penetration of the developing world by ubiquitous oil corporations. It led to the appointment by the United Nations Economic and Social Council of a 'Group of Eminent Persons' to investigate the role of multinational corporations (most of the major ones were oil and American based) in the development process and international affairs".<sup>(ii)</sup>

The Group was composed of twenty members and ten came from the developed countries, of which two were Americans. There were two from the communist countries and the remainder came from developing countries. The report was published in 1974 after hearing testimony from multinational presidents, trade union leaders, spokesmen for various professions, and a variety of other interested persons. It made three major recommendations:

- (i) Luis Escobar. "Should There Be An International Regulatory Agency For MNCs?". Contained in: Jon P. Gunneman. "The Nation State and Transnational Corporations in Conflict". Praeger. 1975. p134.
- (ii) Robert Egler. "The Brotherhood of Oil". Chicago. 1977. pp142-143.

- 1) The establishment of a U.N. Commission on Multinational Companies which among other things would work out codes of conduct;
  - 2) The creation of an Information and Research Centre on Multinational Companies as part of the U.N. Secretariat;
- and
- 3) A number of specific steps including technical assistance designed to strengthen the bargaining positions of less developed countries vis-a-vis multinational companies. (i)

There was sizeable dissent among the disparate members of the Group. A considerable part of the report was taken up with individual 'clarifying' comments. The report did lead to the setting up of a U.N. Commission on Transnational Corporations which has a number of functions. Perhaps the most important is the role in supporting the ongoing efforts of the U.N. Economic and Social Council to develop a code of conduct for multinationals. Other functions are that it serves as a research and information centre on multinationals. It collects data on contracts between 'global companies', governments (or governmental agencies) and local enterprises, and conducts research into the political, legal, economic and social effects of the operations and practices of multinationals.

Our major concern here is its success in establishing a code of conduct. Progress has been very slow. Commenting upon the many individual 'clarifying' comments Charles Kindleberger was prompted to state : "Where there is no meeting of minds, agreement on a form of words, and the creation of machinery for discussion, are idle".<sup>(ii)</sup> The problems of getting a meeting of minds on this topic at the U.N. include

- (i) For more detail see: U.N. Economic and Social Council. Report of the Group of Eminent Persons. "The Impact of Multinational Corporations on the Development Process and on International Relations". (E/5500). June 12th, 1974
- (ii) Charles Kindleberger. "The MNC in a World of Militant Developing Countries". Contained in Ball, op cit. p.84.

many of the problems touched upon above. A major area of contention is as to whether any code should be voluntary or binding. The Group proposed a voluntary code. This is supported by the parent countries of the multinationals. The third world countries - among them the 'Group of 77' want the code to be legally binding. The Group of 77 - many of whose leaders are among the most outspoken opponents of multinationals - is a caucus of developing nations formed during UNCTAD I, which was a special meeting sponsored by the U.N. Conference on Trade and Development in 1964. It now numbers more than 100 members who take an active interest in international development efforts. <sup>(i)</sup> Upon this debate, The Economist in excellent Economist style saw fit to comment: "Not bloody likely, most multinationals will say, and most rich governments too. But at the U.N. they have to reckon with the third world countries, many of whom would love to see multinational companies in handcuffs". <sup>(ii)</sup>

There follows a discussion of the most developed attempt at an international control response to multinational companies.

- (i) See Joseph LaPalombara and Stephen Blank. "Multinational Corporations and National Elites: A Study in Tensions". The Conference Board. 1976. p<sup>4</sup>.
- (ii) "Ways of Making Multinationals Talk". The Economist. December 9th, 1978. p89.

## CASE STUDY NUMBER 2.

AN INTERNATIONAL CONTROL RESPONSE TO MULTINATIONAL COMPANIES:  
THE O.E.C.D. GUIDELINES.

The Organisation for Economic Cooperation and Development (O.E.C.D.) was founded in 1961 to stimulate economic progress and world trade. It is really an extension of the Organisation for European Economic Cooperation set up in 1948 to coordinate efforts to restore Europe's economy under the Marshall Plan. A main purpose of the O.E.C.D. is 'to achieve the highest sustainable economic growth and employment and a rising standard of living in member countries while maintaining financial stability and thus contribute to the development of the world economy'. This is to be attained by liberalising international trade and capital movements. The 'Council' is the supreme body of the organisation. It is composed of representatives of all member countries, and meets from time to time at Ministerial level and regularly at Permanent Representative level; in either case it exercises similar powers. The Council annually designates a Chairman and two Vice-Chairmen at Ministerial level. At Permanent Representative level the Secretary-General is Chairman. The Council is the body from which all general or administrative decisions taken by the Organisation derive. The O.E.C.D. is essentially a consultative assembly and decisions are not binding on individual members. Two committees which have consultative rights are the Business Advisory Committee (BIAC) and the Trade Union Advisory Committee (TUAC).

The members of O.E.C.D. are Australia, Austria, Belgium, Canada, Denmark, Finland, the Federal Republic of Germany, Greece, Iceland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

After eighteen months of negotiations, the Council, meeting in Paris in June 1976 at the Ministerial level, adopted a set of guidelines for the conduct of multinational companies. The guidelines were drawn up at the level of experts within the O.E.C.D. and TUAC was the principal focus of demands for greater controls over multinational companies. In particular, the two main non-communist trade union confederations of the industrialised world - the (social democratic) International Confederation of Trade Unions and the (Christian) World Confederation of Labour - led attempts within TUAC to achieve, by means of a binding code, a major revision of the O.E.C.D.'s convention. This dealt specifically with provisions for the liberalising of capital movements, which they claimed had resulted in the market domination of a small number of increasingly uncontrollable multinational companies. A further demand was that the code should provide for obligatory disclosure of detailed information by such companies. Some O.E.C.D. countries, most notably Sweden, supported these trade union attempts, but the majority under the leadership of the United States desired a more moderate document and were successful in resisting a proposal that formal machinery should be established within O.E.C.D. for supervising implementation of the code and for receiving complaints against the companies. On these negotiations, The Economist commented: "But don't blame America

alone: under its convenient wing, the British and West German governments, ever so keen on corporate responsibility and disclosure at home, also found it convenient to appease their own multinationals, as, more naturally, did the Japanese. But for the Nordic government, with the voice of Sweden and backing from the Dutch, the code's last plastic teeth would have been drawn".  
 (i)

The 'Declaration' was made by all the O.E.C.D. countries, except Turkey, and the details were set out in an O.E.C.D. document called 'International Investment and Multinational Enterprises'. As this document notes: "...various specialised bodies of the Organisation.....already cover many aspects of the role of multinational enterprises notably in matters of international trade and payments, competition, taxation, manpower, industrial development, science and technology".  
 (ii)  
 The Declaration involved four basically complementary and inter-connected decisions. These concerned:

- 1) Guidelines for the operation of multinational companies.
- 2) National treatment for foreign controlled enterprises.
- 3) International investment incentives and disincentives.
- 4) Periodic review of matters arising by the Committee on International Investment and Multinational Enterprises.

(i) The Economist. June 26th, 1976. p62.

(ii) "International Investment and Multinational Enterprises". O.E.C.D. 1976. pp11-12.

(i)  
1) The Guidelines.

These recommended to multinational companies operating in O.E.C.D. territories to

- a) Take fully into account host governments' policy objectives.
- b) Give due consideration to host governments' priorities with regard to economic and social progress.
- c) Provide subsidiaries with information the host government may ask for - taking into account legitimate requirements for business confidentiality.
- d) Not bribe, make illegal political contributions or become improperly involved in local politics.
- e) Not modify - i.e. by manipulating transfer prices - the tax base on which members of the group are assessed in ways which are contrary to national laws.
- f) Not abuse dominant market positions by e.g. anti-competitive take overs, unreasonable refusal to deal discriminatory pricing or using such pricing within the group so as to harm competitors.
- g) Not participate in anti-competitive cartels unless these are within the law.
- h) Cooperate in anti-trust investigations.
- i) Give subsidiaries the freedom to develop and sell at home and abroad, consistent with the need for specialisation and sound commercial practice.
- j) Give purchasers, distributors and licensees the freedom to develop and sell - consistent with law, trade conditions, need for specialisation and sound commercial practice.
- k) With regard to confidentiality and cost, publish information about: their holdings in, and cross holdings between, affiliates; their structure; geographical areas (as defined by the company) where they work and what they do there; operating results, sales and new capital investment by geographical area; sales and, as far as practicable, new investment by major lines of business; intra group pricing policies.
- l) Not discriminate in employment, unless this is in furtherance of government policies which promote greater equality of employment opportunity.

(i) This is only a brief review of the Guidelines.

- m) At least meet the employment and labour-relations standards of comparable employers in the host country.
- n) Not threaten, in the context of labour negotiations, to transfer operations elsewhere.
- o) Provide employees with reasonable notice of major changes such as closures, and do their practicable best to mitigate the adverse effects.
- p) Respect employees' right to unionise, negotiate with their representatives and provide these with the information needed for serious negotiation.
- q) Also provide them with information enabling them to obtain a true and fair view of the company's (subsidiary, or, where appropriate, the whole group) performance - where this accords with local law and practice.

## 2) National Treatment.

Under this decision the O.E.C.D. governments have agreed that they should respond to already established foreign controlled companies in the same way as locally owned ones although this does not cover conditions placed on the first arrival of the multinational. Exceptions to national treatment, existent or future, are to be notified to the O.E.C.D.

## 3) International Investment.

Under this decision any O.E.C.D. government who feels its interest harmed by other countries' incentives or disincentives to multinational companies, taking into account policies designed to redress regional imbalances, can call for consultation with the Committee on International Investment and Multinational Enterprises.

## 4) Periodic Review.

It was decided that the Committee on International Investment

and Multinational Enterprises would periodically review matters arising and experience gained with BIAC and TUAC or with the member country concerned. The provisions of the declaration were to be reviewed in three years time.

As finally adopted, the guidelines were contained within a declaration which also emphasized the need for a liberal climate of international investment incentives. The code of conduct recommended that the multinational companies should take fully into account the policy objectives of host governments, but was to have no legal standing with either governments or companies, it being envisaged that the latter would declare voluntary support for its provisions. Thus, there was no enforcement machinery and judgements on individual cases would not be made.

A report in The Financial Times of June 23rd, 1976, on reactions to the O.E.C.D. code, stated that multinational companies felt they "had little to fear from the new guidelines.. claiming that in most cases they were already conforming to the practices being advocated". However, before the guidelines had been watered down one multinational chief had stated: "Personally I feel any such exercise, code of conduct, is demeaning to multinational enterprises, essentially negative and patently unfair to most of the international enterprises who are good corporate citizens in the countries in which they operate".<sup>(i)</sup>

(i) Comment by John Soden, Vice President of Armco Steel. Contained in "The Case for the Multinational Corporation". Ed. Carl Madden. Praeger. 1977. pl71.

The unions were less happy with the result. As has been noted they had strongly argued for enforceable guidelines. When the guidelines had been published TUAC commented in the O.E.C.D. Observer:

"Certainly the present O.E.C.D. guidelines constitute only a first step towards solving the many problems related to the activities of the multinational enterprises which are leading to the abuse of economic power and to growing conflicts with the governments and working people. TUAC's positive reaction on this 'first step' is, therefore, based on the recognition by the O.E.C.D. Ministers that 'continuing endeavours may lead to further international arrangements and agreements', i.e. binding rules, and that the Declaration itself provides for the review of the present text within three years. TUAC believes that such binding regulations at the international level will prove essential and should deal in particular with full disclosure of the worldwide operations of multinational corporations on a country by country basis, their pricing and taxation practices, and the abuse of strong market positions jeopardising free competition." (i)

The host countries responded to the National Treatment decision. In September 1978, a document was published by the O.E.C.D. listing the exceptions to national treatment submitted by member countries of that organisation. For some countries the exceptions to national treatment were considerable. For instance, France indicated special restrictions in the national defence and armament industry, agriculture and related activities, maritime transport, air transport, (Metropolitan France and overseas territories), airports, aircraft manufacture, nuclear industries and use of nuclear energy, establishment of non-E.E.C. insurance companies, hydro-power, travel agencies, enterprises publishing for young people, and private educational institutions not covered by international agreements. (ii)

- (i) "National Treatment for Foreign Controlled Enterprises Established in O.E.C.D. Countries".. O.E.C.D. 1978.  
(ii) *ibid.* pp26,61,62,63,64, and 65.

Most other countries had long lists but the contents differed significantly. Such lists were published under the title 'Investment by Established Foreign Controlled Enterprises'. Under other titles some countries had long lists of exceptions, whilst others had none. For instance, under the title 'Internal Regulations and Practices; Other Measures', Norway submitted the following: requirements as to nationality of directors or companies operating in certain sectors (acquisition of water falls and mines, metal and ore inspection); exchange control regulations provide for the possibility to treat foreign controlled enterprises as non-residents; special provisions governing the withdrawal of concessions for foreign controlled travel agencies; no concessions granted for the establishment of subsidiaries of foreign financial institutions. This list is to be compared with Germany, Austria, Belgium, Denmark, Spain, Italy, Luxembourg, Netherlands, Portugal and Japan who made no submissions under this title. In drawing conclusions from this, it has to be borne in mind that these lists do indicate exceptions from the national treatment of national companies. As the national treatment of national companies itself varies considerably from one O.E.C.D. member country to the next, it can be concluded that there is considerable variation in response to multinational companies by member countries of O.E.C.D.

#### THE GUIDELINES: A SUCCESS OR FAILURE?

Before embarking on a discussion of how the code has worked out in practice, it is interesting to note Raymond Vernon's comments whilst the O.E.C.D. code was being formulated. He made the comments at a two day conference on multinational

companies held on November 25th and 26th, 1975 under the auspices of The National Chamber Foundation. <sup>(i)</sup> Professor Vernon was asked...."if you could give us your thoughts on the utility or lack of utility of a code of conduct for multinational enterprises, both for developing countries and for industrialised countries?". He commented: "The problems that are presented by the imperfect fit (between a political world composed of responsible nation states and an economic world in which multinational enterprises play a leading role) comprehend all the problems that are usually subsumed under the heading of industrial policy, national policy, market structure, taxation, labour relations, regional development - all the problems that we know in the national setting. In addition a special set of international problems is overlaid on these, making them even more complex. The assumption that something - a code of conduct - will, in the long run, have much bearing on these problems strikes me as a nonstarter. In the end we will have to have functional institutional approaches to this series of problems. Taxation will be handled differently from labour relations, and so on. So in a substantive sense, I regard the code approach as not operational. But it is psychologically dead wrong for the United States in the year 1975 to resist the development of a code. My guess is that we would do well to go along with this essentially useless - but also essentially harmless - exercise."<sup>(ii)</sup>

So, before a softened version of the guidelines were agreed upon, Professor Vernon had already written them off. Subsequent

(i) The details of this conference are published as a book called "The Case for the Multinational Corporation". Ed. Carl Madden. Praeger. 1977.  
(ii) *ibid.* p172.

events appear to prove him right and to indicate that the American government is not prepared to allow the guidelines to become an effective control over multinational companies. The main development leading to such a conclusion was the 'Badger' affair.

Badger - of America - decided that it would bring the operations of its subsidiary, Badger - of Belgium - to an end. Both were ultimately part of the American corporation, Raytheon. Badger - of America - said that its subsidiary did not have the money to make full redundancy payments. The union involved brought the case to the O.E.C.D. with the full backing of the Belgian government. They argued that the Belgian subsidiary may not have the funds necessary, but that the parent in America had. The parent replied that the guidelines indicated that multinationals or their subsidiaries should be treated like national companies and these do not have to pay if they do not have the funds. The conclusion to this affair, in the words of Theodore Vogelaar, special consultant to O.E.C.D.'s Secretary General on International Investment and Multinational Enterprises was : "The discussions within O.E.C.D. permitted all interested parties - governments, the unions and the companies involved - to cooperate and to pursue their discussions with a clearer understanding of what each is expected to do according to recognised international standards. And on the basis of these standards, the parties have agreed terms and conditions for the payment of terminated closure indemnities." <sup>(i)</sup> This outcome appeared to support the efficacy of the O.E.C.D. guidelines. Indeed Mr. Vogelaar was prompted to include in his article the

(i) "The Guidelines in Practice". by Theodore Vogelaar. The O.E.C.D. Observer. May 1977. p8.

following significant remarks: "However the guidelines are applied two things should be made clear: first nothing in the guidelines should be construed to the effect that multinational enterprises - or any of their entities - should act against laws applicable to them. On the other hand, the guidelines may and sometimes do place obligations on multinationals which go beyond what is strictly required by law. Such obligations - and this is the second point to be kept in mind - have a solely moral character: the guidelines are voluntary and not legally binding. This does not mean that parts of the guidelines, though voluntary at the origin, may not in the course of time - and when they have been frequently applied - pass into the general corpus of customary international law even for those multinationals which have never accepted them." (i)

This was a strong and optimistic statement by Mr. Vogelaar but subsequent events may have dampened his optimism. Apart from the Badger case, the unions presented nearly twenty cases to the O.E.C.D. to 'illustrate' the sort of problems that could arise. These included a proposed slimming of a B.A.T. subsidiary in Amsterdam to which the host government again gave support. At these events the American government, which had originally resisted more stringent guidelines, became concerned that the guidelines were really developing some teeth. The Economist was prompted to comment: "There is now evidence that the United States, alarmed by the Badger case and by trade unions' attempts to bring other real-world cases to the O.E.C.D.'s attention, is trying to shove the whole code (bar its provisions on bribery) if not into cold storage at

(i) *ibid.* pp7-8.

least into the display cabinet where it will look pretty - and offend nobody. Not merely have the trade unionists been told, squarely and perhaps fairly enough, that any attempt to stretch the code beyond its wording will be rejected; the O.E.C.D. secretariat itself has been leaned on to ensure that it shall be as inactive as possible in observing how far the code is actually followed. It has been pressured to sidetrack its special consultant on multinationals, who in May was rash enough to write in the O.E.C.D. Observer that parts of what is now voluntary today might one day, by frequent application 'pass into customary international law'. The American delegation expressed wrath and fury at this statement of the self-evident truth, and made vigorous demands that truth and the consultant be put in their places. The issue here was not who called the tune, but whether a tune having been unanimously agreed, one country could dictate what key it was played in. Little wonder that some of the smaller O.E.C.D. governments were upset." (i)

At the meeting of the O.E.C.D. Committee on International Investment and Multinational Enterprises towards the end of 1977 the American government appeared to be trying to bring other aspects of the guidelines to prominence - aspects more favourable to multinationals, and to push union concerns to the background. The Americans wanted the Committee to consider:

- a) Incentives and disincentives to international investment and the way that some companies sometimes have to guarantee a certain minimum percentage output for export to get the incentives.

(i) "America Does Not Rule". The Economist. November 1977. p. 102.

- b) National treatment for multinationals. IBM is the most obvious example of a company that does not get national treatment.
- c) Harmonisation of accounting standards.
- d) Restrictive business practices; insurance of overseas investment; especially of raw materials that are likely victims of third world nationalisations and the revival of ICSID.

Some of the other O.E.C.D. governments seemed to think that this was rather a crude switch from matters which the unions thought were important. The unions were not impressed. They sent a note to the O.E.C.D. which was forwarded to the member countries. They suggested that the guidelines were having little effect and hinted that they might withdraw their cooperation. They stated in their ideas on improvement that member countries should legislate to force multinationals to report what they were doing about them and to discuss these reports with trade unions. Governments should also report to the O.E.C.D. about developments in their country. Individual cases could still be brought up before the O.E.C.D. which would then assess the facts.

These events go a long way to proving Professor Vernon right. The guidelines may have become "essentially useless" for the following reasons:

- 1) Even with the 'rich' countries of the O.E.C.D. there appears to be a division between countries who are predominantly 'parent' - most obviously the United States - who favour the interests of the multinationals, and those countries who are predominantly 'host' countries - including Sweden and Belgium - who favour more the interests of the unions. The split showed itself in the original discussions on the formulation of the code and as to whether the code would develop to have any real teeth.
- 2) The code is entirely voluntary and appears to rely on 'moral force' for any success that it might achieve. This moral force seems unlikely to overcome vested economic interests. It is probable that 'muscle power' will still be the major factor in determining the outcome of the disputes.

- 3) The fundamental difference of view between the trade unions and the multinationals. The trade unions are keen to see the guidelines develop teeth. The multinationals are concerned that any tightening whatever would be the thin edge of the wedge.

## CHAPTER 5

## GROUP APPROACHES TO THE CONTROL OF MULTINATIONAL COMPANIES.

The problems of group control of multinational companies are less extreme than those of international control organisations. Groups of countries in close geographical situations to each other or with economic, productive or political similarities may have common needs or aspirations which promote a unity of interest and action in certain directions: N.A.T.O. is an example at a military level and the E.E.C. is an example at an economic level.

Geographic juxtaposition is not a sufficient similarity to produce a coordinated response to multinational companies. In Latin America there are a variety of responses: Brazil and Mexico feel sufficiently strong to go it alone; the Andean Pact group, Peru, Bolivia, Colombia and Chile, have combined not just to deal with multinational companies but to balance economic weight with such countries as Brazil and Argentina. By so doing they create a larger market and a stronger hand in developing control responses to multinational companies. However, political problems, particularly in Chile, have created difficulties in maintaining unity with the Andean Pact. The Economist commented: "The Political consensus that created the pact - all its members were left of centre and economically nationalist in 1969 - disappeared with the coups in Chile and Bolivia, and Peru's drift to the right".<sup>(i)</sup>

An example of the difficulties which geographical regions

(i) "The Andes Divides". The Economist. November 13th, 1976. p. 129. Much more detail can be gained from this article.

with a degree of cultural unity, a commitment to economic and political unity, and advanced institutionalisation face is demonstrated by the E.E.C. The E.E.C. was to some extent developed as a response to U.S. economic and multinational power, and yet it has failed to develop a fully coordinated approach. A movement towards this began as early as 1965 when the E.E.C. Commission established a working group to study the various types of American investment in the E.E.C. under Fernand Braun. This piece of work was never published but eventually led to more politically orientated studies as those undertaken in the E.E.C. by Jean-Jacques Servan-Schreiber and Rainer Hellman. <sup>(i)</sup> In a memorandum issued in March 1970 the Commission stated its views relatively precisely on the way it looks upon foreign investment. <sup>(ii)</sup> The memorandum noted F.D.I. made a sizeable contribution to the productivity, technology and financial resources of E.E.C. industry. It stated that the Commission was convinced that the right response to this competition by the industry of the member countries of the E.E.C. did not lie in a restrictive attitude but in the strengthening of the structure and vigour of European undertakings. But Braun goes on to note two problems of variance discussed in the memorandum. He wrote: "It can be said that the general desire of member countries to attract new investments has led to strong competition in the granting of state aid so that sometimes foreign firms have been placed in a better position than their competitors within the E.E.C." <sup>(iii)</sup> On the second problem

(i) Jean-Jacques Servan-Schreiber. "The American Challenge". London. 1958.

(ii) The following facts are contained in "International Control from the Standpoint of the European Economic Community", by Ferdinand Braun. Itself contained in Don Wallace. 1974. op cit. pp49-57.

(iii) ibid. p50.

he writes: "When it comes to takeovers or the acquisition of minority holdings in E.E.C. firms by firms from third countries, member states have adopted attitudes that are often at variance. This may be explained by different views on the relative importance of the various sectors and differences in policy. This divergence of national policies is undoubtedly a serious problem for governments of member states in certain cases of intercommunity grouping".<sup>(i)</sup>

The memorandum was submitted to the Council of Ministers of the E.E.C. for consideration and "...the issue of how to discuss and possibly channel foreign investments became a major topic for dissent".<sup>(ii)</sup> The division was "more on philosophical than pragmatic lines".<sup>(iii)</sup>

These difficulties of developing a unified control response were experienced by a group of countries already successfully united on a wide range of matters, a fact which indicates how difficult concerted action is. The CIPEC group members have in common the mining of copper ore. CIPEC (Conseil Intergouvernemental des Pays Exportateurs de Cuivre) was formed in 1967 and includes Zambia, Peru, Zaire and Chile (the Zaire case is discussed more fully in a later chapter). These countries sell their copper to multinational companies. Cipec threatened the copper world with a 'Master plan' to ensure a profitable return on their production.

Sir Ronald Prain, who retired from the Chairmanship of R.S.T. International Metals in 1972 and who was dubbed 'Mr. Copper', pointed to a weakness in CIPEC at a speech made in 1971 to the American Metal Market Forum. He said: "I believe that a successful agreement among the CIPEC countries will depend upon a closer relationship between their respective costs of

(i) *ibid.* pp50-51.  
(ii) *ibid.* 52.

production....they vary considerably. In the past there has been sufficient variation between costs to make it appear difficult to see how agreement can be reached at low prices for any particular marketing or production policy; for what may appear to be a low price for one may still show respectable profits for another. To put this another way, it seems to me that only and when production costs are virtually the same in the CIPEC countries will you have the basis and the ability to make rapid decisions if required".<sup>(i)</sup>

In 1973 the copper ore exporters enjoyed boom conditions with high prices and strong demand. As late as April, 1974 copper ore was £1140 per tonne. The copper price had continued high after the Arab oil price rises due to solid demand in the industrialised countries. But as the oil price rises began to take effect economic activity slowed down and demand for copper fell. This was particularly so in Japan which relies heavily on oil for its energy. Japan and other countries began to sell their copper stocks on the world market and the price fell quickly. By the middle of September, 1974 it had fallen to £600 per tonne.

In 1974 CIPEC accounted for 40 percent of world copper production and 70 percent of copper exports. In December, 1974 CIPEC decided to cut exports by 10 percent in an attempt to raise prices. An immediate reaction by one of the multinational purchasers, British Insulated Cables, was "...that it did not constitute a problem. We can make up any deficit elsewhere."<sup>(ii)</sup>

The cutback did not immediately effect the price of copper. On April 15th, 1975 CIPEC countries made a further bid to prop

(i) The Times, 9th October, 1974. p15.

(ii) The Times, 20th November, 1974. p21.

up the price of copper by extending the cutback to 15 percent. In the first months of 1976 the price of copper did begin to rise. However, this seems to have been little related to CIPEC actions. It came at a time when warehouse stocks of the London Metal Exchange had never been higher and the mines were still producing too much copper. <sup>(i)</sup> The reasons seem to have been an unexpected upturn in economic activity and a fall in the value of sterling. <sup>(ii)</sup> The price of copper continued to fluctuate. In July 1976 it went up to £900. In October 1976 it declined to £650, closing at the end of the year at about £800. After rising to £900 in March 1977 there was a general decline later in the year to £650 by August. In 1978 the price went down to about £610 in late February. After temporarily rising to nearly £780 in late May it fell back to £700. By the end of 1978 the price was again around £780 per tonne.

The problems of making a unified group response are illustrated by the difficulties which faced CIPEC members. Zambia faced severe physical difficulties in actually exporting copper because of the closure of the rail outlet through Rhodesia in 1973, the disruption since 1965 of the Benguela railway line through Angola and Zaire, and, after 1976, insufficient operational capacity on the Tanzam railway to Dar-es-Salem and congestion at the port itself.

Relations between Chile and Peru became very strained. In 1977 it was reported that they were massing troops along their common border. On July 1st, 1977, the border was closed after two persons were killed and fifteen injured amid tension

(i) The Economist. 13th March, 1976. p107.

(ii) *ibid.* p107.

centered on the Atacama desert area which Peru had lost to Chile in the Pacific War and which was rich in copper, silver and nitrates. Strained relations continued into 1979.

This brief review of group control responses to multinational companies indicates a number of basic weaknesses in such group action even when group members have a strong common interest.

Among the weaknesses are:

- A) Political or philosophical differences among group members can limit the unity of response. Such differences may not have existed or been apparent when the group members came together but may quickly develop, for example, when one political elite is replaced by another.
- B) Different view on the importance of the various industrial sectors or different industrial policies, can lead to a variance in attitudes towards various facets of F.D.I. and thus to difficulties in achieving unity of response.
- C) A desire for increased F.D.I. by the group members can cause competition among them, in terms of tax concessions etc., and thus obvious difficulties in achieving a unified control response.
- D) Where a group sells to multinational buyers, rather than allowing multinational companies to operate within member countries, varying costs of production can make the achievement of unified control responses difficult as agreement with regard to a price level, for instance, will mean high profit for some group members and low profits for others.

One group of countries have been very successful in achieving a unified group response for a considerable period of time.

This group will now be discussed.

## CASE STUDY NUMBER 3

## NATIONALISATION AND POLITICS IN THE MIDDLE EAST: 1973 to 1979.

## INTRODUCTION

When World War I broke out there were two major oil producers - the U.S.A. and the U.S.S.R. Oil in commercial quantities had been discovered in Indonesia, Rumania and Mexico and small quantities had been obtained from these sources. Production had begun in Persia (now Iran) but on a very small scale. In the years following World War I and particularly World War II, vast oil reserves were discovered in the Middle East and these were exploited by multinational companies mainly of American origin. This oil was mostly exported. One of the chief recipients was the United States who, though continuing to be the biggest oil producer, increased its consumption so much that it came to be an importer. The Western European countries and Japan imported oil from the Middle East and became heavily dependent on these supplies. (i)

Until the later 1950's the oil multinationals dominated the oil industry. They controlled the supply of oil and its price. (ii) However at this time their position began to slowly deteriorate. (iii) One important factor here was the formation of the 'Organisation of Petroleum Exporting Countries' (O.P.E.C.) and within this the 'Organisation of Arab Petroleum Exporting Countries' (O.A.P.E.C.). The nine Arab exporting oil countries considered in this discussion are listed in Table (1), along with the year of their first major oil discovery, year of their first major oil development, and their political status. In the

- (i) Excellent general discussions are "The Middle East, Oil and the Great Powers". B. Shwadan. U.P.I. 1973. and "Middle East Oil in a Revolutionary Age". George Lenczowski. American Enterprise Institute. 1976.
- (ii) A lengthy discussion of this point can be found in "The Large International Firm in Developing Countries" by Edith Penrose. Chapter 3. Allen & Unwin. 1968.
- (iii) *ibid.* 1968. p73.

1950's and 1960's these countries gained concessions from the oil multinationals concerning the price of crude oil and the control of investment in their territory, but a most important change in control responses came in the years 1973 and 1974. (i)

#### ARAB NATIONALISM AND ARAB UNITY

Arab nationalism is a recent phenomenon and has manifested itself as a number of independent Arab states rather than as a pan-Arab movement embodying all those peoples which may be considered to fall under the label 'Arab'. The Arab states vary enormously in size, social structure, social development, political development and ideology.

The Arab states have a number of things in common which facilitates the emergence of enough pan-Arab nationalism to allow a common control response towards the oil exporting multinationals. Of small significance is a common language and religion. Of more significance is the similar economic relationship which they have with the West and Japan. The main expression of this is O.A.P.E.C. O.A.P.E.C. countries in 1972 produced approximately thirty percent of crude world oil supplies. O.A.P.E.C. has acted to protect or support individual members. One of its principal actions was the making available £54M to Iraq and £6.8M to Syria following the nationalisation of I.P.C. in 1972 and the subsequent loss of revenues which occurred due to a decline in the sale and transit of oil. O.A.P.E.C. has a morale boosting function: For instance at the meeting on September 4th, 1973, ministers from ten member states expressed solidarity with Libya and her nationalisation measures taken ten days earlier.

(i) For a discussion of the formation of O.P.E.C. see "OPEC and the Petroleum Industry". Mana Saeed Al-Otaiba. Croom Helm London. 1975. pp47-56.

There are great strains in O.A.P.E.C. particularly between the more socialist orientated countries such as Libya, Syria and Algeria, and the more traditional sheikdoms such as Saudi Arabia. The factions are continually vying for leadership and control over O.A.P.E.C. policy.

The existence of Israel is most important for pan-Arab nationalism. There was a sharp rise in Jewish immigration into Palestine after World War I. The increase was almost tenfold from sixty thousand in 1919 to half a million in 1939. The Jewish immigrants, mostly from Europe, brought with them the messianic drive of Zionism, a relatively advanced Western technology, trained manpower, capital, and the determination to embark on the construction of a modern state. This was in striking contrast with the traditional life of the Palestinian Arabs who were mainly peasant craftsmen. These Palestinians reacted in a hostile manner and similar reactions occurred throughout the Middle East. Joel Carmichael has noted: "It may be said that Zionism provided Arab nationalism with a core".<sup>(i)</sup> The failure of the Arabs in 1948 to prevent the creation of Israel left a permanent residue of embitterment and wars were fought also in 1956, 1967, and 1973.

#### POLITICS, NATIONALISATION, AND THE FOURTH ARAB/ISRAELI WAR.

The political background to the Arab/Israeli dispute is important. The right/left split in world politics has its repercussions for the O.A.P.E.C. countries: the socialist orientated countries being more susceptible to Russian influence and support and the conservative sheikdoms to American influence and support. This poses problems for them as Israel also

(i) Joel Carmichael. "The Shaping of the Arabs". 1969. Allen and Unwin. p324.

receives massive support from the United States.

In the months preceding the outbreak of war in the Middle East on October 6th, 1973, pressure, always there, built up within O.A.P.E.C. for a stronger line to be taken in dealing with the major oil multinationals and the developed countries of the West. One factor in these demands was the worsening financial relationships between O.A.P.E.C. and these states. Whilst crude oil demand was increasing, changing currency parities and inflation were hurting the Arabs.

But the most important cause was heightened Arab hostility to the United States and to some extent the other Western countries which were giving support to Israel. In particular anti-American feeling had been intensified as a result of the exercise of the veto on July 26th, 1973, on a United Nations Security Council draft resolution which 'inter alia' expressed serious concern at Israel's lack of cooperation with the United Nations peace keeping efforts in the Middle East. The resolution 'strongly deplored' Israel's continuing occupation of the territories taken as a result of the 1967 Arab/Israeli war and reaffirmed Resolution 242 of 1967 concerning Israeli withdrawal.

The position of King Faisal was difficult. He was a conservative sheik who looked towards the U.S. and who quite naturally wanted to continue to rule Saudi Arabia. He and his oil minister had been advocating government participation in the exploitation of Saudi oil from the earliest days of O.P.E.C. but the method chosen was negotiation rather than unilateral action. In 1972 Saudi oil was mainly under direct control of four multinationals, Exxon, Texaco, Standard Oil of California and Mobil, which worked together in a consortium

known as the Arabian Oil Company (ARAMCO). Technical experts from these American companies did all the exploration work, installed production facilities, and maintained the flow of oil, whilst top management in the United States decided on the quantity of production and to where the oil should be exported. Only the price of the oil was beyond the companies direct control and this was nominally agreed in negotiations with O.P.E.C. Agreement through negotiation was a moderate choice by the Saudi government as many Arab countries had gone ahead with nationalisation. (See Table 2).

In 1972 ARAMCO became the first oil consortium to concede the principle of state participation. This was followed by a participation agreement which gave Saudi Arabia a twenty five percent holding. It was agreed that this holding would increase to fifty one percent by 1983. In the period before the war, Faisal was apparently ordering aircraft, tanks and warships from the United States. The United States was also equipping and training Saudi military forces and was deeply involved in development projects there. Faisal needed this support to continue: Apart from his desire for industrial development, he was concerned about the Yemen, a semi-protectorate which through incompetent administration and tribal quarreling was close to a takeover by the Left, an outcome not undesired by the Marxist government of South Yemen next door. As the combined populations of the two Yemens was equal to that of Saudi Arabia, Faisal wanted to prevent this happening. He was generally concerned with the spread and influence of socialist ideology within the Arab countries and behind it the threat of an extension of Russian influence. Good relations with America were an important counterbalance.

Yet there were a number of reasons why he had to show O.A.P.E.C. that he was participating in the conflict with Israel. In September 1973 world oil supplies were just about sufficient to satisfy the world's needs. But the largest known reserves were in Saudi Arabia and it was from here that the bulk of oil needed to satisfy the world's future needs would have to come. The United States own oil production at this time was declining and it would have to increase its supplies, presumably from the Arabs. Without Saudi Arabia no Arab attempt to use oil as a political weapon would be successful. Because of this central position regarding oil supply Faisal was under great pressure to act. Faisal also faced problems within his country. In 1969 there was an attempted coup by Saudi airforce officers and on August 5th and 6th, 1973, there had been explosions at one of Aramco's leading refineries. These incidents were prompted by dislike of Faisal's policies and there would be difficulty in protecting pumping installations, pipelines, terminals and refineries against such attack especially as many Saudi military men disliked the idea of protecting American interests. Support for the Arab cause and an aggressive stance towards the U.S. would help to bring to an end such insurgency.

Perhaps the most pressing problem was the actions of Khaddafi of Libya. On September 1st, 1969, King Idris was deposed by a military junta led by Colonel Khaddafi. The Arab Socialist Union became the only legal party and it had a collective leadership in which Khaddafi was pre-eminent. From this time on, Libya sought leadership of the Arab unity movement and took an aggressive stance against Israel. But Faisal was also concerned to keep himself at the centre of this cause. Khaddafi represented most of the things he hated and he believed that Arab unity could have

no meaning unless Saudi Arabia, which contained and cared for most of Islam's holiest places, was at its centre. The Saudi monarch reasoned that it was upon himself that the duty of leading Islam should fall.

In the months before the October war, Libya was pressing Egypt for a union of the two countries and Faisal was concerned lest Egypt, needing economic and political support, would move closer to Libya. Sadat, Egypt's leader, needed backing as relations with his most recent backer, the Soviet Union, had deteriorated. In 1971 the Russians had established themselves in great strength in Egypt. There were fifteen thousand Soviet military 'advisers' and five fighter squadrons of the Soviet airforce there. In May of that year Russian power reached its zenith with the signing of a fifteen year treaty of friendship and cooperation. Sadat now began to fear the increased Russian influence in his country and considered that the Kremlin was using Egypt as a vehicle to gain a more general influence in the Arab world. Sadat moved to purge thirty pro-Soviet elements in the Egyptian political hierarchy including Vice-President Ali Sabry, all of whom he considered were attempting to plot against him. A year later he expelled fifteen thousand advisers.

Faisal, understanding that Sadat was under pressure within his country particularly concerning his attitude towards Israel, knew that he had to use his own country's economic resources to give Egypt the support needed. Faisal also began to make it apparent in talks with ARAMCO, in interviews with American and Arab journalists, and through the mouth of his oil minister Sheik Yamani, that he might be about to use his oil wealth in the Arab struggle against Israel. Although the Saudi Monarch's actions

allowed Sadat to resist the demands for union from Khaddafi and to settle for compromise, they tested the Saudi relationship with the U.S.

Shortly afterwards Libya announced that it was partially nationalizing the assets of major oil companies within its territory. This action was carefully timed by Khaddafi who, after his setback with Sadat, was attempting to re-create his prestige in the Arab world and claim to leadership of the Arab cause. In a speech about nationalization Khaddafi said: "No power on earth can take from us the right to nationalize our own oilfields or to stop us pumping our own oil.....America continues to support Israel in order to humiliate the Arabs. American imperialism now takes the form of limitless aid to monopolistic oil companies which refuse to recognise our rights. In our relations with the oil companies we find ourselves confronted by the American spirit of arrogance which denies us our rights and is devoid of logic."<sup>(i)</sup> The Colonel's move tested the resolve to resist of consumer countries particularly Italy and West Germany and the oil companies involved which were mostly American.

In early October Saudi Arabia reached a tentative agreement with the ARAMCO companies about the price to be paid for 'Participation oil'. This was oil which belonged to Saudi Arabia due to a twenty five percent participation agreement with ARAMCO made in 1972. The oil was bought back by the companies. The agreement reached gave Faisal the price he would receive if he had placed the oil on the open market, which meant a general rise in oil prices. ARAMCO didn't engage in the usually long bargaining customary in these matters. Seemingly this was against their better interests as Faisal had

(i) Reported in 'Keesing's Contemporary Archives'. 1973. VolXIX. p26194.

already threatened to use oil supplies as a political weapon. To pay more would provide even less incentive to increase or even hold the quantity of supply.

The reason for ARAMCO's easy acquiescence of the Saudi demands was the O.P.E.C. meeting that was to take place in the second week of October and which would discuss raising the price of oil. An early success by Faisal would raise his prestige. It was in America's general interest to keep this conservative monarch influential and prevent the socialist Libya gaining more say.

#### DURING THE FOURTH ARAB/ISRAELI WAR

The fourth Arab/Israeli war began on October 6th. The Iraqi government, which on September 23rd had announced the awarding to a U.S. company of a 117 million dollar contract for the construction of offshore oil loading facilities, declared on October 7th that it was nationalizing the 23.75 percent share in the Basrah Petroleum company held by the American Near East Development Corporation. This would be taken over by the Iraq National Oil Company and compensation would be paid. The official 'Iraq News Agency' stated on the same day that the decision had been taken in the light of "present serious events in the Arab area and escalating Israeli-imperialist aggression against the Arab nation." Radio Baghdad said that the situation "necessitates directing a blow at American interests in the Arab nation so that Arab oil may be a weapon in our hands and not in the hands of the imperialists and Zionists."<sup>(1)</sup>

At a meeting called by Kuwait shortly after the start of the war, the Arabs decided to raise the price of oil, cutback supplies

(1) Reported in 'Keesing's Contemporary Archives'. 1973.  
Vol XIX. p26224.

a minimum of five percent a month, and withhold supplies to America and the Netherlands. The Gulf states hoped to get away with only a token cutback by making large cash payments to the Arab cause. But they came under considerable pressure which gave them little choice but to participate more fully. Fundamental intra-Arab rivalries persisted under the surface. Iraqi media from the beginning began to put pressure on other Arab oil producing states to make them take action against the United States. Radio Baghdad broadcast the following: "We call on all Arab countries.....to hit and liquidate the U.S. interests completely and to nationalize the U.S. oil interests in particular as a punishment for those who support the Zionist enemy's aggression..... We call also on all Arab countries to stop exporting oil to the United States."<sup>(i)</sup>

Apparently appealing over the heads of Arab leaders - mainly, probably over Faisal's head - the Baghdad station exhorted "Arab masses .....to confront firmly anyone who provides the imperialist American enemy with a capacity for aggression and means of survival."<sup>(ii)</sup> Iraqi newspaper editorials began to take the same line. al Thawrah, the most important, stated in a frontpage editorial: "It is very strange that conspicuous silence is maintained (by some Arabs) in respect to oil. Arab oil producing countries should nationalize America's share and stop the flow of oil to America as Iraq has already done."<sup>(iii)</sup> At first Iraq did not name specific countries but "simply made these general accusations, which everyone assumed were aimed primarily at Saudi Arabia."<sup>(iv)</sup> On the day of the Kuwait meeting

(i) Reported in 'Keesing's Contemporary Archives'. Vol XIX. p26224.

(ii) ibid.

(iii) Reported in 'The Middle East Journal'. Vol XXIX. 1975. p320

(iv) ibid. p320.

al Thawrah said in a front page editorial "Blood, not dollars", which directly criticised Saudi Arabia's failure to nationalize American interests. <sup>(i)</sup> The day after the Kuwait conference Faisal cut production by 10 percent. If he had delayed the barrage of hostile propoganda would have strengthened. Under pressure, Faisal gave a public warning that continued support by America for Israel would jeopardise Saudi/U.S. friendship.

#### THE EFFECT ON THE OIL MULTINATIONALS: 1974

The Arab oil measures caused energy cutbacks throughout the Western developed world. There were placatory political moves by the E.E.C., Japan, and the U.S. Henry Kissinger attempted diplomatic solutions to the vast problems of the Middle East. On March 18th, 1974, the Arabs issued a communique which stated that Abu Dhabi, Algeria, Bahrain, Egypt, Kuwait, Qatar and Saudi Arabia would lift the embargo on the U.S. and increase oil production, although the high prices would probably go higher. The communique said that the Arabs "main objective - that of drawing attention to the Arab cause in order to create the political climate for the implementation of U.N. Security Council Resolution 242 of November 22nd, 1967, which calls for the complete withdrawal from the Arab territories and for a restoration of the legitimate rights of the Palestinian people - had been achieved". <sup>(ii)</sup> It noted the change of attitude by the E.E.C., Japan, and the U.S. Libya and Syria refused to increase production. Iraq boycotted the meeting entirely on the grounds that an insufficiently strong line was being taken with regard to the U.S.

(i) *ibid.* p320.

(ii) Keesing's Contemporary Archives. VolXXI. 1975. p27350.

The position of the oil companies changed during this time. Not so many years before they had largely produced what quantities they wanted, from where they wanted, and largely decided the price for themselves. Now they are much more caught between two sets of governments: the oil producing governments and the oil consuming governments. The first set have shown that it is possible to achieve a high degree of common action, mainly through O.P.E.C. and O.A.P.E.C. For the second set, Mr Henry Kissinger said in a speech made on November 14th, 1974 that: "The economic facts are stark. By 1973, worldwide industrial expansion was outstripping energy supply; the threat of shortages was already real. Then without warning we were faced with a political embargo, then quickly by massive increases in the price of oil." <sup>(i)</sup> He also said that collaboration between the industrialised nations was an "inescapable necessity". <sup>(ii)</sup> The oil producing countries were using their unity to influence the foreign policies of the oil consuming world. Kissinger commented that the oil consuming countries would use whatever reasonable means they can to protect their economies from angry inflation <sup>(iii)</sup> affected electorates.

The oil multinationals were losing control over the crude oil sources in the Middle East and their investments there. Whilst both processes have been going on for a long time as Table (2) indicates, they reached a climax in the last months of 1973 and the first half of 1974. An article in The Economist reported: "The international oil companies have mostly resigned themselves to the complete loss of their installation in the near future, so the degree of participation is a secondary issue, as is

- (i) Reported in 'Keesing's Contemporary Archives'. 1974. Vol XX. p26846.
- (ii) *ibid.* p26846.
- (iii) *ibid.* p26846.

the compensation they will get. The companies mainly care about how much oil they will be allowed to buy back and at what price." (i)

The profits of the oil companies were increasingly having to come from operations downstream - refining and distribution, etc. Even in these functions the oil companies were not invulnerable for tanker companies, set up mainly by the Arab oil producing countries and backed with massive funds from exported oil, were being given preferred company status. Saudi Arabia, for instance issued a decree that domestically owned ships were to be given preferential treatment for carrying crude oil and other Saudi products. In times of a slump non - Arab tanker companies were threatened with excess capacity. To guard against this many were anxious to enter into partnerships with Arab companies. Six new shipping ventures were set up in Saudi Arabia. Local interests went into partnership with Mobil, Mitsui/OSK, N.Y.K. of Japan, Waller and Co of Hongkong, Sanko Steamship of Japan, and a group of Spanish shipowners. O.A.P.E.C. also sponsored a shipping company called Arab Maritime Partners. These companies also required trained personnel many of which came from outside the Arab countries. To eventually eliminate this O.A.P.E.C. created three merchant navy training centres besides the existing schools at Alexandria and Algiers.

The multinational oil companies also lost some control over supplies of oil. The governments of some consumer countries were buying directly in exchange for goods and services. For other oil, the multinationals had to compete in the open market. (i) The Economist. March 23rd, 1975. p75.

One thing that nationalization means is that oil belongs to country rather than company.

#### OPEC GROANING UNDER THE STRAINS OF UNITY

So far this discussion has concentrated mainly upon O.A.P.E.C. and not O.P.E.C. Now we must concentrate upon O.P.E.C., as this becomes the stage of this group response to multinational oil companies. (i)

Strains were quickly apparent in O.P.E.C. as very different statements were being made by 'hawks' and 'doves'. President Boumedienne stated on December 3rd, 1973, that any attacks on Arab country oilfields would result in "world catastrophe" since "we do not need armies or tanks to defend our oil - a small number of our commandoes would be enough". If the West tried to be "arrogant" or act by force, "every single oil well will be destroyed and the West will pay the price". (ii) Iraq's oil minister called upon Arab wealthy nations to withdraw their monetary reserves from the United States and to break diplomatic relations with that country. On the other side, Sheik Yamani said on January 27th, 1974, that the current price of oil, although "fair and reasonable" should be reduced in order that damage to the world economy might be avoided. (iii) Strains were again shown in July 1974. Yamani announced that his country planned to auction a quantity of oil at whatever price was set by market forces. This was seen as a unilateral attempt to establish a 'realistic' price. In mid-August this was suspended. According to The New York Times, quoting Saudi government sources, Saudi suspension followed "strong antagonism" from other

(i) A list of O.P.E.C. price fixing meetings is included at the end of this section.

(ii) Reported in 'Keesing's Contemporary Archives'. Vol XX. 1974. p26356.

(iii) Quoted in 'Keesing's Contemporary Archives'. Vol XXI. 1975. p27349.

O.P.E.C. countries and had been agreed to in return for Algerian support in pressing for a continued freeze until at least the end of the year.

Although the oil multinationals had lost control of price and supplies of crude oil from the Arab countries, their profits continued to rise. They claimed that these profits were illusory in that they were based on accounting procedures which disregarded the vast increase, over the previous year, in the cost of replacing stocks. The O.P.E.C. communique after the Vienna September 1974 meeting, stated that the increases should not be passed on to consumers taking into consideration the excessive profits being made by the oil multinationals. An attempt to cut the profits of these companies occurred at a meeting of the six Persian Gulf states in November 1974. It was initiated by Saudi Arabia. Three of these six countries, Saudi Arabia, Qatar, and the United Arab Emirates, agreed a new price structure to this end. Yamani also announced that the Saudi state petroleum company 'Petromin' was prepared to make direct sales of participation crude to independent and government owned oil companies in consuming countries at 93 percent of the new price agreed at the Vienna. The other three Persian Gulf states, Kuwait, Iraq and Iran, were unwilling to accept the new structure until it had been endorsed by a plenary session of O.P.E.C. This disagreement was resolved at the Vienna December 1974 meeting.

In March 1974, O.P.E.C.'s Heads of State Conference was held. The conference stressed its own solidarity with the Third World. Yet the publication of a detailed 'programme of action' which ministers had drafted was apparently postponed because of inability to reach agreement on specific proposals for O.P.E.C.'s future policy on pricing, production and the establishment of a

development fund, etc.

In 1974 the O.P.E.C. current surplus was 65 billion dollars.

A ministerial council of O.A.P.E.C. was held in May 1975. This approved the creation of an Arab Services Company with an authorized capital of 350 million dollars which would act as a holding company with subsidiaries providing technical services at all exploration and production stages to Arab state oil companies. Such subsidiaries would be allowed to enter into joint ventures with non-Arab oil companies currently supplying such services provided that there was majority Arab control. It would also supply training facilities for member states' oil industry personnel. This was the continuation of a policy which had set up the Arab Maritime Petroleum Transport Company, an Arab Petroleum Investment Company and a large dry dock complex at Bahrain.

At the September 1975 meeting in Vienna the strains in O.P.E.C. became more manifest. The Sunday Times described the meeting as "the bitterest delegates ever remember".<sup>(i)</sup> O.P.E.C. split between the moderate Saudi Arabia, the hawkish Iran, Libya and Nigeria, and the in-betweens who included United Arab Emirates, Venezuela and Algeria. Saudi Arabia became more intransigently moderate whilst the hawks led by Iran were equally determined. During the meeting Yamani abruptly left to consult with his government. The Economist reported on October 4th, that Yamani's departure followed a vote in which a Saudi proposal for a two stage 10 percent increase, which itself was a concession to the opponents of a continued price freeze, had been supported only by the United Arab Emirates. All the other delegates had favoured an Iranian proposal for a 15 percent increase. Yamani's

(i) The Sunday Times. September 26th, 1975.

purpose in leaving the meeting, in the opinion of The Economist, "was to seek the authorization to warn these other member countries that Saudi Arabia would react to a 15 percent increase by freezing the price of its own oil at the current level and lifting all restrictions on the level of production".<sup>(i)</sup> This would have gone a considerable way to eliminating O.P.E.C.'s capacity to control the price of oil as Saudi production was one third of O.P.E.C.'s. This move would have had little effect on the Saudi economy as the country already had a large revenue surplus. Eventually a compromise was reached on a 10 percent increase. After the meeting: "Dr Amouzegar (the Iranian representative), asked about his clash with Sheik Yamani in a television interview on September 30th, had said that Saudi Arabia had been on the verge of leaving O.P.E.C. during the meeting but that he did not consider that such a move would have threatened the unity of the organization."<sup>(ii)</sup>

The meeting at Doha in December 1976 produced further serious disagreement. Previously all members had - in some cases after a while - come to accept decisions, but this time the entrenched disagreement resulted in a two tier pricing structure with Saudi Arabia and the United Arab Emirates going for a lower price. Saudi Arabia, who had often compromised in the past, now remained intransigent. "Saudi spokesmen stated after the Doha meeting that not only would the country not repeat this action (i.e. not compromise) but it would deliberately increase output in an attempt to use market forces to undermine the majority price increase."<sup>(iii)</sup> One of the majorities arguments was that recent increases in the cost of goods imported from the industrialised

(i) The Economist. October 4th, 1975. p69.

(ii) 'Keesing's Contemporary Archives'. 1976. VolXXII. p27529.

countries had steadily undermined the trading position of O.P.E.C. members. Saudi Arabia's response was that this would jeopardize world economic recovery. The Algerian representative argued that O.P.E.C. "cannot favour the industrialized countries indefinitely on the pretext that some of them are in uncertain health".<sup>(i)</sup> He went on to say that a production increase would, if implemented "constitute an act of direct political aggression against O.P.E.C."<sup>(ii)</sup> Dr Amouzegar argued that Saudi Arabia would not be able to undermine the majority price by raising production since "the world could not live without the oil produced by the eleven majority countries".<sup>(iii)</sup> Of the other hard line states, Libya suggested that the survival of O.P.E.C. without Saudi Arabia "was one possibility".<sup>(iv)</sup> Iraq said that Saudi Arabia was acting "in the service of imperialism and Zionism" to "render the oil weapon ineffective". This constituted "a defeatist and compromising reactionary cell working inside and outside O.P.E.C. against the interests of the oil producing states".<sup>(v)</sup> Between the hawks and the doves, the moderates such as Kuwait, Venezuela and Indonesia were in favour of an early compromise.

This was reached in the summer of 1977. The main factor leading to it was a change in the attitude of Iran, which having been hard line now switched to a soft line. There seem to have been a number of reasons for this change. One was foreign policy considerations, the most important of which was proposed purchases of military equipment from the U.S. This was discussed when the Shah paid a visit to the U.S. in November 1977. Another

- (i) 'Keessing's Contemporary Archives'. 1977. Vol XXII. p28317
- (ii) ibid. p28320.
- (iii) ibid. p28320.
- (iv) ibid. p28320.
- (v) ibid. p28319.

was the prevailing market conditions for oil. There was at this time a slackening in world demand for O.P.E.C. oil. About one sixth of O.P.E.C. capacity was shut down and in 1978 production increases were expected in Alaska and the North Sea. A third factor may have been difficult internal problems. With Iranian support, Saudi Arabia's moderate line prevailed.

The slackening of oil demand became more accentuated and the moderate line held at the December 1977 Caraballeda meeting. During this month Sheik Yamani was asked if the current oil surplus endangered the unity of O.P.E.C. He replied: "The surplus in the market is caused by the willingness of Saudi Arabia to produce more than its financial needs, and since we leave the minimum production level flexible, there will be no danger facing O.P.E.C."<sup>(i)</sup>

In 1977 the O.P.E.C. current surplus was less than 10 billion dollars.

The slack demand continued into 1978 and there was also concern about the dollar's decline in relation to other currencies. Some member countries of O.P.E.C., Kuwait, Iraq, and United Arab Emirates, were reported to have pressed for a revised oil pricing policy based on a 'mixed bag of currencies'. Figures released in 1978 showed that some O.P.E.C. members had in the first quarter of 1978 become net borrowers of new funds for the first time since 1973.<sup>(ii)</sup> A proposal for discussion on this topic at an informal meeting was resisted by Saudi Arabia and also, apparently, Iran. Saudi Arabia argued that O.P.E.C. should press the U.S. to take steps to strengthen the dollar but not adopt a new pricing policy which would only further weaken the dollar.

(i) 'The Sunday Times'. December 20th, 1977.

(ii) 'Keesings Contemporary Archives'. Vol XXV. 1979. p29982.

As had been the case for many years, Saudi Arabia wanted strong relations with the United States. An article in *The Economist* during this period succinctly sums up this relationship: "..... America has invested heavily in Saudi development programmes, military and civilian: it is estimated that some half million American jobs depend directly on the Saudi connection and many more indirectly. The trouble from the Arab point of view is that the dependence is two way: Saudi Arabia needs American technology, manufacturing capacity and weapons plus a stable economy to bank its money in. More important to both countries, it is the Saudi-American connection, and not either Saudi Arabia or America on its own, that helps to keep most of the Arab world on a pro-western rightward leaning path. The mutuality of interest dictates that oil should be used as a weapon only as a last resort, and then perhaps only within limits."<sup>(i)</sup>

The more militant O.P.E.C. members were forced to accept the Saudi view on the new pricing policy. This was condemned by Algeria who argued that "certain member countries" were permitting an erosion of real revenues which jeopardized the development plan of Algeria and other members and also were displaying more concern for the industrialised countries than these had displayed towards O.P.E.C. and the Third World generally."<sup>(ii)</sup>

As 1978 progressed the oil surplus declined due to a Saudi cutback and increased United States demand. This balance led to increased prices on the 'oil spot market'. Inflation in the West was lowering the real price of oil. These factors suggested a price increase. Another factor pointing in this direction was a slight cooling in Saudi/United States relations. Saudi Arabia was critical of the Camp David agreement and participated

(i) 'Prince Two Per cent.' *The Economist*. June 18th, 1977. p13.  
(ii) 'Keesing's Contemporary Archives'. Vol XXV. 1979. p29983.

in a subsequent Arab summit conference in November 1978. This implied a strengthening of relations with militant Arab states some of whom were calling for a large O.P.E.C. price rise. The price rise eventually agreed was 10 percent, in December 1978.

A week after this meeting the Shah's rule in Iran came to an end. The Ayotallah took over. Oil exports were stopped for two months. For a while oil supplies rather than prices became the central concern. Spot market prices rose. A certain 'irrational hysteria' entered into the oil market. Saudi Arabia increased production to cover the Iranian loss. Charges were made that the oil multinationals were exploiting the situation to make huge profits. Various O.P.E.C. members began to unilaterally raise prices. Some moderates moved towards official surcharges. Saudi Arabia issued a statement on February 27th, 1979, to the effect that it would maintain its first quarter prices at the official O.P.E.C. level in respect of production up to 8.5 million b.p.d. O.P.E.C.'s unity as regards pricing, at this time, appeared to be falling apart.

In late February the new government of Iran announced that it would soon resume oil exports. It also announced that it was assuming complete control over oil marketing - thus ending participation by the various oil multinationals involved in Iran up to this time. Iran now proceeded to auction oil at high prices.

In March 1979 an extraordinary meeting of O.P.E.C. was convened. Algeria, Libya and Iraq were amongst advocates of changing the December 1978 decisions. At this meeting Iran supported a hawkish position. Saudi Arabia, having lost this valuable ally, did not resist the demands for higher prices. As The Times Commented: 'Sheik Yamani no longer has the power in O.P.E.C. that he once

had. The events in Iran have taken that away." <sup>(i)</sup> Saudi Arabia was also reported as still being cool to the United States over the Camp David agreement.

Yet the decision of the extraordinary meeting was moderate in the circumstances - deciding only to implement the December decisions in full a few months earlier on April 1st, 1979. The reason for this moderation seemed to be the weakening solidarity of the Third World countries with O.P.E.C. and the threat of further weakening if the prices had been raised higher.

By mid May 1979 all countries except Saudi Arabia had announced surcharges on top of the new basic O.P.E.C. price. These surcharges took on a leapfrogging character. The main leapfroggers were Iran, Algeria and Libya. Any illusion of official price fixing was at end. This was reflected in the disunity of the June 1979 conference. The basic split here was between Saudi Arabia and Iran. The overall ceiling price agreed at this conference was breached in October. The disunity continued at the December 1979 meeting in Caracas. The Times commented: "After Caracas 1979 there must be legitimate doubts both over whether O.P.E.C. can survive and if it does whether it is of any use at all to the thirteen countries that belong to it." <sup>(ii)</sup>

Thus O.P.E.C. has groaned under the strains of unity in the 1970's. Further strains are likely if it survives into the 1980's. Yet whatever happens in the 1980's O.P.E.C. has been successful in its control response to multinational companies in the 1970's. The trend, mentioned earlier in the section entitled 'The Effect on the Oil Multinationals: 1974', of multinationals loosing

(i) 'The Times,' December 22nd, 1979. p12.

(ii) *ibid.* p13.

involvement has continued. An article in The Guardian commented: "The trend is that of government to government sales - or at least sales between national oil companies. The share of non-communist world oil controlled by the seven sisters has fallen from more than 60 percent in 1973 to perhaps 35 percent now.....The reason is a combination of Mammon and nationalism. Producing countries can increase their revenue by avoiding term contracts with the companies and selling direct to voracious consumers. Equally, there is a natural desire to control oil from well head to destination."<sup>(i)</sup>

The above analysis indicates the political tensions that were involved in this group response. A common focus of hatred - Israel - produced very strong group pressures for unified action with respect to some Western countries. The multinationals, the instrument which brought oil supplies to the West, were caught up in a political embroglio and suffered progressive takeover. They were not the main objects of group action. The political objectives that unified O.A.P.E.C. and O.P.E.C. may not be present to unify other groups and overcome the four weaknesses outlined earlier in this chapter. Intense centripetal political forces overcame lesser political rivalries and allowed successful group action. It is doubtful, perhaps, if the desire for a unified group control response to multinational companies will be sufficient alone to unite many groups of countries. O.A.P.E.C. and O.P.E.C. also had a second massive advantage. They supplied, at least in the short term, an irreplaceable resource for modern industrial economies. Other groups may not even have this advantage: Cipec, as noted earlier, exported seventy percent of copper exports but the multinational spokesman did not seem

(i) 'How High and How Fast'. The Guardian. December, 17th, 1979.

purturbed by the prospect of a 10 percent cutback, believing that necessary supplies could be obtained elsewhere.

TABLE (I).

THE NINE O.A.P.E.C. COUNTRIES CONSIDERED IN THIS CASE STUDY.

<u>COUNTRY</u>	<u>YEAR OF FIRST MAJOR OIL DISCOVERY</u>	<u>YEAR OF FIRST MAJOR OIL DEVELOPMENT</u>	<u>POLITICAL STATUS</u>
ABU DHABI	1958	-	A SHEIKDOM. ALSO A MEMBER OF THE UNITED ARAB EMIRATES.
ALGERIA	1956	1958	SOCIALIST AND ANTI- IMPERIALIST. RULING AND ONLY POLITICAL PARTY IS THE F.L.N.
BAHRAIN	1932	1934	A FAMILY RULES ASSISTED BY COUNCIL OF ADMINISTRATION - SOME DEMOCRATIC ELEMENTS.
IRAQ	-	1927	RULED BY COUNCIL OF COMMAND OF THE REVOLUTION - MOSTLY ARMY OFFICERS. PREACHES SOCIALISM AND PAN- ARAB IDEAL.
KUWAIT	1938	1946	A SHEIKDOM. THE SHEIK IS AN ABSOLUTE MONARCH. BOTH HEAD OF STATE AND PRIMEMINISTER.
QATAR	1939	1946	A SHEIKDOM. SHEIK IS AN ABSOLUTE MONARCH.
LIBYA	1959	1961	RULED BY MILITARY JUNTA. PREACHES DOCTRINES OF SOCIALISM AND ARAB UNITY.

## TABLE (I) continued.

SYRIA	1958	1959	SOLE AND RULING POLITICAL PARTY IS THE BAATH PARTY - PREACHES DOCTRINES OF SOCIALISM AND MILITANT ARAB UNITY
SAUDI ARABIA	1938	1945	CONSERVATIVE AND DEVOUT MUSLIM SHEIKDOM

(This table was compiled by the author.)

TABLE (2).

HISTORY OF NATIONALIZATION BY O.A.P.E.C. COUNTRIES  
CONSIDERED IN THIS STUDY: 1961 to 1974.

<u>YEAR</u>	<u>COUNTRY</u>	<u>COMPANIES NATIONALIZED.</u>
1961	IRAQ	NATIONALIZED 99% OF CONCESSION AREA HELD BY 'INTERNATIONAL PETROLEUM COMPANY'.
1964	SYRIA	NATIONALIZED ITS LARGELY UNDEVELOPED OIL AND MINERAL RESOURCES.
1967	IRAQ	TERMINATED OIL CONCESSIONS HELD BY 'INTERNATIONAL PETROLEUM COMPANY' (IPC). SHAREHOLDERS OF IPC WERE BRITISH PETROLEUM, ROYAL DUTCH SHELL, STANDARD OIL OF NEW JERSEY, STANDARD VACUUM OF NEW YORK AND COMPAGNIE FRANCAISE des PETROLES. THE CONCESSIONS WERE ALLOCATED TO IRAQ NATIONAL OIL COMPANY.
JUNE 1967.	ALGERIA	PLACED UNDER STATE CONTROL 13 AMERICAN OIL COMPANIES ENGAGED IN PROSPECTING OR EXPLOITING OIL.
AUGUST 1967.	ALGERIA	THREE ESSO AND TWO MOBIL DISTRIBUTION COMPANIES NATIONALIZED.
1968	ALGERIA	ALL REMAINING OIL DISTRIBUTION COMPANIES NATIONALIZED - TWELVE FRENCH AND TWO SUBSIDIARIES OF SHELL.
1970	ALGERIA	ALGERIAN INTERESTS OF ROYAL DUTCH SHELL AND OF PHILLIPS PETROLEUM AND ONE GERMAN AND ONE ITALIAN COMPANY NATIONALIZED.
1971	ALGERIA	NATIONALIZED MAJORITY SHAREHOLDINGS IN TWO FRENCH GROUPS: COMPAGNIE FRANCAISE des PETROLES ALGERIA AND ENTERPRISE de RECHERCHES et d'ACTIVITIES PETROLIERES. ALSO COMPLETE NATIONALIZATION OF ALL PIPELINES. BY THE END OF 1971 THE ALGERIAN GOVERNMENT HAD NATIONALIZED OR OTHERWISE TAKEN CONTROL OF ALL U.S., BRITISH, AND OTHER FOREIGN PETROLEUM INTERESTS IN THE COUNTRY.

1971	LIBYA	NATIONALIZED 'BRITISH PETROLEUM.'
1972	IRAQ	NATIONALIZED 'IRAQ PETROLEUM COMPANY'.
1972	LIBYA	FIFTY % PARTICIPATION IN 'ENTE NAZIONALE IDROCARBURI'.
1972	SAUDI ARABIA	TWENTY FIVE % SHAREHOLDING IN 'ARAMCO' AGREEMENT OF FIFTY ONE % BY 1982.
1972	ABU DHABI	NEGOTIATED SIMILAR TERMS TO SAUDI ARABIA AND TOOK A TWENTY FIVE % HOLDING IN 'ABU DHABI PETROLEUM COMPANY' AND 'ABU DHABI MARINE AREAS'.
1973	KUWAIT	NEGOTIATED SIMILAR TERMS WITH 'BRITISH PETROLEUM' AND 'GULF OIL' WHICH TOGETHER CONSTITUTED 'KUWAIT OIL COMPANY'.
1973	QATAR	TOOK A TWENTY FIVE % PARTICIPATION IN SHELL, ONE OF THE TWO PRINCIPAL GROUPS IN THE COUNTRY. LATER THE SAME MONTH A SIMILAR PARTICIPATION WITH 'QATAR PETROLEUM COMALNY' OWNED TWENTY THREE % EACH BY 'COMPAGNIE FRANCAISE des PETROLES', SHELL AND 'THE NEAR EAST DEVELOPMENT CORPORATION - A PARTNERSHIP BETWEEN ESSO AND MOBIL. ALSO THERE WAS A HOLDING BY PARTEX.
JUNE		
1973	LIBYA	NATIONALIZED 'NELSON BUNKER HUNT OIL COMPANY'.
AUGUST		
1973	LIBYA	NATIONALIZED FIFTY ONE % OF 'OCCIDENTAL OIL COMPANY' AND FIFTY ONE % OF OASIS OIL COMPANY'. OASIS WAS OWNED BY ROYAL DUTCH SHELL, U.S. CONTINENTAL, MARATHON AND AMERADA HESS.
SEPT		
1973	LIBYA	THE 'AMOSEAS GROUP' OWNED BY TEXACO, STANDARD OIL, OF CALIFORNIA, WAS SUBJECT TO A FIFTY ONE % TAKE OVER.
1974	KUWAIT	ACQUIRED A SIXTY % PARTICIPATION IN THE OPERATIONS OF SHELL AND 'QATAR PETROLEUM COMPANY'.

1974	QATAR	ACQUIRED A SIXTY % PARTICIPATION IN THE OPERATIONS OF SHELL AND 'QATAR PETROLEUM COMPANY'.
FEB 1974	LIBYA	TOTAL NATIONALIZATION OF TEXACO, CALIFORNIA ASIATIC (A SUBSIDIARY OF STANDARD OIL OF CALIFORNIA), AND 'LIBYAN AMERICAN' (A SUBSIDIARY OF ATLANTIC RICHFIELD). THE FIRST TWO BEING PARTNERS IN THE 'MOSEAS GROUP' WHICH HAD REFUSED TO RECOGNIZE THE LIBYAN GOVERNMENT'S ACTION IN SEPT 1973.
MARCH 1974	LIBYA	TOTAL NATIONALIZATION OF SHELL INTERESTS IN LIBYA - FIFTY ONE % HAVING BEEN AGREED IN AUGUST 1973 WITH SHELL AND PARTNERS IN OASIS.
1974	SAUDI ARABIA	INTERIM AGREEMENT SIGNED UNDER WHICH THE SAUDI ARABIAN GOVERNMENT INCREASED FROM TWENTY FIVE % TO SIXTY % ITS STAKE IN ARAMCO.
1974	ABU DHABI	AGREEMENT ON RAISING THE ABU DHABI SHARE OF THE 'ABU DHABI MARINE AREAS' TO SIXTY %.

(This table was compiled by the author.)

## TABLE 3

## IMPORTANT OPEC PRICE FIXING MEETINGS.

## DECEMBER 1973 TEHRAN

The price of a barrel of oil (35 gallons approximately) was raised from 5.11 dollars to 11.651 dollars.

## SEPTEMBER 1974 VIENNA

This meeting agreed to hold the basic O.P.E.C. price at 11.61 dollars until the end of the year, but to increase the royalties and taxes levied on equity crude in such a way as to raise overall oil revenues of each member country by 3.5 percent. Also O.P.E.C. stated that in future the rate of inflation in the industrialised countries would automatically be taken into account with a view to correcting any deterioration in the purchasing power of oil revenues.

## DECEMBER 1974 VIENNA

This meeting reached a compromise between Iranian and Saudi Arabian viewpoints on pricing when it was decided to endorse the financial effect of a new pricing system introduced by three Gulf states in November 1974. This was to express the O.P.E.C. price simply in terms of government revenue rather than specifying separate levels for the posted price, royalties and taxes. The average government take was fixed at 38 cents a barrel over that agreed in September 1974. It was stated that this would remain effective for the nine month period ending September 30th, 1975.

## JUNE 1975 LIBREVILLE

The ministers took note that high rates of inflation continued to prevail in the industrialised world and therefore decided to readjust crude oil prices after September 30th, 1975. Other decisions were to coordinate gas pricing and promote cooperation among the national oil companies of O.P.E.C. particularly in the field of marketing.

## SEPTEMBER 1975 VIENNA

This meeting raised the price of oil by 10 percent per barrel as from October 1st, 1975. This price would remain unchanged until June 30th, 1976, when it would be reviewed.

## DECEMBER 1976 DOHA.

Here a two tier pricing system was introduced with effect from January 1st, 1977, in which Saudi Arabia and United Arab Emirates increased their prices by a substantially lower price than that agreed by the other eleven O.P.E.C. members. These eleven stated their intention to increase oil prices by 10.3 percent on January 1st and a further 4.7 percent on July 1st. Saudi Arabia and United Arab Emirates intended only a 5

percent rise for the whole of 1977.

JULY 1977 SALTSJOBADEN

The two tier pricing system was ended shortly before this meeting. It had been agreed that the majority would not go ahead with the 4.7 percent rise on July 1st, and Saudi Arabia and United Arab Emirates would bring their prices in line with the majority.

DECEMBER 1978 ABU DHABI

O.P.E.C. decided on a 10 percent rise for 1979, with 5 percent on January 1st and quarterly adjustments.

MARCH 1979

Due to the Iranian situation and its effect on the oil market, the full price agreed at the December 1978 meeting was implemented from April onwards.

JUNE 1979 GENEVA

Ministers acknowledged the impossibility of a unified pricing policy and produced a compromise which in effect established a basic price of 18 dollars a barrel, surcharge reference price of 20 dollars, and an overall ceiling price of 23.50 dollars.

DECEMBER 1979 CARACAS

Ministers left without agreement. Each member became free to charge what they liked and to compete with each other.

## CHAPTER 6.

## NATIONAL RESPONSES TO MULTINATIONAL COMPANIES.

In this discussion of the possibilities of control of multinational companies, we now arrive at the national government. Current discussion seems to rule out the government of the nation state as a suitable organisation for developing control responses. Analysts argue that multinationals operate internationally - national governments cannot - so control responses must be group responses or international responses. This ignores the fact that political power and control responses become divorced from each other. This line of thought will be discussed at length in the next chapter. Now we will enquire as to how national governments have attempted to make control responses to multinational companies.

One method has been to develop 'national champions' in areas where the threat by foreign multinationals is at its greatest. One such area is the computer industries in France, Britain and Germany. These three countries moved to protect their ailing computer companies against a threat that came mainly from I.B.M. (i)

Two events of great importance influenced France in the last five years of the 1950's. American involvement led to defeat at Suez and in 1957 France signed the Treaty of Rome. Until the entry in the E.E.C. France had pursued protectionist policies but now the economy became open to competition

(i) A discussion of this topic is contained in: Raymond Vernon. "Big Business and the State". Harvard. 1974.

and French industry had to become competitive. The attitude towards the multinationals present in French territory had to change considerably and in general the policies did become much more open to foreign enterprises whose parent countries were members of the E.E.C.

But the French were angry at the U.S. and General De Gaulle 'bourne to power (in 1958) on the wave of xenophobic nationalism by those groups and movements which reproached the leaders of the state for having accepted surrender and humiliation'.<sup>(i)</sup>

De Gaulle was a nationalist who placed the nation at the top of the scale of political values. He desired pre-eminence in the E.E.C. and N.A.T.O., and continued the development of an independent French atomic force. De Gaulle wanted France among the 'super equals'.<sup>(ii)</sup>

On April 27th, 1965, the General in a broadcast summarised his general policy in strongly nationalist terms: "To safeguard our independence", he said, "in the economic, scientific, and technical fields....we must act in such a way as to ensure that in all essential respects our activities remain under French management and control. We must also sustain at any cost our competitiveness in key sectors."<sup>(iii)</sup>

One year after this speech by De Gaulle the French acted against the threat of complete domination of the French computer market by I.B.M. Prompted by the American G.E. takeover of Bull in 1964, the later Honeywell-Bull merger, and the American government's ban on the export of two computers from America

(i) Alfred Grosser. "General De Gaulle and the Foreign Policy of the Fifth French Republic". International Affairs. April 1963. pp298-313.

(ii) *ibid.*

(iii) Keesings Archives. 1965/66. Volume XV. p20797.

which were needed for use in the French government atomic programme, the French government moved to create a 'national champion'. C.A.E. and S.A.E. were merged under the policy of 'Plan Calcul' into C.I.I. The French government put in some 120 million dollars between 1966 and 1970. C.I.I. survived in the face of I.B.M. competition although in 1973 its sales were not much higher than those of the two original firms in 1966 and its exports were modest.

In 1975 C.I.I. was merged with Honeywell Bull to create C.H.B. in which the French had a 53 percent share. C.H.B. was created on a promise of 270 million dollars of state aid and state orders worth 800 million dollars. The French chose the American partner because of the need for greater turnover and sales believing, presumably, that it was better to have an American partner in their national champion than no national champion at all. Pro-Europeans were disappointed because the tie up was not with another European company such as Siemens, but this German company did not favour the idea. (i)

In Britain the new Labour government in 1964 brought with it a change in control response towards the American computer challenge especially that of I.B.M. Labour thinking on the matter is indicated by a Wilson speech made in 1966: "America because they are our friends", he said, "should understand that however much new American investment is welcomed when it brings wider markets and benefits of new techniques, no one on either side of the channel wants to see capital investment in Europe involve domination". (ii) Mr Benn in 1968 said:

(i) These facts from: The Economist. "European Computers: Pie in the Sky". September 9th, 1978. p80. See also: Raymond Vernon. 'Storm Over the Multinationals'. Macmillan. 1977. p51.

(ii) The Times. December 1st, 1966. p12.

"I must make it clear that the use of computers.....is so fundamental to our future industrial structure and competitive power that we cannot as a nation afford to depend wholly on foreign or foreign controlled manufactures".<sup>(i)</sup> And in 1970 it was stated: "To fail to produce an indigenous (computer) industry would expose the country to the possibilities that industrial, commercial, strategic or political decisions made in America could heavily influence our ability to manufacture,<sup>(ii)</sup> to trade, to govern or to defend".

The Labour government's control response was a three pronged technological, financial, and market defence of the U.K. computer industry. It was stipulated that wherever applicable British made computers were to be bought throughout the public sector. In March 1965 a £5 million research and development contract was given to the British computer firm I.C.T. In 1968 the most important move was made with the government sponsored creation of I.C.L. The Labour government announced the purchase of £3.5 million shares in the company and a payment of £13.5 million over four years for research and development expenditure.

I.C.L. became the largest computer company in Europe and the fifth largest in the World. The sale of British made computers rose considerably between 1968 and 1970. The Labour government had in effect provided a protected market for I.C.L. but I.B.M. continued to trade successfully in the private market.

In the middle 1970's I.C.L. managed moderate success. In October 1976 I.C.L. won an important order from the E.E.C. for a computer to handle the communities statistical work -

- (i) Tony Benn. "House of Commons Debates". Vo.766. June 21st, Cols 1504 -6.
- (ii) Ministry of Technology memorandum on the U.K. Computer Industry. March 1970.

replacing an I.B.M. machine. I.C.L., C.H.B., and Siemens all competed for the order. In 1977 it made a profit of 33 million dollars and had a turnover of 800 million dollars. In 1978 a civil service report stated that 70 percent of the government's large computers came from I.C.L.<sup>(i)</sup> The transactions were done on the basis of single tendering and this received some criticisms but remained basically unchallenged. However I.C.L. does not have a monopoly of the large government computer business. Other makes can be bought when I.C.L. has no suitable product available. The single tender policy only applies to large computers.

A report, published in Germany in the mid-60's, on the size of German enterprises and German international competitiveness concluded that large units would be needed for long term competitiveness "because only they can create the adequate counterweight to foreign competition".<sup>(ii)</sup> In 1966 Karl Schiller took over as Germany's Economics Minister and he argued for more policy and planning by government with respect to economic groups.

Yet a clear policy with respect to the computer industry was difficult to define. None of the four electrical or telecommunications firms in Germany - Siemens, A.E.G., Telefunken, and S.E.L., was an obvious base for a 'national champion', and they were resistant to governmental intervention. This was most obviously the case when Siemens resisted efforts by the German government to bring it closer to A.E.G./Telefunken.

- (i) "Longer Term Review of Administrative Computing in Central Government". Civil Service Department. 1978.
- (ii) Geog. H. Kuster. "Germany", in Raymond Vernon's "Big Business and the State". Harvard. 1974.

Germany came to be left with two computer 'national champions' - Nixdorf and Siemens. The German government also began investing large sums in the universities to sponsor research and development in the computer field.

German government aid continued throughout the 1970's. In 1978 some 800 million dollars was allocated to computer firms.

So the national champions have struggled through the 1970's with I.C.L. probably the most successful. At the beginning of the 1980's new challenges were apparent. By the middle of 1978 some 58,000 general purpose mini-computers were in operation in Western Europe, with one American multinational, Digital Equipment Corporation, supplying 28 percent. European firms have only two fifths of this market with I.C.L. the most successful European seller. I.C.L. is probably the second biggest seller in the world of these machines. American companies dominate the small business computer market. Micro-computer, using micro chips, are about to appear on the scene.

A second method is nationalisation. One interesting example of this is President Mobutu of Zaire's nationalisation of Union Miniere. (i) In 1966 conflict began between Mobutu and Union Miniere which exploited Zaire's copper. Union Miniere raised the price of copper to align it with the price of copper charged by Chile and Zambia. Mobutu condemned this and said Union Miniere was acting 'like a state within a state'. Mobutu demanded payment for tax amounting to £53 million for

(i) Zaire, the most recent name of this country, will be used throughout this discussion. Some background information to this discussion can be obtained from: Samuel Agonda Ochola. "Minerals in African Development". Bogle-L'Ouvrture Publications. 1975. and Rex Bosson and Benson Varon. "The Mining Industry and the Developing Countries". Oxford University Press. 1977.

copper taken out of Zaire and not yet sold and repayment of £10 million worth of Union Miniere assets outside Zaire. Also that Union Miniere transfer all its assets to a new company with a head office in Kinshasa and the Zaire government would hold 50% of the shares as against the 25% already held. (i) Eventually the Zaire government decided to set up a new company under the name Societe Generale Congalaise des Minerails (Gecomin) with a Zaire government shareholding of 60 percent and a majority of Zaire directors. All Union Miniere exports of copper were suspended. A spokesman for the Zaire Government stated that if Union Miniere called for an international boycott of copper from Zaire, the latter would cease to supply NATO countries and would seek buyers elsewhere. Diplomatic relations with the USSR had recently been re-established.

The Zaire Government accepted the principle of compensation for nationalised property but rejected any future participation by Union Miniere in mining activities in Zaire, because the company had refused to pay what was claimed to be due to Zaire and to move its headquarters to Kinshasa. Mobutu now sought the participation of a consortium to take up 40 percent of Gecomin's shares. Four companies were involved: the Belgian 'Banque Lambert'; the British 'Roan Selection Trust'; the 'Anglo American Corporation' and the French 'Societe Penarroya'.

Zaire's ores were mined and marketed in Belgian companies under the supervision of Belgian experts. Without European employees of Union Miniere it was unlikely that large scale copper mining could continue at least in the short term. The

(i) For these events in more detail see The Economist, "Congo: Cutting the Lines". December 31st, 1966. p1419

Zaire Government received three quarters of its foreign revenue from the export of copper and related metals and in the event of a loss of copper exports this would, of course, be lost. Without subsoil maps and other records held by Union Miniere in Brussels copper production would be set back many years.

After the creation of Gecomin, Union Miniere announced that it reserved its rights against any owner, purchaser or stockholder of Zaire metals and that it would use any legal means to recover 'stolen property'. It would refuse to recognise any longer the Zaire Government's shareholding in Union Miniere claiming that this had been handed over in conformity with the Spaak-Tshombe agreement of February 1965 in exchange for the stipulation that Zaire would make no unilateral change in its undertakings to the company, but by its recent actions the Zaire Government had rendered these agreements null and void. The company's statement described the demands by Zaire as 'unfounded' and 'extravagant' and estimated the value of its assets expropriated by Mobutu at £285 million.

Societe des Minerais de Belgique which had been responsible for the marketing of copper from Zaire imposed a 'force majeure' ban on copper shipments from the Congo.

After the original moves of Mobutu the Belgian Government expressed formal disapproval of the Zaire Government and declared that it would take appropriate measures to ensure Belgian interests were protected, including those of Belgian stockholders of Union Miniere. Throughout the affair the Belgian Government made repeated attempts to bring about

conciliation and came to confine its demands to 'adequate' compensation and an undertaking not to halt copper production or to create panic among Belgians in Zaire.

'Le Monde' suggested that the Belgian Government settled for this because it realised it could not expect support from other countries. The attitude of the United States was dictated by its wish to support President Mobutu's regime to prevent it inclining to the Communist countries and that France was active in Kinshasa with a view to becoming Belgium's successor in Zaire.

The Belgian newspaper 'La Libre Belgique' wrote that while it could not be said that France had induced President Mobutu to take the 'unusual' measures which he had taken, these measures had 'served French interests remarkably well in that the elimination of the Belgian interests had been practically completed'. The newspaper forecast that within a year the French would find some two hundred engineers required to carry on with mining activities, re-engage some of the Belgian staff, and add some engineers from French speaking countries in Africa. (i)

The formation of Gecomine prompted Union Miniere to write instructions to its European employees in Zaire to leave their posts and return to Europe or to consider themselves dismissed. However, the Zaire Government assured them of the same conditions of work as they enjoyed under Union Miniere. But President Mobutu also declared that those of the sixteen hundred technicians of the Union Miniere who wished to leave the country would have to give at least twelve months' notice. The Belgian Government protested at this and Union Miniere called it a 'violation of the United Nation's declaration of human rights'. Concern for the

(i) These details from Keesing's Contemporary Archives. Vol XVI. 1966/68. p22018.

employees developed and Union Miniere undertook not to withdraw the employees from Zaire but to place them at the disposal of the new Zaire company by way of technical cooperation. At a later meeting of the Zaire Government it was announced that none of the European technicians would be forced to stay in Zaire.

Yet at a later date President Mobutu delayed by one day the departure by air from Lubumbashi of forty three Belgian passengers - mostly wives and children - of Union Miniere employees. Mobutu had declared that all Sabena flights to Zaire would be suspended if the airline were to form an air bridge between Belgium and Lubumbashi airport to evacuate Union Miniere technicians.

Out of sixteen hundred employees a total of fourteen hundred and sixty eight asked for repatriation to Belgium. Only a handful expressed their desire to remain in the Congo.

The proposed consortium failed to come about. Societe withdrew, Anglo and Roan said they had come to no agreement and Banque said it would accept the Congolese invitation on the condition that Union Miniere were involved. But this was rejected because Union Miniere had refused to pay what was claimed to be due to Zaire and to move its headquarters to Zaire. Zaire's position was deteriorating due to loss of foreign exchange revenue, due to the suspension of copper exports.

Representatives of Societe Generale des Minerais de Belgique went to Zaire on the initiative of the Belgian Government. The Belgian Government, as mentioned above, wanted adequate compensation to be paid to Union Miniere and an undertaking that copper production would not be halted or panic created

among Belgians in Zaire. The Belgian Government requested Union Miniere, [redacted] in order not to prejudice the discussions, not to return members of its staff organisation in Zaire for the present.

A provincial agreement was reached in February, 1967, whereby Societe Generale des Minerais, a subsidiary of Union Miniere, would continue to be responsible for the marketing of copper and have sole responsibility for the technical side of extraction and refining. They would be responsible for the European experts who could remain in Zaire but would not be employed by Gecomin. Also further services to Gecomin including Programmes for the proper functioning of Gecomin's installations, the employment of its personnel, and the mining, industrial and commercial administration of its enterprises would be provided for. The agreement excluded any settlement of compensation claims by Union Miniere or of Zaire claims against Union Miniere. It did mean that the Belgian Government and Union Miniere had formally recognised the legal title of Gecomin to the former assets of Union Miniere and that Gecomin would have the necessary European experts, maps and records, and that foreign exchange would quickly flow into Zaire again.

In 1969 these compensation claims were settled. The President of the World Bank, Robert S. McNamara, mediated between Mobutu and Union Miniere. An agreement was reached whereby Societe Generale des Minerais (S.G.M.) would be paid 6 percent of the value of all copper, cobalt and other minerals which Gecomin produced for the next fifteen years. This would be within the context of a 25 year technical cooperation agreement. After the 15 year period S.G.M. would receive 1 percent of the total value of Gecomin's production to pay for

the technical inputs which S.G.M. would provide. In a communique issued by Union Miniere it was stated: "The provisions of the accord will allow the S.G.M. to provide our company during the next 15 years with satisfactory compensation for the loss of our Congolese assets. The exact amount of this compensation will depend on the production of Gecomin and the value of its products. It is thus directly tied to the prosperity of the mining industry."<sup>(i)</sup>

In 1975 the international community showed that it had accepted Mobutu's actions. The World Bank, along with the European Investment Bank and Libya, announced a 100 million dollar loan. This was to help finance a new copper smelter which would help expand copper production.

However President Mobutu was still not satisfied. He declared that by 1980 Zaire would exercise complete control over its copper industry. Also 100 percent of Zaire's copper would be refined within the country and all former Union Miniere subsidiaries would be nationalised. These decisions meant that no part of Zaire's copper would be refined by S.G.M. President Mobutu also stated that the Belgian manager of Gecomin would be replaced by a Zairese national.

These developments over a considerable period of time do mean that Zaire achieved control over its copper industry. But it cannot be said that the industry was very successful as the price of copper was suffering due to the world depression.

The following case study discusses a further possible national response to multinational companies, that of taxation and participation.

(i) Quoted in: "Keesings Contemporary Archives". Volume XVI. 1970. p23903.

## CASE STUDY NUMBER 4

## TAXATION AND PARTICIPATION: THE BRITISH RESPONSE TO THE NORTH SEA OIL MULTINATIONALS.

In the period 1965 to 1970, the major concern in the British sector of the North Sea was natural gas, but as discoveries tailed off interest moved to oil. In 1970 there were indications that commercial deposits existed and a number of drilling rigs operated by such multinationals as British Petroleum, Shell, Esso, and Texaco, began to explore and a number of large finds were made. In the early 1970's it was predicted that Britain could become self sufficient in oil by the 1980's. The discovery of large resources was accompanied by the emergence of a political environment which influenced successive British governments and to some extent dictated the control response towards the companies engaged in exploration and exploitation.

One of the most powerful political forces in the political environment was Scottish Nationalism and this movement's strongest appeal for support stemmed from North Sea oil. "There can be little doubt that the discovery of North Sea oil and the rise of Scottish Nationalism are not unconnected." (i) The attitude of the nationalists was that successive British governments have economically ignored Scotland and the Scottish people and they claim the oil and its revenues for Scotland - a platform which won them increasing support among the Scottish electorate until the late 1970's.

This worried both the main British political parties and the Labour Party especially as it is dependent on its Scottish

(i) D.I. MacKay and G.A. MacKay. "The Political Economy of North Sea Oil". Martin Robertson. 1975. p168.

M.P.s for a majority in Parliament. Increasingly in their policies concerning the oil the Labour and Conservative parties made concessions in an attempt to maintain Scottish electoral support. In February 1974, in the general election the Scottish Nationalist Party won seven seats whereas in 1970 it had won only one. In the October 1974 election they won eleven seats. The Labour Government, elected in February 1974, in a precarious parliamentary situation, moved the Offshore Supplies Office to Glasgow and said that seven thousand civil service jobs would be created there, the regional employment premium would be doubled, gave Edinburgh development status, and said that a Scottish development agency financed from North Sea oil would be set up. In August 1974 an assembly of the Scottish Labour Party completely, and expediently, changed its mind and voted for devolution and a Scottish assembly. In a White Paper the Labour government promised a devolution bill early in 1976. All three major parties offered the Scots some form of assembly in the October 1974 elections.

Scottish nationalism allied with conservative lobbies caused problems concerning oil rig production. With the success and development in the North Sea there was an increasing demand for oil rigs. Whitehall predicted that five platform building sites were required whilst the Scottish Nationalists argued for two. The figure of five was to some extent based on the desire on the part of the oil companies for quickness of delivery and a choice of designs.

The problem of oil rig production brought these two Scottish groupings into conflict with another powerful pressure upon the British government. After the October 1973 Arab/Israeli war and the resulting oil prices, the British balance of payments moved very heavily into deficit and the quick exploitation of North Sea oil became of the utmost importance. Oil rig construction sites were quickly needed but the nationalists and conservationists argued against the destruction of sites of great natural beauty in Scotland. In October 1973 the Secretary of State for Scotland agreed to the construction of a large oil platform in Durnet Bay in Caithness, although there were strong protestations against it. Oil companies had been waiting for thirteen months for this decision and were on the point of beginning construction in Ireland. One group had already taken the decision to construct in Norway because of the planning problems in Scotland. In August 1974 Mr Ross stated that planning permission had been refused for the building of oil platforms at Drumbuie on Loch Carron - a concession to the opposing groups and the beauty of the area.

The British government was keen to have the platforms built in the United Kingdom for each one cost between £60 to £100 million and it was thought that as many as sixty would be needed in the medium term. If the oil exploitation goes on for forty years the number will possibly be in the hundreds.

The balance of payments crisis in 1974 was far more serious than it had ever been before and it was coupled with a very high rate of inflation. To cover the deficit enormous amounts of money were borrowed using North Sea oil as collateral - borrowing which made a high future price for the oil essential.

A slump in the price of oil at the time Britain was beginning to repay the loans would be disastrous financially especially as North Sea oil cost considerably more to produce than oil from other deposits around the world. The main threat of lowered oil prices was considered to be the marginal fields where just a small fall in the market price of oil would make them uneconomic. Yet the production of these fields will be an important percentage of total production and it is only with this oil that Britain can become a net exporter.

The threat to the marginal fields was made more serious as the costs of bringing oil ashore were rapidly increasing. The rising costs were due to inflation, rising labour costs, delays, and supply shortages. The margin between the productive cost of oil and the market price was narrowing and the British government had to hope either for a rise in the price of oil or be prepared to lower taxes on the oil, if multinational oil companies were to continue to consider the fields worthwhile.

However, assuming the oil is exploited at economic costs, the effect on the balance of payments varies with the time period and is a complex problem. Initially there were capital outflows due to the purchase of imports necessary for the development programme, and capital inflows which includes the flow of company money into the country. In the long term there are the capital outflows which occur due to the outflows of interest payments and the multinational company's remitting their profits, etc. But the income from any oil exported plus the enormous savings made by not having to import oil from the Middle East should in the 1980's ensure

a very healthy balance of payments.

In balance of payments terms speed of exploitation was essential. In its relations with the Scottish nationalist, the conservation lobbies, and the companies themselves, the British government had to bear this in mind.

Another political force which worried both the Tory and Labour politicians were possible claims by the E.E.C. to North Sea oil. In April 1974, Mr Benn asked a number of questions about the significance of E.E.C. membership for the oil. Concerning depletion rates, he was told it would be up to the British to decide. In fact in December 1974 at a meeting in Brussels, Britain agreed to energy targets up to 1985 which were based on the British government's own projections and were in no way obligatory. In response to a question concerning how far the Treaty of Rome would give the E.E.C. Commission legal powers over British oil, it seemed that there was no question that North Sea oil belonged to anyone but Britain, and the E.E.C. had no control over possible nationalisation of exploiting companies. But Article 34 of the Treaty did rule out discrimination in favour of home based industries by permitting them access to this oil at more favourable prices than we charge for exporting it. In conclusion, as regards the formation of general E.E.C. policy concerning energy - (i) which was half completed - Britain would have a powerful say anyway.

(i) For the answer to Mr. Benn's questions in more detail see "The Economist", April 19th, 1975. page 39.

In October 1975 Mr Allaun asked Mr Callaghan at Question Time in the House of Commons: "In the E.E.C. referendum campaign some of us said publicly that the other E.E.C. countries would want to control our great oil assets and particularly the price at which it was sold. Does he (Mr Callaghan) recognize the strength of support he has for saying 'no' on this vital British Asset". Mr Callaghan said that: "There have been no attempts so far to secure control of British oil. That should be made clear in fairness to our community partners".<sup>(i)</sup>

At the same time Mr Callaghan was asked if the E.E.C. rules would make it impossible to join O.P.E.C. in the future. Mr Callaghan replied: "No I do not think it would if that occasion arose. It may be that the O.P.E.C. rules would prevent us from joining because one procedure of O.P.E.C. is that oil must be the major export to be a member and I do not think it is going to be our major export, though an important one. Nothing in the E.E.C. rules would prevent us from joining."<sup>(ii)</sup>

This political environment in which both the Labour and Conservative Parties had to operate did not prevent them from having a basically different attitude towards a very important constituent of the environment - that of the companies themselves. It was in 1964 that the original exploration terms for the North Sea were announced and at that time they only concerned natural gas. The then Conservative government set the conditions as follows: "A 12½ percent royalty, a licence fee of £6,250 for each hundred square miles and the surrender of half of each block licensed after six years - the remainder being held for a further forty years for an annual payment of

(i) The Times. October 30th, 1975. p7.

(ii) *ibid.* p7.

£10,000 rising gradually to £72,000 over 11 years. In addition the gas had to be sold to the Gas Council." (i)

In an interview given in December 1972, the former Tory Minister of Power said, "I rushed these through before the general election because I was afraid a Socialist government would get in and refuse licences to private enterprises....". (ii) The terms of the licences were very generous and one of the reasons for this was thought to be the necessity for enticing the oil companies, with their expertise, capital resources and equipment, into the harsh British regions of the North Sea. Otherwise, it was thought, they might go to the Dutch or Norwegian sectors.

The Labour Government of 1964/70 did not embark on a policy of public sector participation. In 1972, two years after the defeat of the Wilson Government, there was only a 12½% public share in concessions allocated. Successive governmental policy was scathingly criticised by a Public Accounts Committee report. All doubts about this quantity of oil in the North Sea were by this time dispelled. But the P.A.C. said:

"Because of the operation of double taxation relief, liability to U.K. corporation tax was extinguished by credits for tax paid elsewhere. Moreover, the size of this relief has led to the accumulation of huge tax losses of the order of £1500 million for nine major companies which could be carried forward indefinitely to be set against future taxable profits. And tax losses were continuing to operate." (iii)

- (i) New Statesman. 18th May, 1973. p724.
- (ii) Peter Paterson. "North Sea Bubble". New Statesman. 15th December, 1972. p889.
- (iii) "North Sea Oil and Gas". First Report from the Committee of Public Accounts. Session 1972/73. H.M.S.O.

The Chancellor acted quickly and said that in the next budget legislation would be introduced to prevent accumulated losses being offset against profits from the North Sea. But many persons still had doubts about the efficacy of the proposed legislation and other defects in the scrutiny and taxation of the oil company operations.

In the early seventies North Sea oil became a major political issue and this was reflected by the policy statements made by both major parties in their election manifestoes for the February 1974 election.

The Labour manifesto of February 8th said: "...the new situation has greatly strengthened Labour's determination to ensure not only that North Sea oil and gas resources are in full public ownership, but that the operation of getting and distributing them is under full government control with majority public participation. We cannot accept that the allocation of available World output should continue to be made by multinational oil companies and not by governments." (i)

The Conservative manifesto of February 10th said: "In full cooperation with private enterprise, we will press ahead with the extraction and landing of North Sea oil, and prospecting for Celtic Sea oil, as fast as is technically possible. Labour's irrelevant and disastrous proposal to nationalise our offshore oil would needlessly deprive Britain of an invaluable source of capital, skills and experience, and would cause confusion and delay when the nation can least afford it." (ii)

- (i) The Labour Party Manifesto for Election, February 1974.  
(ii) The Conservative Party Manifesto for Election, February 1974.

The Labour manifesto and subsequent victory brought an aura of uncertainty to the future of the North Sea oil industry. In May 197<sup>h</sup>, partially in an attempt to improve the attitude of the oil companies, the government issued a set of optimistic statistics concerning the resources of oil. <sup>(i)</sup> It gave an estimate of the reserves at 21.9 billion barrels, a much higher estimate than ever before and equally much higher was the estimate of ultimate reserves at 33 billion barrels. Whereas, previously, government figures had trailed behind company and independent estimates, they were now higher than most. With the government threatening participation, and with costs increasing, the figures were an attempt to restore confidence and convince the companies of future profits, and stimulate exploration and exploitation activity.

The Labour policy now materialised as a White Paper published on July 11th, 1974. It said an additional tax would be levied on profits from the continental shelf and loopholes in the rules governing the taxation of oil would be closed. The nature of the new tax would be specified. The granting of future licenses would be made on the condition that the government could take majority participation if it so desired in all the oil fields subsequently discovered. The existing companies would be invited to discuss with the government majority participation in existing licences for commercial fields. The government intended to exercise its participation rights through a British National Oil Corporation (BNOC) to which existing nationalised interests in this sector would be transferred. Powers would also be assumed to extend the

(i) "The Development of the Oil and Gas Resources of the United Kingdom". H.M.S.O. 1974.

government's physical control over offshore operations, including production and pipeline development. A Scottish development agency would be set up at once with a similar body to be established for Wales when oil exploration had developed in the Western approaches.

Left wing commentators were pleased about the government's firmness concerning the right to take majority participation in any new fields that were discovered but criticised the 'negotiations' policy with respect to the existing fields. It was pointed out that only three months earlier Mr. Varley had said that licences already awarded were "given away like detergent coupons" but now as the minister in charge his stance was "a lot less firm".<sup>(i)</sup> Persons questioning this apparent backdown were given the official answer that it was impossible to pass retrospective legislation, although many thought the real reason was that the government was afraid of scaring the oil companies. This was unlikely. In May, 1974, when there were fears about a strong Labour government line on public participation and at the time the optimistic figures were issued, Rothschilds was able to place £20 million of an investment trust which invested in the North Sea oil search. At the time of the publication of the White Paper, the Nation Oil Corporation of Israel managed to sell its interest in a block for £15 million. Conservative critics of the Labour policy said that the BNOC would lead to the duplication of the oil companies own bureaucracies and would achieve nothing more than an adequate system of taxation. They also claimed that the

(i) New Statesman. 19th July, 1974. pp73-74.

search for public money which would be required for participation would inevitably cause delays.

In their election manifesto for the October 1974 election the Conservatives expanded their criticisms of Labour policy. It said "...the British people must retain control of, and enjoy the maximum benefits from, our offshore oil. The answer is not to spend £2,000 million or more of taxpayers money in nationalising 51% of the industry. Nationalisation is inefficient, hugely expensive and totally unnecessary. The desired results can be achieved just as effectively and far more cheaply through taxation. Taxation will provide Britain with revenue from the oil.

A Conservative government will, therefore, block the existing corporation tax loopholes and introduce a new additional tax on North Sea oil profits. At the same time, our proposed new regulations will give the Government all the control that it needs. We will establish an Oil Conservation Authority to act as a watchdog. Its job will be to regulate exploration for oil, investment, production and sales in accordance with general policy directives laid down by the government."<sup>(1)</sup>

On November 12th, 1974, Mr. Healey produced his second budget which contained an 'Oil Taxation Bill' introduced on November 14th. He said this would contain fresh provisions for the taxation of oil profits, although the bill did not indicate the rate of tax to be charged. A number of changes were made to the bill in February 1975 which made it less punitive as regards the oil companies than previously. There were three

(1) The Conservative Manifesto. October. 1974.

main taxes: a 45 percent petroleum revenue tax (PRT); a 12½ percent royalty on each barrel; and a 52 percent corporation tax.

It was the PRT provision which caused most discontent among the companies and the government made a number of concessions. These were that the tax would only be levied after the deduction of the costs of government royalties, normal operating costs, and an uplift of 175 percent of the total capital invested in the field. In each year the first 7.3 million barrels of oil, up to 73 million barrels, would be exempt from PRT and PRT revenue would be remitted if pre-tax profits in any year came to less than 30 percent of historic capital costs. The final concession with respect to PRT was that on a discretionary basis there may be the remission of royalties if fields get into trouble even without paying PRT.

These concessions, although benefitting oil companies, were designed particularly to help marginal fields about        which there had been wide concern and which have high production costs. Calculations made indicated that most fields would get a 25 percent discounted rate of return on capital employed although on the large fields the state receipts would be up to 75 percent.

Details about the British National Oil Corporation emerged in the 'Petroleum and Submarines Pipelines Bill'. The Bill proposed that with ministerial sanction BNOC would be able to seek out and produce petroleum anywhere in the world, that it could involve itself in the construction, hiring and operation of refineries, pipelines and the acquisition of subsidiaries and the giving of loans or guarantees in return for a state share in a venture. Its main function would be to control the

state's participation in North Sea Oil and to buy and sell petroleum. BNOC would acquire the National Coal Board's petroleum interests and thus enter into partnership with such companies as Shell, Esso, Mobil and Gulf. It was intended that the Department of Energy would have close control over BNOC finances and that it would only be able to borrow money directly from the Energy Secretary or with his consent from other bodies. The initial tasks of BNOC were seen as the development of participation shares in the North Sea. Through BNOC the British government, it was hoped, would have considerable control over the harvesting of North Sea oil.

The Petroleum and Submarines Pipelines Bill was going through its final stages in the Autumn of 1975. In the first week of November 1975 the Queen started North Sea oil flowing into Britain.

The two main figures in the Development of North Sea oil, at this stage, were Tony Benn, the Energy Secretary, and Lord Kearton, the new Chairman of BNOC. BNOC, the government's chosen instrument of control, began to establish itself in the real world of oil multinationals.

Tangible indications of participation policy quickly began to emerge. Kenneth Dam commented: "At the end of February 1976 the first British participation agreement was announced. The agreement, reached with Gulf and Conoco, provided for assignment of title to a majority interest in those companies licenses in five North Sea fields. But this transfer of title was not accompanied by any state investment. Moreover, the companies retained their right to the physical oil, subject to a BNOC option to buy up to 51 percent of the oil produced under the licenses at market prices." (i) As this quote suggests BNOC

(i) Kenneth W. Dam. "Oil Resources Who Gets What How?" University of Chicago Press. 1976. p122.

avoided an injection of cash. It went for the option of buying 51 percent of oil output at market prices. A justification of this policy was that it would allow BNOC staff, through membership of the operating committees that manage the fields, to gain experience of the industry and later to influence decisions in the North Sea. Also that BNOC would come to have control over large amounts of oil.

In July 1976 Mr Benn announced an agreement between British Petroleum (B.P.) and BNOC. This allowed BNOC staff to train at the company's refining and marketing subsidiary in Britain and to participate in a non-voting capacity in B.P.'s marketing and refining councils. Writing at this time, Adrian Hamilton made a major justification for BNOC: "As with the direct control mechanisms introduced by Government", he wrote, "the dual development of BNOC and participation in ownership of oil gives the state considerable powers to react to circumstances as they occur. If the lesson of the 1973/74 crisis is held to be - as some would argue - the direction of oil flows must be taken out of the hands of the major international companies during a time of shortage and if the central worry - is as some would think - that Britain's membership of the E.E.C. will deprive it of many of its sovereign rights to control the flows and ownership of oil, then the discreet power which BNOC holds through its ownership could be of some considerable value."<sup>(i)</sup>

In February 1977 another round of offshore oil exploration licenses became available. The history of licensing rounds "indicated a clear trend for the preference given to British

(i) Adrian Hamilton. "North Sea Impact". International Institute for Economic Research. 1978. p118.

interests and particularly to the nationalised industries to increase with each licence issue".<sup>(i)</sup> Most of these were under the Labour Governments although under the Conservatives in 1971 there was an experiment in auctioning fifteen blocs. Throughout the rounds a "system of award by administrative discretion (was) retained".<sup>(ii)</sup> In the 1977 round a condition of any award was a 51 percent BNOC participation or by the British Gas Corporation. Forty four blocs were allocated on this basis. In four of these BNOC was actually to be the operator, that is, the company actually responsible for doing the work. In the others it would have to bear 51 percent of the cost - a considerable amount. As a contribution to this, BNOC raised a £825 million loan from twelve British and American banks. The Economist commented that this, "establishes the corporation in a curious no-man's land between conventional nationalised industry and fully fledged private enterprise".<sup>(iii)</sup> The mechanism for the loan was an artificial company called 'Britoil' set up as an American corporation especially for the purpose. The money was raised on the basis of future oil sales.

In April 1978 Tony Benn handed over nine new tracts to BNOC to explore on its own. He also announced that BNOC would have first choice, on commercial terms, to buy any shares in blocs awarded in earlier rounds when the owners wished to sell.

A sixth round of licensing occurred in November 1978. An article in The Economist shed light on 'theory' of getting the best terms from the multinationals who wish to be involved.

- (i) Colin Robinson and Jon Morgan. "North Sea Oil In The Future". Macmillan. 1978. p193.
- (ii) *ibid.* p193.
- (iii) "Private Millions for Public BNOC". The Economist. June 18th, 1977. p119.

Although there were applications for all blocs available, Esso did not make any bids and Shell, Chevron and Conoco made restricted ones. The Economist said: "Back at the energy department, civil servants were telling each other that until a few companies started to do more than just complain, the government could not be sure it was getting the best of the bargain. So long as the oil companies still kept turning up for more, there was always the worrying thought that the government was not getting as much as it might out of the offshore oilfields. It might be actually desirable to tighten the terms to a point at which those with a lot of acreage up their sleeve and interest in offshore drilling elsewhere (like Esso and Shell) started to drop out." (i)

Participation agreements continued throughout this period. In January 1977 Shell and Esso, the biggest operators in the North Sea, came to an agreement, as had many of the other of the operators.

In the middle of 1979 there was a significant change in the national political environment of North Sea oil. James Callaghan was forced to call a general election after the defeat in the House of Commons - a defeat to some extent prompted by a poor result in the Scottish devolution referendum. In their manifestoes the Labour and Conservative Parties seemed to be offering the nation different policies. The Conservatives said: "Nowhere has private enterprise been more successful in creating jobs and wealth for the nation than in bringing North Sea oil and gas ashore. These benefits will be short lived unless we pursue a vigorous policy for energy saving. Labour's interference has discouraged investment and could cost

(i) "North Sea Oil's Secret Laisser-faire Policy". The Economist November 25th, 1978. p111.

Britain billions of pounds in lost revenue. We shall undertake a complete review of all activities of the British National Oil Corporation as soon as we take office. We shall ensure (i) that our oil tax and licensing policies encourage new production. The Labour Party's said: "We shall progressively increase the national stake in the North Sea, to safeguard the British people and regenerate industry." (ii)

The Conservative Party won the election. Margaret Thatcher became Prime Minister and David Howell became Energy Secretary. The Conservatives embarked upon a review of the role of the BNOC. This came to fruition in July. The government stated its intention to sell a substantial part of BNOC's assets worth more than one billion pounds. It was thought that this would restore the confidence of the private sectors of the oil industry in the future of the North Sea. David Howell said in Parliament on July 27th, 1979:

"BNOC was engaged in two main activities - as an oil trader on a large scale, mainly by virtue of its right through participation agreements with other oil companies to purchase 51 percent of most of the oil produced on the U.K. Continental Shelf, and it had a substantial enterprise engaged in exploration, development and production.

The Government had decided the corporation's access to oil through the participation options should be retained. In conditions of major shortage Mr Howell could take powers under the Energy Act, 1976, to control oil movements and in conditions of limited shortage, BNOC's direct access to 'participation' oil strengthened Britain's position.

The government felt that BNOC's offshore assets and interests should be more widely owned, Mr. Howell said. 'This objective can best be achieved through the disposal of assets from state hands or by the introduction of private capital into the operation'. A further announcement would be made on this.

- (i) The Conservative Manifesto. 1979. pl6.
- (ii) The Labour Party Manifesto. 1979. pl4.

He said the corporation had too many licence obligations and commitments, along with 'a number of privileges vis-a-vis the oil companies', which were a source of the instability and lack of confidence that characterised the offshore oil exploration scene.

'The Government had decided, therefore, that BNOC's preferential position in future should be ended, and that its present over-extended exploration commitments should be reduced. The Government also intends to end BNOC's special access to government finance through the National Oil Accounts.'

He pointed out that the changes follows other Government decisions making BNOC liable to petroleum revenue tax in common with other companies, and ending the policy of giving BNOC a first refusal whenever an interest was assigned between companies." (i)

However, the international political environment intervened to change Howell's mind over the sale of BNOC's assets. As 1979 progressed there was increasing oil price and supply chaos. To sell off BNOC assets at such a time of doubt seemed increasingly to be a decision lacking political wisdom. So the demand for an asset sale was changed to a demand for £500 million from BNOC. BNOC attempted to raise this by forward sales to oil companies.

In November 1979 Howell announced details of a seventh limited oil licensing round. Under the Conservatives BNOC had already lost its right to a mandatory majority in all North Sea oil licenses. Howell urged oil companies to include at least 50 percent British interest in an exploration consortia being formed. In this way they would have the better blocs allocated to them.

Such is the British government's response to the multinationals in the North Sea. The major instrument of control - BNOC - was introduced by the Labour government and retained by the Conservatives. Perhaps the key period in the development of the control response were the 1974 elections. It seems

(i) As reported in The Guardian, Friday, July 27th, 1979. p.21.

very likely that if the Conservatives had won they would have introduced different and non-participatory types of control, probably a harsher type of taxation. But in 1979 the uncertainties associated with oil price and supply convinced them of the wisdom of keeping BNOC in existence.

This control response by the national government of Britain can be considered successful. The British government has achieved sufficient control over the exploitation of North Sea oil to ensure that the British nation will receive considerable benefits. It must also be seen against the need for rapid exploitation which placed a limiting factor on the extent of control.

CASE STUDY NUMBER 5

JAPAN: A CHANGING CONTROL RESPONSE TO MULTINATIONAL COMPANIES.

This study attempts to understand the various group attitudes towards F.D.I. within Japan and the reason for Japan's changing control response towards multinational companies.

(1) Brief Historical Introduction

After an extensive study of Japanese nationalism one writer concludes that the character of postwar nationalism drastically differs from the ultranationalism of the prewar years. He writes: "It is not that the sense of loyalty to the nation has disappeared but rather the expressions and manifestations of that loyalty have changed".<sup>(i)</sup> The Japanese - being geographically isolated and having developed into, at an early time in their history, a homogeneous people speaking a common language and worshipping indigenous gods - were well situated for the development of a strong group unity and loyalty to country which is the basis of nationalism.

Nationalism in different contexts and in different forms has been permanently present and has had a direct influence, in more recent years, on responses to F.D.I.

In the nineteenth century the Japanese adopted far reaching reforms which led to, in the latter half of the century, Japan's industrial revolution, to the establishment of universal education and the building of a national army. Industrialisation in this early Meiji period (1868 to 1912) was not an end in itself but was a means to maintain political and economic independence

(i) D.M. Brown. "Nationalism in Japan". Russell and Russell. 1971. p251.

from the West. The Meiji leaders fearing foreign ownership and management deliberately restricted the entry of foreign capital. If it was vital they much preferred loans. Foreign technology was gained without F.D.I. At the turn of the century there was a little relaxation although F.D.I. remained small in sum - estimated at the end of 1929 at 60.7 million dollars and down to 46.7 at the end of 1936<sup>(i)</sup> - and consisted mainly of joint ventures. After two successful foreign wars, one against China and one against Russia, Japan's nationalist sentiment was heightening. In the 1930's it reached a fanatical level. Much of the emotion was government engendered and directed. The whole nation was subjected continuously to nationalistic propaganda disseminated through various public channels by means of all public information and entertainment media. There was increasing centralization and standardization of state shrines, the schools and the police system. Emphasis was placed upon traditional institutions, principles and standards. The institution of Emperor - the divine hereditary head of the State Shinto Cult and the father of the Japanese state - became a central focus. Japanese nationalism became 'Ultrnationalism' and took on a spiritual character.

With the 1945 defeat and the United States occupation this fervour was punctured. The American occupiers then set about braking down the system and preventing the reemergence of nationalism. The public media was given its freedom and restrictions upon freedom of speech were kept to a minimum. Japanese authorities were ordered to prohibit the teaching of

(i) W.W. Lockwood. "The Economic Development of Japan". Princeton University Press. 1968. p260.

militaristic and nationalist ideologies. Instruction in State Shinto and the divine superiority of the Japanese Emperor was abolished. The Emperor was ordered to broadcast that he was not of divine origin. Ultrationalist leaders and societies were purged.

The Americans imposed democratization on the Japanese people. A Japanese government was to be elected by popular sovereignty with the Emperor as a symbol of the state and unity of the people deriving his position from the sovereign will of the people. The civil service, local government, the police system, the educational system, the economic system and Japanese business were all reorganised to give independence from central control. One important freedom was for labour to organise.

With the war defeat and the imposition of this new order a new form of nationalism arose in Japan: A Peoples' Nationalism. (i) A popular desire in Japan to capture the secrets of Western power and to use it for the needs of the whole people. The Sidehara Cabinet in October 1945 reflected this broad popular desire by a policy of cooperation with the West. The identification of the people with their nation after 1945 was far broader than in the earlier period of ultrationalism, for the national defeat drew the populace together. National loyalty worked itself down into the lower reaches of Japanese society and became a nationalism concerned with the welfare of the Japanese people rather than of an idealized Japanese state.

There were several views as to how a high standard of living might be achieved. By 1947 the labour unions were becoming very powerful. They were mainly concerned with applying direct

pressure on employers for higher wages and working conditions. Some sections of the community thought economic success lay in technological achievement. Some government officials and businessmen considered another solution the most appropriate: the revival and development of foreign trade. But here Japan was in the hands of the occupiers.

The rise of the 'cold war' led to a change of attitude by the Americans towards Japan. Less emphasis was placed upon the possible recurrence of Japanese expansionism and more on Japan as a bulwark against Communism. The occupiers considered that this entailed a level of economic rehabilitation and self-sufficiency. Soon large grants of money were made to Japan by the U.S. and these were important until 1950. By the end of 1948 there were signs that Japan's trade was coming to life.

But nationalism, however changed its nature was from ultranationalism, was very evident in the response made to F.D.I. The Japanese government adopted a very restrictive policy. In 1949 the Japanese government enacted a Foreign Exchange Law and in 1950 a Foreign Investment Law, and these have been the legal backing of F.D.I. control ever since although the interpretation has changed. They are stated very vaguely which gives considerable latitude in application. The Foreign Investment Law created the Foreign Investment Council (F.I.C.) under the jurisdiction of the Minister of Finance as the chief advisory body on matters relating to F.D.I. In 1950 F.D.I. was at the low level of 2.5 million dollars.

For several years after the enactment of these laws Japan adhered stringently to requirements stated in Article I of the Foreign Investment Law. These were that F.D.I. was permitted only when it contributed towards

- 1) the attainment of self-sufficiency and the sound development of the Japanese economy,
- 2) the improvement of Japan's balance of payments.

As long as these were met the benefits of unconditional right of remittance, in the currency of investment, of dividends or interest on capital invested, or of royalties, or of service fees, was guaranteed. The key was validation by the Minister of Finance. Would be foreign investors had to apply to the Japanese Government for validation and if they were successful in proving that their application fulfilled the requirements the benefits were ensured by law.

With the economic position under reasonable control Japanese concern was directed towards political independence. The increasingly worrying cold war situation in 1950 led the occupiers to conclude that political independence would have to be granted if Japan was to be a strong bulwark against Communism and it was gained in 1952.

Since these early years Japan has developed into a very powerful economic nation and has managed to obtain a degree of stability in her relationships with China and Russia. With regard to F.D.I. Noritake Kobayishi states that: "The basic policy of Japanese investment control has experienced a 180 degree shift from general prohibition, except for the cases where the introduction of foreign capital and technology can contribute positively to the rehabilitation of the Japanese economy, to general permission except for cases where such introduction has exceptionally adverse effects on internal

(i)  
security and development".

The process was gradual. In the second half of the 1950's the government began slowly to relax the very prohibitive restrictions against foreign investment. In May 1961 the F.I.C. announced that foreign investment would be allowed as long as it did not

- 1) unduly oppress small sized enterprises
- 2) seriously disturb the industrial order, and
- 3) seriously impede the domestic development of industrial techniques. (ii)

Before 1963 the maximum foreign ownership allowed was 49 percent but by 1963 50-50 joint ventures were common.

In conjunction with joining the O.E.C.D. in 1964 Japan began a 'liberalisation policy'. A two category distinction was used: In Category 1 50 percent foreign ownership was to be allowed without individual screening as long as the following provisions were satisfied.

- 1) The Japanese partner (or partners) own at least 50 percent of the shares in the joint ventures and must be engaged in the same line of business as the foreign partner.
- 2) The Japanese representation on the board of directors in the contemplated joint venture must be greater than the proportion of Japanese ownership in the venture.
- 3) The joint venture must operate under Japanese commercial law and there should be no provision that the consent of a stockholder or a particular officer be required to execute corporate affairs. (iii)

(i) Noritake Kobayashi. "Foreign Investment in Japan". From Litvak & Maule. op cit. 1970.

(ii) ibid. Drawn from pages 137 and 138.

(iii) ibid. Drawn from pages 137 to 140.

In Category 2, 100 percent foreign ownership was allowed. In 1967 33 'product group' were placed in Category 2 and 17 in Category I. In 1969 an additional 135 product groups were placed in Category 1 and 20 in Category 2. Also 9 product groups were transferred from Category 1 to 2. But such strategic industries as detergents, cosmetics, aluminium refining, petrochemicals, and automobiles were excluded from either list.

On September 1st 1970 further liberalisation of F.D.I. took place. Three hundred and twenty three industrial sectors were opened up but most were restricted to 50-50 joint ventures. Although the list sounds impressively large many of the sectors were not in the least suitable for F.D.I. Included were bicycle repairs, pawnbroking, and production of religious objects.

In 1971 the yen was considered to be overvalued and Japan was subjected to much pressure for a revaluation and a change in policy concerning capital flows and F.D.I. On October 2nd 1971 the Japanese government approved the acquisition by the Superscope Inc of the U.S. of 50 percent of the capital stock of the Standard Radio Corporation of Japan. It was the first time that such approval had been given for a domestic electronic firm listed on the Japanese stock exchange.

(2) Group Attitudes Towards F.D.I.

At the extreme left of Japanese politics there stands the Japanese Communist Party. Against traditional Communist dogma this party has taken cognisance of nationalist dogma in the formulation of its programs since 1945.

Until 1950 it adopted a pose of being 'likeable' and favoured 'peaceful revolution'. This gained it some support in the Diet but after the Communist victory in China there was a trend towards militancy and attention was turned towards, among other things, American monopoly capital. In an outline of the Party's goals in May 1950 it was stated: "There must be a liberation from the control of international monopoly capital. This means complete opposition to the colonization and militarization of Japan so that national independence might be achieved".

In the early 50's the Japanese Communist Party aligned itself with Russia and China - at this time the Sino-Soviet alliance was still in existence. In 1952 Russia vetoed Japan's entry into the United Nations. This was a policy of political blackmail the aim of which was a severance of Japan's relationship with the U.S. and the adoption of a neutral position in international affairs. The elections of 1952 coincided with the 19th Congress of the Communist Party of the Soviet Union. One of the principles laid down for international Communism at this congress was the exploitation of divisions within the imperialist camp with the isolation of the U.S. from her allies as the major consideration. The Japanese Communists were quick to follow this guide.

The Party's electoral support fell decisively in the 1953 election and subsequent elections. With the Sino/Soviet split the Party became more independent although favouring Russia.

Its campaigns have become less violent and its policies based less on violent revolution.

Throughout the postwar period the Japanese Communist Party has had support from radical student groups, some minority groups, and the further left labour unions; these being the most extreme and vociferous anti-U.S. groups in Japan. Its policies have mainly sprung from a synthesis of nationalism and anti-Americanism. It has persistently been against F.D.I. Recently there has been a return of electoral support (see Table (3) .

Still on the left but less extreme than the Communist Party is the Japanese Socialist Party. In 1955 two socialist parties, the 'Left' and the 'Right', combined to form this party. Previous to the combination the two groups debated the status of Japan as an independent country. The Right argued that Japan was an independent country and accepted a policy of cooperation with the U.S. while the Left argued that Japan was economically and military dependent on the U.S. But both groups were basically anti-government, anti-U.S., and anti-F.D.I.

In the early 50's both the Right and the Left made an appeal for nationalist support by adopting a program of reforms designed to improve the standard of living of the people as a whole and advocating policies they felt would be most effective in realising and maintaining a meaningful independence for Japan. The appeal was made mainly to the peasantry, labour, and the intellectuals.

After the combination a general policy of gaining autonomy from the U.S. was formulated. The Party wanted to be distinct from the Japanese Communist Party and sought a wider basis of support including salaried workers, and owners of small

enterprises. At the Party's Congress in 1966 there was an insistence upon neutrality, non-alignment, and the abrogation of the U.S./Japan Security Treaty. According to various statements of the party's program, the major enemies blocking the realization of socialism were Japanese monopolistic capital and its patron American imperialism.

During the postwar period there has been a strong relationship between, at first the two socialist groups and later the Japanese Socialist Party, and S.O.H.Y.O. (the General Council of Trade Unions of Japan). S.O.H.Y.O. has a powerful voice in the J.S.P. because it supplies a mass support and can mobilise large numbers for political demonstrations. Leaders of both groups are Marxist influenced, anti-American, and their thinking developed in mutual dependence in the early postwar period. The J.S.P. derives a large number of its Diet members from S.O.H.Y.O. and much of its rank and file. S.O.H.Y.O. relies heavily on the J.S.P. as a mouthpiece enunciating political goals.

The J.S.P. is the major political opponent of the Liberal Democratic Party. After 1955 when Japan for all intents and purposes developed into a two party system, it has been the opposition. While it is the major focus of anti-American and anti-F.D.I. sentiment it has never gained a majority in the Diet and has never ruled Japan. In the most recent elections it has been losing a degree of its support.

The development of trade union organisation in Japan has some relevance to this discussion. The labour movement in prewar Japan was divided into two streams: the left wing unions

who were Marxist-Leninist; and Sodomei which favoured a British type reformism. This dichotomy persisted after World War II with Sodomei and the Marxist-Leninist Sambetsu Kaigi, which was dominated by the J.C.P. and was responsible for organising the general strike of 1947. After this strike a section rebelled against Communist domination and these seceded and joined with a number of left unions from Sodomei to form S.O.H.Y.O. S.O.H.Y.O. proclaimed its independence from the J.C.P. but gradually swung to the left and there was criticism of Communist domination from some unions. These seceded and combined to form Zenro. Zenro later combined with Shin Kankoro to form Domei.

Domei has some one and a half million members. It is influenced by the democratic socialism of the West and has as its goal the establishment of a welfare state. It supports the Democratic Socialist Party and provides it with strong backing at election time. Domei cooperates with management insofar as the prosperity of the enterprise or industry is concerned and sees conflict between labour and management as confined to questions affecting the apportionment of profits, wages and working conditions. Domei is a member of the International Confederation of Trade Unions (I.C.F.T.U.) which is non-Communist and has developed links with the American labour organisation A.F.L. C.I.O. It is not basically antagonistic to foreign companies and sees them much as it does Japanese companies.

S.O.H.Y.O. does not in principle reject united action with the J.C.P. and although it is influenced by it, as has been noted, it is strongly attached to the J.S.P. Where the international labour movement is concerned S.O.H.Y.O. takes

a neutral stand between I.C.F.T.U. and the Communist W.F.T.U. S.O.H.Y.O. considers the fate of enterprises and industries as irrelevant and resistance to management is a basic principle of its actions. Recently there appears to have been signs of a split between extreme and more moderate groupings. S.O.H.Y.O. is basically anti-American and anti-F.D.I. It has roughly three times as many members as Domei.

If most of the groups discussed so far are of the left, anti-American, and anti-F.D.I., the most important political grouping in Japan is not so orientated. The Liberal Democratic Party (L.D.P.) is the party of capitalism, big business and free enterprise. The L.D.P. has ruled Japan since 1958. The Liberal Party, a group of similar persuasion, ruled during the period from the end of the occupation until 1958.

Okibo Kenzo, Mitsubishi Electric's seventy five year old board chairman, commanded the marketing campaign by twenty seven Mitsubishi firms to sell a L.D.P. candidate in the July 197<sup>th</sup> election. This included not only money but also the firm's sales machinery and their employees votes. For much of the postwar period generous contributions from big business helped the conservative forces to hold onto government, but the Mitsubishi involvement was a new development. Kenzo defended these actions by saying: "The survival of capitalism is at stake. It is our duty to defend the present system".<sup>(i)</sup>

There is a symbiosis between the L.D.P. and big business as there is between S.O.H.Y.O. and the J.S.P. but it is

(i) The Guardian. Friday, 28th June, 197<sup>th</sup>. "Mitsubishi pre-pack a candidate for Capitalism".

different in nature: Between S.O.H.Y.O. and J.S.P. it is a search for, and a defence against, governmental and business power, whereas for the L.D.P. and big business it is a union committed to the defence of the status quo.

In this special relationship, which has existed since the Meiji Period, government has traditionally outranked big business, but the exercise is not in any sense one way. With the increasing size and economic importance of big business its ability to influence the government is increasing. The government has participated in business by means of subsidies, licenses, loans and franchises, with ultimately the power to reward for cooperation and penalise for recalcitrance. Government control extends far beyond the statutory minimum. The counter influence of big business is exerted through institutes, trade associations and research groups of one kind or another in which business and government official participate and supply funds. Also, as has been noted, business supplies valuable electoral support. It also offers many early retiring government officials with occupations. The rising influence of big business with regard to F.D.I. liberalisation is demonstrated by, in 1969, the almost exclusive prominence of big business leaders on the F.I.C.

The L.D.P. has cooperated with the U.S. and has been favourable towards Japanese/U.S. treaties. Yet it has also had to adjust its policies to head off nationalist sentiment. Whilst less concerned with general welfare they have not been able to ignore the need for electoral support and thus not give up too much independence to the U.S. The U.S. has given large economic and military aid and L.D.P. cooperation has, perhaps, been influenced by this rather than any positive

feelings of friendship.

A distinction must be made between the L.D.P. and the government it has continually formed, and the various ministerial bureaucracies which vary in their attitude towards F.D.I.

The Foreign Ministry, which has to bear the brunt of dealings with foreign nations, believes that having joined the O.E.C.D. Japan must accept its obligations and be liberal with capital transactions. The Finance Ministry noting possible advantage regarding an increased flow of foreign capital is also favourable. But the Ministry of Agriculture and Fisheries and the Ministry of Trade and Industry (M.I.T.I.), both of which are concerned with the protection and encouragement of Japanese industry, are very lukewarm to the idea.

The M.I.T.I. controls licensing procedures for all major kinds of business activity especially foreign. It gives close scrutiny to all contracts concerning business activity and the import of foreign capital. It is jealous of its prerogatives and of its power in relation to business and other ministries. The traditional extensive control exerted by the M.I.T.I. over business, its officials consider, would not prevail in relations with foreign multinationals. High ministry officials are also imbued with a strong nationalist sentiment and an anxiety to strengthen the competitive capacity of Japanese industry.

With the onset of liberalisation, what liberalisation the ministries advocate is usually in matters under the jurisdiction of other ministries. There has been much enmity between the M.I.T.I. and the Ministry of Foreign Affairs

concerning representation on specialised committees of the O.E.C.D. Both claimed competency and the incompetency of the other.

Relationships between the L.D.P. and its government, big business, and the bureaucracies are very varied. The diversity incorporates a sense of common interest and intense rivalry and jealousy in a relatively unstable state. With regard to liberalisation of F.D.I. policy the relationship of the L.D.P. and big business is of the utmost importance. <sup>(i)</sup>

Japanese small business is also of importance. It occupies a very important place in the economy. Most of its leaders are antagonistic towards F.D.I. They consider themselves of insufficient size to compete with foreign giants, that they have insufficient access to funds, and are inefficient in comparison. Japanese small business and its organised interests, while not having the sway with the L.D.P. that big business does, still has considerable political influence which the L.D.P. cannot ignore.

(i) A more detailed discussion of this relationship occurs later in this section.

### (3) Outside Pressure and Liberalisation

There is a paucity of explanation concerning Japan's liberalisation towards F.D.I. For instance Kobayashi argues: ".....as Japan's economic and international balance of payments situation improved the government's attitude to validating foreign investment applications has been gradually relaxed". (i) Why such economic improvement should lead to a relaxation and not the reverse is not questioned. Certainly economic improvement is an important factor, but it must be set against the breakdown of Japanese totalitarianism and the American occupation which sowed the seeds of Japan's resurgence.

Japanese economic development did two things of great importance: It kept the excesses of nationalism at bay and it provoked an international reaction to Japanese restrictive economic policies upon which the economic development was partly due.

Japanese postwar nationalism was a 'peoples' nationalism' concerned with a high and rising standard of living.

Under the continuing conservative rule economic development allowed this desire to be satiated and this in turns helps to explain the continuing electoral success of the conservative parties. During the twenty years after the war popular desire for affluence has apparently been gaining ground at the expense of nationalist sentiment such that the L.D.P. leader and Japanese Prime Minister saw fit to call for a "stronger national consciousness". (ii) It is only very recently with

(i) Noritake Kobayishi. op cit. p133.

(ii) The Times. January 2nd, 1968. p5.

inflation in Japan and the failure of the economy to continue to raise living standards that there have been fears of a revival of extremist nationalism.

With nationalist sentiment under control Japan gradually gave way to international pressure for liberalisation of F.D.I. policy. Growth to a major economic nation brings many pressures from many sources. It becomes necessary to have sizeable and continuing relationships of trade with many countries, and thus to join with these countries in international organisations designed to regulate the trade. Thus in early 1965 Japan joined the O.E.C.D. and maintained the most restrictive policy of any of its member nations towards F.D.I. although the act of joining obliged liberalisation. This brought forth a certain prodding from the O.E.C.D. mainly at the instigation of the U.S.

In May 1965 a request by the O.E.C.D.'s Business and Advisory Committee was made such that Japan should liberalise direct investment. This was followed by a whole series of moves which included a visit by an O.E.C.D. survey team to investigate capital transactions; a meeting in February 1966 of the O.E.C.D. Committee for Invisible Trade Transactions at which an enquiry concerning Japanese invisible trade transactions and liberalisation of capital was made and at which the Japanese delegate was severely criticised; and on the 19th, November, 1969 Japan was told to liberalise trade by the O.E.C.D. Economic Policy Committee. (i)

The attitude of the United States has also changed. In the

(i) The Times. November 19th, 1969. p24. "O.E.C.D. tells Japan to Liberalize".

fifties the U.S., concerned with the cold war and Japan as a bulwark against it, assisted with economic and military aid and was prepared to tolerate a highly restrictive and nationalist economic policy. But with the economic miracle and the decline in the cold war America underwent a change of attitude. Increasingly the U.S. applied formal and informal pressures for a change of policy: as The Times put it, "Yet in opposing Japan, America is fighting a monster of its own creation".<sup>(i)</sup>

In July 1965 the matter was forcefully raised at a meeting of the U.S.-Japan Joint Economic Committee and again at a conference of Japanese and American financiers in October. In July 1966 at a meeting of the U.S.-Japan Joint Economic Committee, America proposed the liberalisation of capital transactions as one of the main topics of debate. But these formal indications of displeasures are really the tip of the iceberg. Behind them lies America's prodigious military and economic strength and the numerous ways these can be used to influence the Japanese government. Such an instance occurred on August 12th, 1971: the Nixon Administration threatened Japan concerning its trading and investment policies. The background was an international crisis of confidence in the dollar and pressures for a revaluation of the yen. An administration official said that the Japanese had been informed that unless its trade policies became more responsible the U.S. would apply for redress under G.A.T.T. Such a move, if upheld, would open the way for retaliatory action. The official said that Japan's trade and investment

(i) The Times. August 18th, 1971. p17.

(i)  
policies were "flagrantly illegal".

With economic development came Japanese big business: The attitude of big business towards liberalisation of F.D.I. policy has become increasingly favourable. One reason was the difficulty of obtaining advanced technology through the usual channel of licensing. Multinational companies, wishing to enter directly into the now large and expanding market, were only prepared to part with advanced technology in exchange for equity and a less restrictive investment climate. Such giants as Ford and Chrysler, which before the war had monopolised the market, were in the late sixties seeking the restabishment themselves. Seeking to establish for the first time were General Motors, Yale and Town, Texas Instrument Co, and General Electric of America. Japanese corporations were compelled to form joint ventures to obtain coveted foreign technology. Pressure from U.S. multinationals was also directed towards the U.S. Federal government and from there to the Japanese government.

There was also a change of awareness among many sections of Japanese big business. They realised the restrictionism on the part of Japan and would be liable to promote a reciprocal restrictionism on the part of other countries especially the U.S. Desiring to improve the climate for exports and ultimately to pave the way for their own multinationality, much of Japanese big business began to pressurize its own government for liberalisation. Many big business leaders feared that multinational investment might go to Asian neighbours and dry up export possibilities. But

(i) The Times. August 13th, 1971. p.15.

some sections of big business did not favour F.D.I. liberalisation. The Japanese automobile industry fearing extra competition, rigorously resisted. This particular conflict brought the F.I.C., and its ally the powerful Federation of Economic Organisation, into combat with Japan's auto makers and the M.I.T.I.

As this discussion indicates, the pressures for liberalisation have to some extent been successful. M.Y. Yoshino was prompted to write in 1969: "Japan has long held a rather restrictive policy towards foreign (direct) investment. This was quite consistent with her traditional economic, cultural and political orientation. Until recently, this strategy had been effective in terms of goals Japan set out to achieve. However, a series of recent developments, both endogenous and exogenous, began to challenge the restrictive policy, forcing Japan to adopt a more liberal posture toward foreign investment".<sup>(i)</sup> The pressure has been from sources mainly external to Japan, although producing internal pressure to the same end. Throughout the period beginning with the end of the American occupation some groups have continually resisted liberalisation. Their success has been to slow it down or minimise it in some areas. Behind the liberalisation has been the L.D.P. and the government it has formed. The L.D.P., using economic development to keep nationalism at bay and maintain its electoral majority, has succumbed to pressure from a major supporter, Japanese big business, and

(i) M.Y. Yoshino. "Japan as Host to the Multinational Corporation". Contained in: Charles Kindleberger "The International Corporation". The M.I.T. Press. 1970. p368.

also to international pressures. The situation as it changed in the late sixties is represented schematically in diagrams I and 2. Japanese electoral fortunes 1949 to 1979 are indicated in table 3.

The pressures that caused this changing control response to F.D.I. up to the late sixties must be seen against a broadening arena of conflict that continued throughout the 1970's. Although considerable liberalisation had undoubtedly occurred many restrictions remain. In a number of ways Japan slowed down or prevented some types of F.D.I. or prevented multinationals importing into Japan.

An example of one of Japan's continuing methods of limiting F.D.I. was to be seen in the 'Dow Chemical Case'. In July 1975 Dow presented a scheme to the Japanese government which involved both a large caustic soda plant and a smaller scheme for making agricultural chemicals and some other products. Indigenous caustic soda makers who were very much against the plant put pressure on M.I.T.I. to prevent it. In November M.I.T.I. agreed to the agricultural chemical proposals but gave only a vague promise with no deadline for further consideration of the soda plant.

Would-be multinational importers into Japan face a number of seemingly trifling, but in reality important, non-tariff barriers to the Japanese market. Items controlled by quotas are cigarettes and tobacco, leather goods, silk and footwear. Cigarette importers face problems in many directions: imported brands into Japan are not allowed to be advertised in the press or on television. This control is in the 'interests of health'. Of Japan's fourteen thousand licensed tobacconists

only six percent carry imported brands. It is argued that this is simply because there is no demand outside of the larger towns for foreign cigarettes. This may be because imported brands, for various reasons, cost more than brands produced by Japan's one monopoly cigarette maker. This company is also sole distributor and sole importer of cigarettes. For instances, Gauloises cost two dollars a pack; equivalent Japanese cigarettes - Seven Stars - cost seventy five cents a pack.

At one time European pesticide producers had to ship Japanese fish to Europe to test the effects of their products. The Japanese retest all electrical and gas products although there are similar standards in Europe. The Japanese ball-bearing market is more or less protected. At one time multinational car importers were faced with stringent tests on their cars before entry was allowed. Often it seemed, at least from the point of view of the importers, that new and novel tests were thought up just to prevent the entry of some cars.

A review of relevant statistics in 'The Economist' indicated that the main area of conflict in the middle 1970's was trade in general and not F.D.I. Since the relaxation in the 1960's a great deal of F.D.I. had entered Japan. In 1976 the figure was 4.5 billion dollars. A small proportion of this was in joint venture deals; in 1976 only 184 million dollars - that is four percent. In 1976 sixty five multinationals withdrew from joint ventures in Japan either by winding up operations or by selling out entirely to the Japanese partner. The reasons for this exodus do not appear to have been political. (i)

(i) For a more detailed discussion see "Business Brief". "The Economist". May 4th, 1977. pp100-101.

So the main problem for multinationals has become the freedom to import into the Japanese market. Japan has a tremendous surplus in its trade with the U.S. and the E.E.C. countries. In 1976 the E.E.C. began to 'get tough' with Japan. A paper prepared for the Commission of the E.E.C. indicated that in 1976 every E.E.C. country had a considerable trade deficit with Japan. In 1975 the E.E.C.'s total trade deficit with this country was 3.2 billion dollars. Previous to the decision to get tough, the E.E.C. had relied on 'softer' requests asking Japan to remove their non-tariff barriers to E.E.C. exports. This policy had been a failure. So in line with the get tough policy, Mr. Finn Olav Gundelach, the Danish commissioner in high level talks in Brussels in November 1976, told the Japanese they had two weeks to cut their exports to the E.E.C. and to make their own markets more open to imports from the community. If this did not occur, it was suggested that at the E.E.C. summit at the Hague due to begin on November 24th, a decision might be taken to retaliate against Japanese imports. The E.E.C. officials argued for a greater opening for E.E.C. pharmaceuticals, footwear, tobacco, processed food, and shipbuilding companies.

At the E.E.C. summit in November 1976, a decision was taken such that the E.E.C. should issue an ultimatum to Japan to cut its trade surplus with the E.E.C. There was a limited response to this ultimatum but it was not sufficient to stop Roy Jenkins, E.E.C. Commission President, from going to Japan in October 1977 to demand further Japanese efforts to reduce the growing imbalance in trading relations. In 1978 the trading imbalance with the E.E.C. reached 6.4 billion

dollars and a 'leaked' report written by the Director General of the E.E.C. considered the imposition of controls on imports from Japan for the first time. The report noted that in the past Japanese promises in relation to the E.E.C. requests and demands had met with little response.

The U.S. also began to respond. Prompted by an enormous trading deficit with Japan a mood of protectionism developed in U.S. government circles. In 1977 Mr Robert Strauss, the then special trade negotiator, won a modest trade agreement under which Japan intended to limit the 1978 trade surplus to 6½ billion dollars. The concessions included:

- 1) Advance tariff cuts on 318 items - worth 2 billion dollars - starting April 1st 1978.
- 2) Tripling of the quota on a range of imports to 45,000 tons.
- 3) A fourfold increase in the citrus juice quota to 4000 tons.
- 4) A ten thousand ton increase in beef quotas.
- 5) The lifting of quota controls of twelve agricultural items.

Generally, as regards trade, Japan agreed to try and achieve 'parity' with 'equivalent openness of markets'. However the 1978 trade surplus ended up double the 6½ billion dollar level.

In October 1978 Mrs. Juanita Kreps, the Commerce Secretary, went to Japan in another attempt to get the Japanese government to cut its trading surplus with America. She tried to get Japan to reduce its discriminatory non-tariff barriers and the general difficulties that Japan was continuing to put in the way of companies wishing to invest in Japan. Mrs. Kreps main bargaining position was to remind the Japanese of the growing mood of protectionism in America.

(4) Digression: The Lockheed Scandal in the Context of Japanese Politics.

In February 1976, during the public hearings of the U.S. Senate Sub-Committee on Multinational Corporations, it was stated that the Lockheed Aircraft Corporation of the United States had spent a total of 10 million dollars to promote its sales in Japan. The payments had been made through the big Japanese trading firm Marubeni Corporation, the rightest Kodama Yoshio, Lockheed's secret representative, and Osano Kenji, a close friend of Tanaka Kakuei and the owner of Kokusai Kogyo Co. This revelation appeared to answer a number of puzzles concerning Japanese purchases. As Imazu Hiroshi queried: " Why, in 1959, had Lockheed F104 fighters been adopted by the Air Self Defense Force after Grumman had seemed a likely choice? Why, in 197<sup>h</sup>, had All Nippon Airways (ANA) bought Lockheed TriStar Airbuses after it had previously chosen Douglas DC-10's? Why at the same time had the Defense Agency's strong bid for home production of antisubmarine patrol planes been shelved for possible debate 'from a clean slate' at a future date? The answers were all the same: big 'fixing' with the aid of Lockheed funds".<sup>(i)</sup>

Carl Kotchian, a former vice-president of Lockheed, indicated that 2,500 million Yen had been transferred to Japan to persuade ANA to buy TriStar and to induce Japan's Self Defence Forces to purchase its Orion antisubmarine patrol plane. All of Japan was shocked and demanded investigation.

(i) "Power Mosaic: Hotbed of the Lockheed Scandal". by Imazu Hiroshi. Japan Quarterly. July/September 1976. Vol. XXII. No. 2 pp228-229.

Earlier to these Lockheed revelations there had been another corruption scandal in Japan. Prime Minister Tanaka Kakuei was prompted to resign by a magazine article called 'The Anatomy of Tanaka Kakuei - His Money and his Men', which accused him of abusing his official powers to enrich himself. This led to a battle for power between two leaders of the most powerful group in the L.D.P. - the 'mainstream' - Fukuda and Ohira. The battle threatened to split the L.D.P. and the mainstream allowed Miki - not a mainstream favourite - to become P.M. This to some extent weakened the ruling coalition between the bureaucracy, big business, and its natural ally - the mainstream. These three together are sometimes referred to as 'Japan Incorporated'. The L.D.P. mainstream is the virtual manager of Japan Incorporated.

Miki now had to deal with the political problems arising from the Lockheed scandal. The mainstream, anxious to reduce these to a minimum to safeguard Japan Incorporated and the L.D.P.'s political prestige, became concerned as Miki declared his resolve to get to the bottom of the case. Tanaka Kakuei and two other L.D.P. politicians were arrested in the summer of 1976. The Japanese procurators' investigations indicated that politicians in charge of aviation administration, under the influence of Tanaka, had arranged for 'administrative Guidance' to delay the purchase of DC-10's. "The Politicians accomplished in consultation with ANA executives a dramatic change in 1974 from the DC-10 to the TriStar".<sup>(i)</sup> The arrest of Tanaka was the first arrest of a former Prime Minister in the history of Japanese politics.

(i) "The Aftermath of the Lockheed Scandal". Japan Quarterly. January/March. 1977. Vol XXIV. P13.

But this was really only the tip of the iceberg. In October 1976 Miki agreed to demands not to publish the names of forty four 'grey' members of the Diet who were known to have received Lockheed money but could not be prosecuted because the procurator could not prove that the funds were bribes. This broke his often repeated promise to produce a full Lockheed disclosure. He did so probably to reduce the mainstream's pressure upon him and to strengthen his position as P.M. But the mainstream was not satisfied. "To let Miki remain in power longer would be to throw a monkey wrench into the running of Japan Inc and even menace its existence: Miki must go".<sup>(i)</sup> The electoral decline of December 1976 "...gave the mainstream an excuse to oust Miki. Miki was to blame for the debacle and so must step down, the mainstream argued.<sup>(ii)</sup> Miki stepped down". Fukuda, a mainstream favourite, became P.M. So ironically, the Lockheed scandal had allowed the mainstream to reassert itself. The ruling coalition of Japan, Japan Inc, was in good order.

The Lockheed scandal also has international implications. One Japanese writer commented: "...the Lockheed scandal has not only brought into relief corruption in Japan and between Japan and the United States, but also suggests corruption within the political and business circles of the United States. The intimate relations that existed between the Nixon Administration and Lockheed are well known in Japan. Also, the Japanese people still remember suspicions once rife that the U.S. government in negotiating a textile import control agreement with Japan came out with demands based on the interests

(i) "Fukuda Regime As It Is". Japan Quarterly. April/June. 1977. Vol. XXIV. No. 2. p135.

(ii) *ibid.* p136.

of certain American politicians. The nations named in the U.S. congressional investigations have been Japan, the Netherlands, West Germany and many others, but, not in the United States itself. This fact, many Japanese people believe, implies a U.S. attempt to cover up corruption in America. <sup>(i)</sup>

Shortly after the Lockheed scandal had emerged details of a second and similar scandal became known. Leading Japanese daily newspapers carried front page information about a supposed relationship between leading politicians of the L.D.P. and South Korea's Central Intelligence Agency. It was stated that the Korean CIA had been active in channelling considerable sums of money to Liberal Democratic legislators to expedite a long term aid and credit agreement.

#### (5) Conclusion

This has been a study of the attitudes of various Japanese political groups towards multinational companies. It has also attempted to understand the process of liberalisation in Japan. As has been discussed, Japan has become a pluralist nation since its wartime defeat. This pluralism has been grafted onto a relatively isolated people with a unique nationalist culture. It is against this background that the gradual Japanese liberalisation must be understood. It is an error to see liberalisation only in terms of the choices made by the Japanese government, because this government has to operate within the pluralist structure and against the background of nationalism.

(i) "Lockheed Scandal: Multinational Bribery and Japan". Japan Quarterly. April/June. 1976. Vol XXII. No.2. p111.

Informed Japanese persons are aware of this problem as the following selection of quotes from the Japanese press indicates:

"But in their language, culture, manners and customs, and social relations, even these businessmen who work in the international economy never lose their intrinsic qualities as Japanese who have been reared in an essentially isolated civilization using an isolated language. Japan as an isolated civilization is always riding pickaback on them. There can be no cosmopolites." (i)

"Despite the development of personal contacts and means of communication with Europe and America, Japan is still fettered by a political, economic and social structure that keeps her on the lower fringe of the advanced nations." (ii)

"What is above all called for is measures to modify the structure of the economy which at present is keyed to exports. There is little prospect of anything being done in the present circumstances of the thin majority of the ruling party in the Diet, Prime Minister's Fukuda's weakening authority within the Liberal Democratic Party and a falling off in the strength of the bureaucracy relative to business." (iii)

"Not an inch of headway can be made towards changing the industrial fabric or liberalising farm imports so long as the acquired privileges of Japanese are permitted to remain intact." (iv)

One example of the constraints on the Japanese government is the recent NTT affair. The Japanese government wanted to open up NTT, the state telephone and telegraph monopoly, to foreign multinational suppliers. Up to 1979 only four percent of NTT purchases were open to competitive bidding; only 0.5 percent came from overseas - mainly software. NTT's total

- (i) Sugioka Sekio. "Big Economic Power with Isolated Culture" Japan Quarterly. January/March. 1977. Vol.XXIV. No.1. p39.
- (ii) Yanada Hiroshi. "From the Newspapers and Magazines". Japan Quarterly. January/March. 1978. Vol.XXV. pIII4.
- (iii) "Trends and Topics". Japan Quarterly. October/December. Vol.XXV. No.4. p385.
- (iv) Yanada Hiroyoshi. "From the Newspapers and Magazines". Japan Quarterly. April/June. 1978. Vol.XXV. No. 2. p225

purchases per year averaged 3 billion dollars. Many groups jockeyed for influence in this affair. In February 1979 a number of full page advertisements appeared in Tokyo newspapers with the headline 'We're in Trouble'. The advertisements were part of a five hundred thousand dollar advertising campaign against allowing any opening up to foreign suppliers. They were placed by two communications industry associations. They were supported by trade unions who wanted to protect the industry's one million jobs. NTT was also against on the grounds that it would make standardisation more difficult to obtain. MITI was reluctant to commit itself one way or the other. The Foreign Ministry wanted a ten percent foreign input by 1978.

It is in such contexts that the process of liberalisation must be understood.

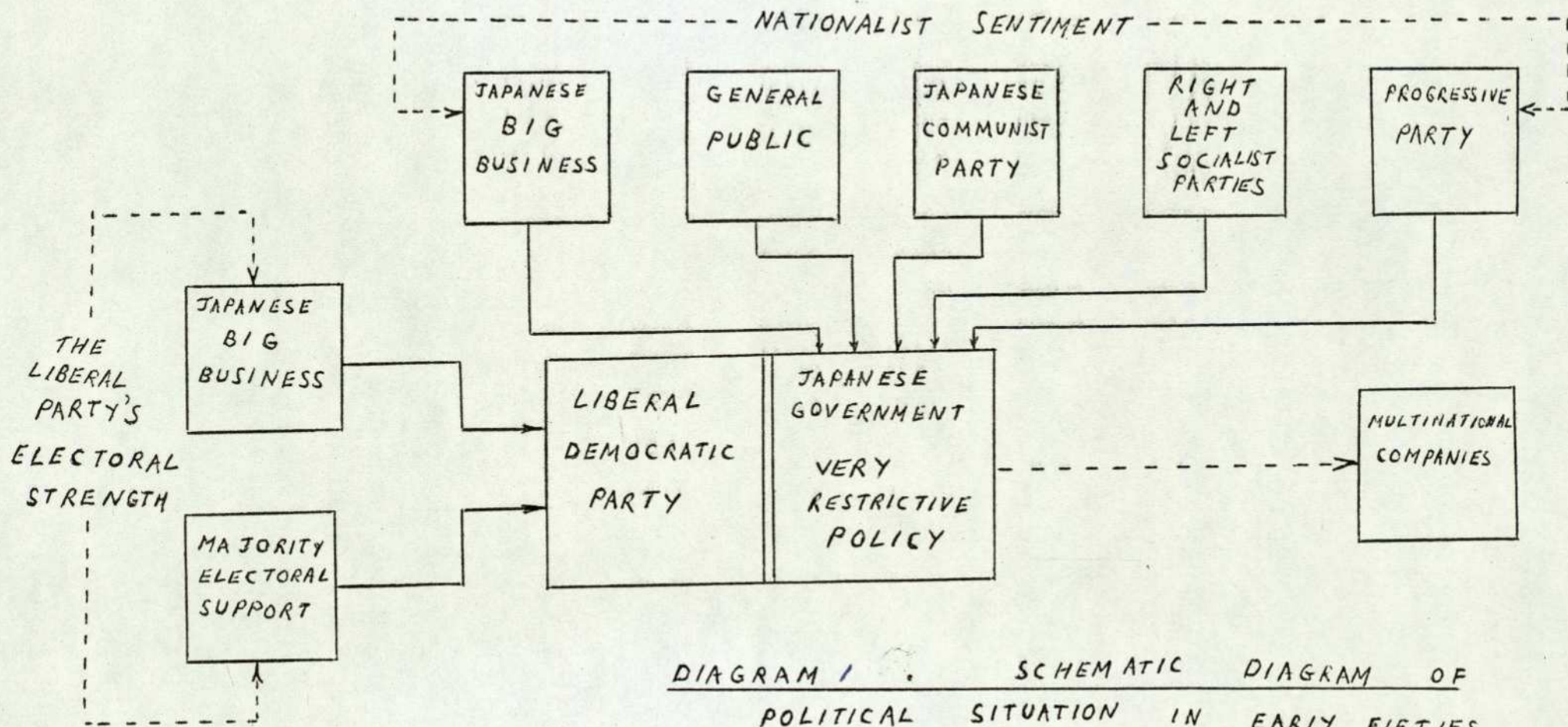


DIAGRAM 1 . SCHEMATIC DIAGRAM OF  
POLITICAL SITUATION IN EARLY FIFTIES

COMPILED BY AUTHOR

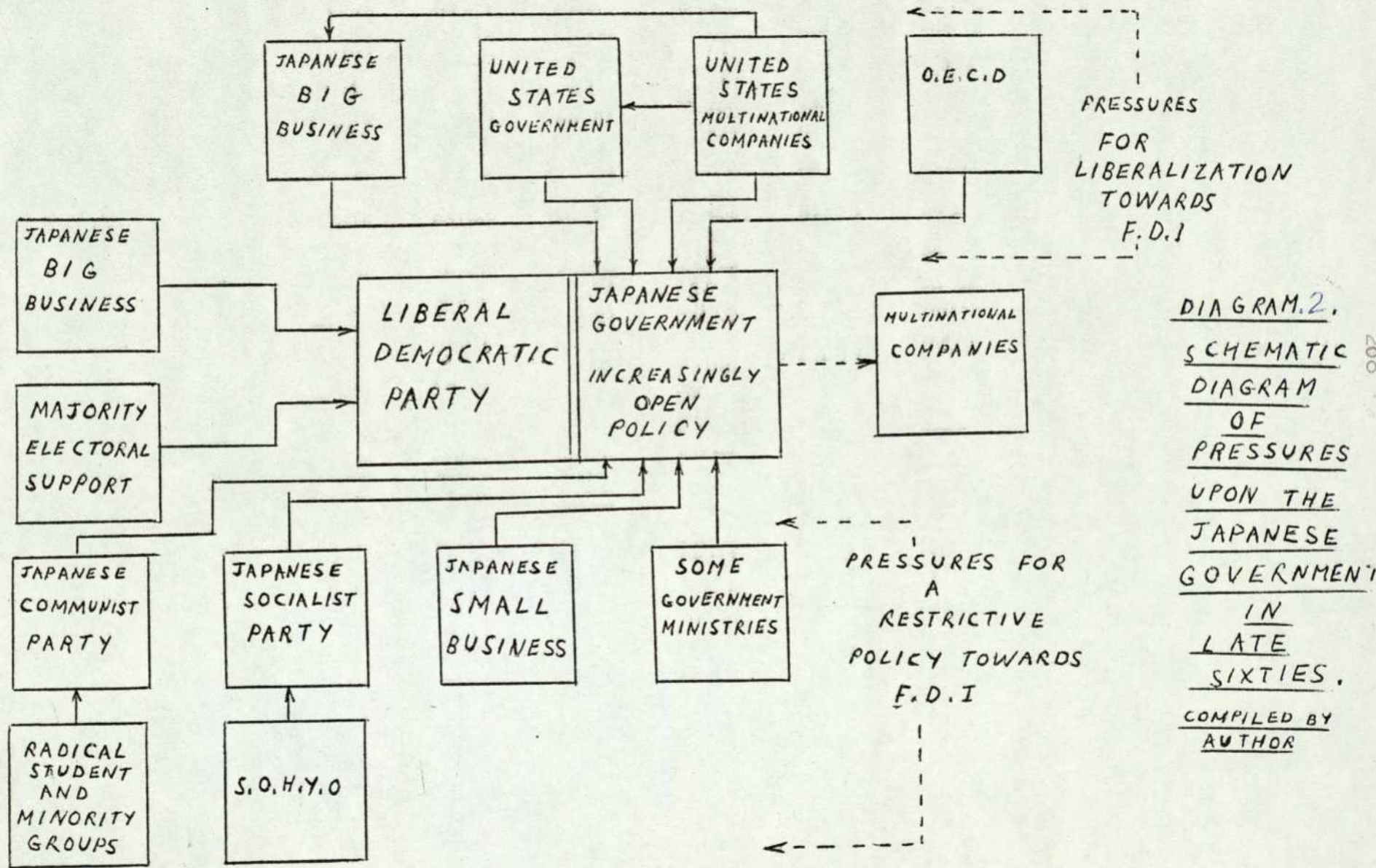


DIAGRAM.2.  
 SCHEMATIC  
 DIAGRAM  
 OF  
 PRESSURES  
 UPON THE  
 JAPANESE  
 GOVERNMENT  
 IN  
 LATE  
 SIXTIES.  
 COMPILED BY  
 AUTHOR

SEATS IN DIET GAINED IN ELECTORAL YEAR													
POLITICAL PARTY	1949	1952	1953	1955	1958	1960	1963	1967	1969	1973	1976	1979	
RIGHT WING SOCIALISTS	30	57	66	67									
LEFT WING SOCIALISTS	16	54	72	89									
RIGHT AND LEFT WING SOCIALISTS UNITE INTO JAPANESE SOCIALIST PARTY					166	145	144	140	90	118	128	107	
SECTION BROKE FROM J.S.P. TO FORM DEMOCRATIC SOCIALIST PARTY							17	23	30	31	19	29	35
LIBERAL PARTY	285	240	234	112									
PROGRESSIVE PARTY	67	76	85										
SECTION BROKE FROM LIBERAL PARTY AND JOINED PROGRESSIVE PARTY TO FORM DEMOCRATIC PARTY				185									
LIBERAL AND DEMOCRATIC PARTIES COMBINE INTO LIBERAL DEMOCRATIC PARTY					287	296	283	277	288	271	249	248	
JAPANESE COMMUNIST PARTY	35	22	0	1	2	3	5	5	14	28	17	39	
KOMEITO (CLEAN GOVERNMENT) PARTY. FORMED 1966.								25	47	29	55	57	

TABLE (3). JAPANESE ELECTORAL FORTUNES 1949 TO 1973. THE DIET HAS 486 SEATS. COMPILED BY AUTHOR.

## CHAPTER 7.

CONCLUSIONS: NATIONAL GOVERNMENTS, POLITICS AND ECONOMICS,  
AND A STRATEGY FOR THE CONTROL OF MULTINATIONAL COMPANIES.

Most discussion of the control of multinational companies is unsatisfactory. An analysis of multinational companies is carried out and then the conclusion is drawn that they must be controlled and the usual choice for this is some form of international organisation. This is unsatisfactory because one type of organisation is analysed - the multinational company - and then another - usually an international control organisation - is suggested as being suitable for control without equivalent analysis. The task faced here, in the light of the preceding analysis, is to develop a strategy for the control of multinational companies. The strategy may not be successful in all cases but it is based upon an analysis of organisations of control and not of the organisations to be controlled and is thus grounded in realistic possibility.

Any strategy arrived at will have ideological implications. After all it will be designed to control multinational companies and the necessity for control is itself an ideological assumption which no manager of a multinational company would accept.

What constitutes a successful control response? The ideological assumption made here is that it is the successful conclusion of the control response that a national government wants to make. It is the intention of the national government with respect to the multinational that sets the perspective. To take the national government as the defining agent of course implies a choice. This partly flows out of the preceding analysis. At the end of Chapter 4 an international control organisation was ruled out. The analysis of group

responses showed that there are considerable weaknesses associated with this type of control. The study of OAPEC shows that for successful group control to survive for a period of time a very strong bond must exist between member countries and they must share similar economic relationships. This is rare among groups of countries in the world and this rules the group out as an automatic choice as a vehicle to develop control responses, although they do have a role to play.

But a number of other reasons can also be given for choosing the national government as the agent to define and implement control responses. These will now be outlined:

1) William Rogers has written: "I would like to move into some broader perspectives. It seems to me that the two really successful institutions on the world scene today are the nation state and the corporation for profit. All the rest, at least in Kissingerian terms, can be discounted as lacking power and consequence. And again to oversimplify it is the nation state that monopolizes political power and it is the corporation for profit that monopolizes economic power. The two are relatively uncontrolled except to the extent that the corporation for profit is occasionally regulated by the nation state. Of course, that regulation is only limited to the small patches controlled by each respective nation state." (i) William Rogers states that it is the nation state which monopolizes political power. Within the nation state it is of course the national government which monopolizes it. The national government as a species of political group, is the best organised, most powerful and most effective. This is not to say that they are always

(i) William Rogers. "Statement". From Don Wallace. op cit. 1973. pp258-259.

organised, powerful and effective: but they are more so than any alternative.

2) The national government is the most likely centre for the development of, and implementation of, surviving coherent policy programmes. It is true that in many countries governments are short lived. Many political structures suffer a rapid oscillation of government and a rapid oscillation of policy. Yet if one does not look to governments for coherent policy programmes, where does one look? On a worldwide basis no other group can be looked upon so hopefully as national governments for these programmes and such are necessary for effective control responses to multinational companies as they are on-going and require on going control responses. There is one escape from this: the nationalisation of all F.D.I. and a ban on future investment, but few countries can contemplate this.

3) The national government is the group most suited to interpret and represent 'national ideology' which is one important basis of control responses to multinational companies. The development of national history gives a country a broad and vague ideology. The national government represents this ideology in a way that no other group can. No international organisation could be sensitive to its subtleties and the way the national population is attached to these long held attitudes and beliefs. International organisations have a way of developing an organisation view, often closely related to their most powerful member. The national government is a necessary intermediary between national ideology and multinational companies within its territory.

4) Multinational companies exist within the territory of national governments. No other group is so closely attached to a territory as is the national government and so for no other group is the confrontation with multinational companies so stark. National business groups may face the competition of multinationals but they have no other responsibility than successful competition.

To delegate the authority to make control responses to an international organisation would remove power from the actual point of confrontation and diffuse it among countries. The argument for international control organisations is that multinational companies operate internationally and so, therefore must a control organisation. No national government, says the argument, has the power to control multinationals. But the logic of such an argument seems lacking. The national government has only a limited ability to control multinationals, so to remedy this, it must participate in an international control organisation in which it will only be one voice among many. Little seems to have been gained. Further, the power of the international control organisation to implement control responses must flow from the power of the national government within its own territory, either through national government institutions or through some method of delegation. The international control organisation itself has not the power to implement control responses. So, whoever takes the decisions, the point remains that it is the national government within its territory that will be necessary to implement them. It seems unlikely that many national governments, in wanting to control one organisation, will accede this to an organisation in which it will be one voice

among many.

5) National governments are concerned with the national interest. No other group down from the national government to smaller national groups or up from the national government to international groups is so concerned. The point is obvious: the national government more or less defines the national interest. No other group can act so effectively in the national interest, or be so in touch with public opinion in the country, or understand the subtleties of the national political situation. No other group will be so informed of the precise economic situation from day to day, week to week, or month to month. At times critical speedy decisions may be necessary in the national interest and a national government would find it difficult to accept directives from another organisation as to what should be its policy to the very important groups that multinationals are and the long delays that this would probably involve.

For these reasons the national government is chosen for the centre from which control responses to multinational companies must be made. The national government will have to operate in the political environment in making responses and will obviously need some freedom of political operation to do this. Thus a relevant question is the extent of freedom of operation which national governments have particularly with regard to economic matters, as multinational companies are mainly economic organisations.

Politics and economics are closely intertwined. Earlier politics was defined as the 'process of decision taking and implementation'. This includes, at the level of interest here, groups and individuals, including the government, having different ideologies and using bargaining postures

to influence decisions. Economics can be defined as the methods and arrangement of production, distribution and exchange. All political ideologies contain views on economics and no economic arrangement is without ideological implications. Governments and individual politicians carry ideologies and most economic decisions are taken, wholly or partly, with ideological considerations in mind. On the other hand economics may at times have its own imperatives which overrule ideological considerations: a chancellor may have to take certain decisions with the health of the economy in mind which are not at one with his ideological preferences.

This intermingling of politics and economics makes it difficult to distinguish between economic factors and political factors in the determination of control responses. Yet some attempt at a weighting is necessary if the political freedom of operation of national governments in making control responses is to be understood and utilised in a strategy for the control of multinational companies. An answer to this may come from a consideration of the case studies above.

The 'swing left' occurred in India as the Cold War developed and Russia became more influential. Also India was reacting against its colonial past and was intent on non-alignment and a moderate economic nationalism. These and unemployment began to change the mood of the country to the left and the left in the Congress Party was strengthened in elections as was the Praja Socialist Party. Some persons made judgements that a move to the left would stave off Communism and others believed that private enterprise could meet the country's economic goals. Thus, generally, attitudes and pressures within the country were for a move to the left and the control responses to multinational companies became restrictive. This

was mainly political: economics enters in only a small way with the concern about unemployment and the efficacy of private enterprise.

Economic reasons appear to be more important with the 'swing right': bad harvests, the need to purchase arms, and the desperate need for foreign exchange were important factors. Yet there were also political reasons: electoral support for the left was declining; many sections of opinion did not want further moves to the left; the West was exerting pressure against the move to the left as was F.D.I. in some sections of the economy.

The Indian example is basically a study of the benefits of non-alignment and being between the super powers. The policy of non-alignment was, of course, based upon a political choice; a political choice which brought many benefits. It also allowed the Indianisation policy which began in 1973.

A comparison can help to understand further the role of economics and politics in determining control responses. There are obvious differences between the discussed control responses of France, Germany and Britain and those of Mexico, Cuba and Iran. The latter three countries acted directly upon multinational companies. In each case a new, powerful, and independent political leader initiated the change of control response. The changes were apparently made hastily and were ill-considered. The result of the changes in control response in each case was the application of an economic embargo by the parent countries and parent multinationals in an attempt to reverse the new control responses. In each case the international political environment played a part in that a third country, or group of countries, influenced the final outcome.

The first three countries acted indirectly by developing or in the case of Germany trying to develop, countervailing 'national champions'. These control responses were not instigated by new political regimes; De Gaulle had been in power some time although new men did come to the top positions in both Britain and Germany. The responses were considered and slow in fruition. The parent country of I.B.M., and I.B.M., took no action other than verbal protest to change the new control responses. To generalise these differences, it might be said that the French, British and German responses were defensive and the Mexican, Cuban and Iranian were aggressive.

Why is there such a difference between the two? Part of the answer must be in the differing political structures of the two sets of countries. Mexico, Iran and Cuba, at the time of the changes in control responses, were centralised, perhaps dictatorial, regimes with leaders who could act quickly and decisively. There were few political restraints within these countries which might have modified the aggressive control responses and the leaders were prepared to risk the antagonism of the parent countries and multinationals involved. By comparison France, Britain and Germany were pluralist societies tightly intertwined into the international capitalist system. France and Germany were bound by the Treaty of Rome, and Britain had much direct investment in the United States. Similar action by these three countries to that of Mexico, Iran and Cuba would have had enormous repercussions both within their pluralist structures and within the international capitalist community.

If aggressive control responses were not possible, France Britain and Germany had the capacity for defensive control responses. They had sufficient economic potential - financial, technological and market - to go for countervailing national champions. Smaller countries of Europe, Belgium, Netherlands, and Italy, who also faced the I.B.M. challenge but which had smaller economic potential, did not do so. On the other hand Mexico, Iran and Cuba were not able to go for defensive control responses. They did not have the economic potential to develop entirely separate oil industries and if they wanted more control they had to go for takeovers.

A second economic reason is that the two sets of countries confronted multinationals that were by nature different. The multinationals facing Mexico, Iran and Cuba were resource orientated whilst France, Britain and Germany faced manufacturing ones. Resource orientated multinationals have to go where the resource is situated if they are to supply their markets. Mining requires an immediate large investment to extract the resource. An investment is complete and working in itself. Thus resource orientated multinationals are vulnerable. In comparison manufacturing multinationals are less vulnerable. They can develop slowly from manufacturing in the parent country, to having selling agents abroad, to assembly plants and on to complete manufacturing facilities. The build up may be slow and there is time to assess the political environment before entry and a manufacturing capacity is not completely dependent on any one factory.

These factors - political structure, economic capacity, and the nature of the multinational influenced the control responses.

Yet the six governments concerned here had one overriding political factor in common: an ideological motivation.

Cardenas was a 'humanitarian' nationalist, Mossadeq a 'fervent' nationalist, and Castro a nationalist who turned Marxist;

De Gaulle was a nationalist who was worried about American domination of the French computer market. The nationalism of Britain and Germany was less pronounced but was present:

Wilson and Benn both made speeches expressing concern about foreign economic domination and similar sentiments were expressed in Germany. Economic nationalism, from mild to fervent, prompted these six national governments to change their control responses. This motivation, based to some extent on economic realities, is a component part of political ideology and its basic assumptions are not dictated by economic necessity but rather by a vision of nationhood.

With the Arab/Israeli conflict the multinationals were caught up in what was basically a political dispute. Western countries especially the United States, were giving support to Israel and internecine pressures built up among Arab countries for more restrictive control responses to multinational companies. It is true that there had been a slow move to harsher control responses before the conflict but the development of the Arab/Israeli affair increased rapidly this movement.

In responding to the multinationals in the North Sea the Labour and Conservative Parties espoused different policies even though they were having to work within a tight matrix of political and economic pressures. Despite very strong balance of payments demands the two parties would have embarked on very different control responses in 1974. When they came to power in 1979, the Conservative Party, taking into account the crisis situation in oil supply and price pertaining at the

time, continued with the previous Labour Government's participation policy.

The study of Japan indicated how Japanese nationalism affected control responses to multinational companies. After World War II control responses were restrictive: Japan was economically weak and the study of group attitudes indicated that they were mainly dominated by nationalist sentiment. By the late sixties the economic situation had changed. Japan was economically strong and strong external group pressures for liberalising control responses developed. Thus an economic factor - the change from economic weakness to economic strength - can be seen to be an important basis for change as it kept nationalism at bay and it provoked an international reaction to Japanese restrictive economic policies. But even behind this was the Cold War. The West at the beginning of the post war period was concerned with Japan as a 'bulwark against Communism' and was prepared to tolerate restrictive policies. With Japan's economic strength and the lessening of tension the West was less prepared to do so. The subtle inter-relation between economics and politics was again demonstrated.

It might be argued that the perspective adopted in this thesis is too wide. To understand control responses is it really necessary to see them as participants in a scenario which includes the Cold War and political ideology? This examination of the political and economic factors determining control responses suggests that it is necessary. It is apparent from it that it is political factors which usually determine the nature and outcome of control responses. A political process brings to power national governments who as carriers of ideology will have views as to the correct arrangement of production, distribution and exchange. A

political process will also remove national governments and bring new ones. The national government must operate in the political environment, both national and international. The national political environment may allow dramatic and rapid changes in control responses or it may slow them down and limit them. The international political environment may act to make a control response less successful through embargo or more successful with aid. The tension and conflict in the international political environment may allow freedom of operation or it may limit it.

Multinationals are, of course, economic organisations and occasionally stark economic necessity may prompt a certain type of control response. Yet even here political choices can be taken which prevent such a situation recurring. It is political reality and political decisions which ultimately determine control responses.

Thus a political strategy for the control of multinational companies must be based upon possibilities for action within the political environment. It will of course involve political decisions concerning economics and at times, perhaps, take account of stark economic necessity.

#### A POLITICAL STRATEGY FOR THE CONTROL OF MULTINATIONAL COMPANIES.

In the following no assumption is made concerning the most desirable control response to multinational companies. Many national governments throughout the World have multinational companies making an important economic contribution but wish to have adequate control over them and may eventually wish to replace them with national concerns. But whatever the desired control response the following offers the possibility of

achieving it. The national government must act with respect to the international political environment, the possible group response, and the national political environment.

- (1) How the national government should act with respect to the national political environment.

It is of course in this environment that the confrontation occurs: the national government has to develop control responses to multinational companies. Any strategy for control should start with the most obvious measure which is to ask the multinational to cooperate in a change of control response. If it agrees then the following is obviously unnecessary. It is only when the multinational will not cooperate that the national government should consider the following possibilities.

The second and obvious next step is to accumulate knowledge. It is desirable to gain a wide range of information about all the multinationals operating within the territory of the national government although this must be knowledge of its international as well as its national operations. In what fields do they operate? Where do they obtain their raw materials? Where are their major markets? Who are their major competitors? Is the competition against these successful and profitable or are the competitors doing better? Also, as much detailed knowledge as possible must be obtained concerning financial and product flows in the various international parts of these multinationals. An assessment of the 'dependency' of the multinationals on its host countries is made, including the territory of the national government concerned. Is a multinational dependent upon one or a few countries for its supplies of raw materials or its major markets? Where are its major capital investments and how

important are these to its operations? How important is the territory of the national government concerned for the operations of these multinationals? What percentage of its raw materials or its markets exist there? Are there major capital investments there? This is vital information which will possibly indicate the willingness of a multinational to acquiesce in a move to a more restrictive control response.

Having assessed the dependency of the multinationals within its territory upon that territory, the national government must then assess its dependency upon those multinationals. This is wider than just an economic assessment as political judgements will have to be made concerning the possibility of implementing and sustaining control responses. What influential groups in the country are 'for' or 'against' multinational operations there? If a multinational or multinationals are allowed to exploit raw material resources or markets will there be widespread discontent? What business or other groups will be affected by any planned change in control responses? Are there national companies which can compete with the multinationals? Or are there national companies dependent upon multinationals? Raw economic data such as the contribution of multinationals to the balance of payments and gross national product, etc, is also necessary. Also important is the level of technological input and whether or not alternatives to this are available. A national government is of course part of a political structure which may be stable or unstable and must assess its own possibilities for developing and sustaining control responses to multinational companies within this. A pluralist structure such as Britain's may slow down the implementation

of control responses to multinational companies or limit the possibilities. A more dictorial structure may allow more rapid responses to be implemented. Thus the dependency of these two types of organisation upon each other can be arrived at.

With this information will come expert knowledge. If multinationals appoint money managers to protect or speculate with their money holdings around the World, national governments must have multinational currency experts who study and advise as to how to combat this. If multinationals engage in transfer pricing then the multinational experts should advise upon tax manipulation to counteract this. The national government must try to play the same games and win if they are otherwise content with the control responses they are making. Knowledge and expertise may alone be enough to be sufficient to allow a harsher control response. If a multinational is dependent in some way or other, knowledge of this may allow the national government to successfully argue for a harsher control response. If a multinational is vulnerable the national government might make use of the 'exaggerated threat'. That is to threaten a harsher control response than is desired in the hope that the multinational will settle for something which is satisfactory to the national government.

At the level of the national political environment the national government has further possibilities to achieve its will with respect to intransigent multinationals. There is the development of a countervailing national capacity in the same area of operation or an attempt to stimulate the competition of multinationals from different parent countries within the same area. The countervailing national capacity may be public or private, but its development will be a

permanent threat to a competing multinational. As it grows and becomes more competitive this national capacity may allow the national government to take over the multinational and its operations. The possibility that this might happen may make a multinational amenable to a harsher control response.

Competition of multinationals within the same area may allow the national government freedom to implement harsher control responses with respect to them. Multinationals compete on a worldwide basis and one multinational cannot afford to lose ground with respect to others. Because each multinational is concerned to compete successfully with its multinational competitors harsher control responses may be more readily accepted. One multinational in isolation is unlikely to resist a curtailment of its operations as this would mean that its competitors would expand and prosper. If all multinationals were inclined to refuse one might come forward to accept and gain competitive advantage over the others. If the multinationals stood solidly together in refusing to accept the demand for a harsher control response, then it might be possible to invite an outside multinational to come in. If not, then possibilities at the group or international level might be considered.

- (2) How the national government should approach the possibility of group control responses.

The OAPEC discussion showed that unified group action can be successful and the multinationals concerned suffered setbacks although they were not the main objects of the unified group action. Host governments in considering the possibilities for the control of multinationals should consider the possibility of participation in a group remembering that groups are susceptible to a number of weaknesses and are unstable. Again

the first step is to acquire relevant information which must include an assessment of the dependency of those multinational companies present in the territory of the national government concerned and which are shared with the other possible group members.

Unified group action among host countries requires considerable common interest if any chance of sustained success is to be achieved. This common interest might be something unrelated to multinationals but which stimulates common action with respect to them or it may be something more obviously related to them. It could possibly be that a group of countries in coming together will control a larger percentage of the World's supplies of a raw material or a larger percentage of the market for a particular product. Here the common interest would be in making a set of multinationals dependent on the group. For a number of host countries to come together and act in unity in some respects, part of which will be the developing of common control responses to multinational companies, considerable problems have to be overcome. As noted above, in addition to a strong common interest, there were also centripetal forces within OAPEC which contributed to its unity. Stresses and strains upon any unity achieved will undoubtedly develop perhaps caused by the weaknesses outlined in Chapter 5 above.

Groups are unstable and for this reason the concept of a permanent group implementing enduring control responses is an unrealistic aim. A better concept of group action is as a temporary, functional arrangement to achieve specific ends in specific situations and then as stresses and strains develop to be dispensed with. This lessens the depth of a common interest required. All that is required is a

temporary unity of interest with respect to multinational companies.

As the World's situation changes, as new raw materials come to be demanded, or as new products are produced and new markets develop, two or more countries may come to have temporary interests with respect to multinationals in common and may agree to common action to achieve desired control responses. In coming together they will try to create a temporary strategic dependency of a set of multinationals upon them. Having achieved their aim the group can disband before inevitable stresses and strains break it up or weaken it.

Because groups are unstable it would be desirable to have alternative bargaining possibilities which might lie in the national political environment or the international political environment yet to be discussed. But a national government should continually bear in mind changing situations and the possibility of joining with other host countries into unified group action.

- (3) How the national government should act with respect to the international political environment.

Again the first step is to gain a good knowledge of the international political environment. What is the state of worldwide big power competition? What are the main current interests of the big powers? What are the main trouble spots? The national government must consider its position with respect to the worldwide competition. Can the tensions be exploited in helping to achieve a desired control response? Is the United States, or Russia, or China, or any other influential country likely to be interested in future developments in the national government's territory or area of the World?

If so can these be used to gain aid or concessions from multinational companies? Can investment by multinational companies be counterbalanced by investment by a Communist country? Could more freedom of operation with respect to multinational companies be gained in this way? If the United States sees inputs from a rival world power will it prompt its multinationals to invest on better terms? If multinational companies do not cooperate with national government's desire to change control responses will any other country come to the rescue with aid and resources?

Such policy judgements are hard to make and difficult to project into the future, but they are little more than the type of judgement any Foreign Minister in a national government makes daily in the wide range of foreign matters that have to be dealt with. Such judgements are vital to a national government in a whole range of matters and not, of course, just with respect to multinational companies. To use such a strategy in the international political situation it would seem advisable not to fall too strongly into one sphere of influence or to be too strongly committed to the international capitalist system. Cuba seems to have made the mistake of being over committed to international capitalism and then with a change of national government and a change to a restrictive control response towards some multinationals, was forced to swing over to and become strongly committed to the Communist system. This Cuban experience compares unfavourably with India's in the years discussed . By not becoming over committed to either Russia or the United States India maintained a freedom of manoeuvre with respect to both and could turn from one to the other without the repercussions that occurred in Cuba.

Two questions arise here: the first concerns the strategic importance of countries with respect to worldwide competition and tension. Both India and Cuba did have strategic importance. Cuba, so close to the U.S. coast, made the U.S. militarily vulnerable when this country fell under the influence of Russia. Similarly, India the 'heart of Asia' was very important in Cold War strategic terms. But do all countries have such strategic importance? Can they so situate themselves with respect to big power competition that a desired change of policies with respect to one set of economic resources can be counterbalanced with another set of economic resources from another source?

The present state of big power competition seems to continue on a worldwide basis. The recent Angola struggle indicates this. The centre of competition changes but continues: it moved from Europe to South East Asia and on to Africa and the Middle East. Yet all countries have a continuing importance to any balance that is achieved in any area and threatened or real change of allegiance can re-stimulate big power interest.

The second question concerns those strategic countries which are deeply embedded into the international capitalist system. Can a national government embedded into this bloc implement restrictive control responses to multinationals? The Chilean experience outlined earlier indicates the possible reactions to a harsh change in control responses by the variety of interested groups involved. For the country wishing to remain solidly in the international capitalist system where there is the possibility of counterbalancing one multinational with others or developing national capacity as outlined earlier.

This thesis has concluded that there is no escape from the national government as the basic unit for the control of multinational companies. Only national governments have sufficiently coherent political and economic objectives to produce coherent control responses to multinational companies. Only national governments can produce control responses with sufficient muscle behind them to make them work. As was mentioned earlier, a successful control response is the successful conclusion of a control response that a national government wants to make. This thesis makes no judgement as to what constitutes a correct control response. In this sense the thesis is objective and does not fall within a particular school of thought or theory of politics or economics: it is not Marxist or monetarist, for instance, and does not argue for a particular control response with regard to multinational companies as such committed theses would.

The lessons of this thesis are that national governments must keep the ability to take decisions in their own hands and view the political environment pragmatically. Useful to this is an understanding of the political environment at two inter-related levels. These were briefly alluded to in Chapter 2. The first level is that of political ideology. Political ideology is expressed in terms of propaganda and rhetoric. There may be calls to be loyal to the anti-communist cause, for instance. The second level is that of bargaining postures. Here political groupings will use what postures they can to try

to achieve desired results. It is mainly at this level that the strategy for controlling multinationals, outlined above, should be understood. Multinationals are seen as both bringers of benefits and threateners of national sovereignty. Any national government will wish to maximise the first and minimise the second. A national government will look at the political environment and ask itself, "What bargaining posture is most likely to achieve the desired result?" The above strategy suggests possibilities to this end. The possibilities include a non-alignment similar to that of India, the development of working relationships with non-capitalist countries or companies, or the opportunistic joining with a few other appropriate countries into a functional, perhaps short lived, group response. Behind these bargaining postures, and any others along similar lines, is a preparedness to manipulate the political environment to the desired end.

One further point illustrates this: what should be a national government's attitude to international control organisations? As it has been argued that international control organisations are doomed to failure, should membership ever be contemplated? The answer is yes. If any benefits will accrue to the national government it should join to gain them. Possible benefits might be, for instance, access to a gathering store of information in the form of monthly bulletins. Yet, because it has been argued that international

control organisations are doomed to failure, the national government must maintain its freedom to take decisions with respect to the political environment at large. The national government must protect its sovereignty. Other bargaining postures must be continually assessed as the political environment changes.

So, in its desire to control multinational companies, the national government will act as a self-interested manipulator of the political environment.

## APPENDIX: A NOTE ON SOURCES.

This thesis draws together a wide range of sources. The author chose a wide ranging analysis of the subject because breadth is needed if general political conclusions are to be drawn. A single detailed case study would not be suitable from which to draw general conclusions. Given this need for breadth reliance on secondary sources becomes inevitable.

The sources include well documented and established texts such as Kidron's 'Foreign Investments in India', and Tanzer's 'The Political Economy of International Oil and the Underdeveloped Countries'.<sup>(i)</sup> Specialist material for the case studies is drawn from indigenous publications. For instance, material is drawn from the 'Economic and Political Weekly' which is an Indian Publication written by Indian specialists. Similarly, the Japan Quarterly supplies material for the Japanese study. This is a Japanese publication with Japanese specialists writing for it. Both of these publications are translated into English. Given the decision to take a broad approach, reliance on material in English also becomes inevitable as no researcher would have the required language skills to read non-translated material from the many countries included.

Often the specialist indigenous material refers in its footnotes to the established texts. For instance, one article

(i) Michael Kidron. 'Foreign Investments in India'. Oxford. 1965. Michael Tanzer. 'The Political Economy of International Oil and the Underdeveloped Countries'. Temple Smith. 1969.

in Economic and Political Weekly - 'Approach to Foreign Collaboration' by K.K.Subrahmanian (April 8th, 1979 pp613-617) refers to Kidron's book in its footnotes. Similarly, Saumitra Chaudhury's 'Nationalisation of Oil Companies in India' (March 5th, 1977 pp437-443), refers to Tanzer in its footnotes a number of times. This shows that even with indigenous specialists these books are read and accepted as sources of material.

Material for this thesis is also drawn from publications such as The Times, The Guardian and The Economist. The articles in these are, generally speaking, not the product of scholarly academics although many anonymous articles in The Economist are written by established academics. Often established texts rely on such publications as these for material. For instance, Kidron's book contains many references to The Times - see footnotes on pages 4, 28, 29, 30, 93, and so on; material from The Economist is also used - see page 29. Tanzer, in his book, sees fit to include a quote from The Economist - see page 47, and to include statistics from this source - see page 48. Included in both books is much material drawn from similar publications. Tanzer makes many references to The New York Times and to the Eastern Economist, for instance. The extensive use of, and reference to, such publications indicates that they are accepted as a reliable academic source. For up to date information they are often the only source available. It is true that the bias in The Economist

for instance, is often more explicit than in more scholarly texts. Yet if this is to be borne in mind and the material used sensibly it poses little problem. Even so, in this thesis most material drawn from these publications is factual, many references being statements of important persons recorded by the writer concerned.

Some check on the factual accuracy of The Economist can be made by comparing details in an article in it with those in an article on a similar topic from a more specialist source. For instance in an article in The Economist entitled 'Computers and Cokes', (June 23rd, 1979, p20 Survey), the opening sentence was

"India's foreign investment policies hit the headlines in 1977 when two of the bluest-chip multinationals, IBM and Coca Cola, announced they were quitting India rather than comply with FERA."

An article from Economic and Political Weekly entitled 'FERA: Appearance and Reality' began

"American transnational corporations Coca-Cola and IBM, both the largest in the world in their fields, have been asked by the Reserve Bank of India to stop their operations in India for failing to comply with the provisions of the Foreign Exchange Act, 1973." (April 21st, 1979, p734)

Later in The Economist article the following statistics were stated:

"Of the 880 companies covered by FERA, over 90 percent have now satisfied its requirements or shortly will do so." (p 20 Survey)

Later in the Economic and Political Weekly article the following similar statistics were given:

"The Fera came into force on January 1, 1974. As required under the Act, 881 foreign branch and rupee companies applied to RBI for permission to continue their business in India. RBI's Annual Report, 1977-78, states that 814 cases have already been disposed of." (p736)

It is to be noted here that 814 is ninety one percent of 881 and that The Economist article stated these figures basically correct. However, the Economic and Political Weekly article goes on to give much more detail which The Economist does not. It goes on:

"In 321 cases it was not necessary to take permission from RBI or to dilute foreign equity; 66 companies already had foreign equity at the required levels: 343 companies have been directed to dilute foreign equity to 74 percent, 51 percent or 40 percent, depending on the nature of the activities of the companies. Fifty four companies are winding up their operations in India. Applications from 30 companies were rejected either because they were dormant for several years or because continuance of foreign investment in those activities was considered undesirable." (p736)

So, whilst The Economist article was accurate, it lacked the depth of detail to be found in Economic and Political Weekly.

A final justification for these varied sources is their very variety. The basic development of the argument of the thesis and its conclusions do not rest upon any one quote, piece of information, statistic or source. A case is built up using many types of material and sources. Error or misinterpretation in one small part or parts would not invalidate the whole development of the argument or the conclusions.

This also, to some extent, helps to overcome the problem of bias. When many sources are used to establish an argument, bias in one or a few bits of this material will not seriously injure the argument or the conclusions.

As the thesis relies entirely on secondary sources only material specifically referred to is given as references in the footnotes.

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