

THE IMPACT OF MULTINATIONAL CORPORATIONS ON
INTERNATIONAL RELATIONS
-A STUDY OF AMERICAN MULTINATIONALS-

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ABSTRACT

THE IMPACT OF MULTINATIONAL CORPORATIONS ON INTERNATIONAL RELATIONS -A STUDY OF AMERICAN MULTINATIONALS-

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This thesis analyzes the development of Multinational Corporations and their changing position and effects on International Relations. The historical evolution of multinationals with important historical milestones in their development, the definition, the concepts and their changing power capabilities and effects on nation states, international organizations and international relations will be discussed in this study. This thesis will also put forward some important case studies from the biggest American multinationals giving answers to questions such as to what extend can American multinationals effect inter-state relations or do giant multinationals became equivalent actors as nation states, what kind of interdependence do multinationals create among other actors.

Keywords: Multinational Corporations, International Relations, Interdependence, Impact on U.S Foreign Policy

ÖZ

ÇOKULUSLU ŞİRKETLERİN ULUSLARARASI İLİŞKİLER ÜZERİNE ETKİLERİ -AMERİKAN ÇOKULUSLU ŞİRKETLERİ ÜZERİNE BİR ÇALIŞMA-

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Bu çalışma Çokuluslu Şirketlerin değişen ve gelişen yapısı ile bu yapının ve elde ettikleri gücün Uluslararası İlişkiler üzerine etkilerini araştırmıştır. Bu tez çokuluslu şirketlerin tarihsel gelişimindeki önemli dönüm noktalarını, çokuluslu şirketin tanımını, kullanılan konsept ve jargonu ve bu şirketlerin gelişen ve değişen güç yapılarını ve bu yeni güç dengesinin devletleri, uluslararası organizasyonları ve uluslararası ilişkileri nasıl etkilediğini araştırmıştır. Bu tez aynı zamanda dev Amerikan Çokuluslu Şirketlerden ve onların karıştığı uluslararası gelişmelerden örnek olaylar ortaya koyarak aşağıdaki sorulara cevap vermeye çalışmıştır. Amerikan çokuluslu şirketlerinin, devletler arası ilişkileri etkileyebilme gücü nedir? Bu dev şirketler, devletlerle aynı kategoride sayılabilecekleri bir konuma mı gelmişlerdir? Çokuluslu şirketler, diğer aktörler ve kendileri arasında ne gibi bir bağ oluşturmuşlardır?

Anahtar Kelimeler: Çokuluslu Şirketler, Uluslararası İlişkiler, Amerikan Dış Politikasına Etkiler, Güç Dengeleri

To My Parents, My Aunt and All of My Friends

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INTRODUCTION

In the 20th century, multinational corporations have grown and developed in a large scale that now they are part of our daily lives. From the mobile phones, to the daily cosmetic products we use, from the cars we drive to the fuel that keeps it running, from the personal computers to the softwares on their hard disc and even from the coffee we drink to the fast food we eat, most of the products we use are supplied by multinational corporations. Their presence and significance in our lives are undeniable facts but they also have other influences on more important actors, in macro levels. Today multinational corporations are not only production centers that supply crucial and commercial goods to us. They have grown to such an extend that they start to act as an economic, political and also an influential actor. Today many multinationals are extremely powerful institutions and possess resources far in excess of most of the nation states in the world. These corporations are continuing to grow in importance. They have integrated the world economy more extensively than ever in the past and they have taken global economic interdependence beyond the realms of trade and money into the area of industrial production. Their integrating economic power evolves to an influence that can even effect political and economic relations between nation states. The size of their commercial activities requires not only economic power but also political one to control and manipulate nation state's affairs and relations. These giant corporations turn out to be power centers that can influence international organizations, nation states, relations among them and domestic affairs of their own home countries.

This study will highlight the effects of multinationals on international relations and mainly the effects of American multinationals on American foreign policy. As the most developed and appealing examples, American multinationals will be the main concern of this thesis. This study will also examine the historical evolution of multinational corporations starting from East India Company to the World Wars and finally to the multinationals of the 21st century. In this respect the argument of this study is that, multinational corporations have grown to a size that they are not anymore only economic entities but now they are influencing and sharing the political power capabilities of nation states in order to affect other states or international organizations for the sake of their own benefits. This study will use the assumptions of Susan Strange regarding the use of “structural power” and the role of multinationals in this respect.

The main reason, why this study explores the affects of multinational corporations on international relations and mainly on American foreign policy relates to three factors. First of all, I would like to underline that, nation states are not alone anymore neither in world politics nor in the use of “structural power”. They now have to share the international political arena with a non-governmental institution more than ever. Secondly, I believe that in order to comprehend the international relations, one should understand and know the actors, their roles and relations with each other clearly. Otherwise the assumptions that we make might be misleading. And finally, I would like to stress that United States, American multinationals and their influence on each other constitutes the best example to justify the main concern of this thesis, because international relations, international business and politics are utmost influenced by American multinationals in their own country. Although there

are many models in history for multinational corporations, what this study assumes and takes as model to the contemporary multinational corporation that affects the international relations is the giant American multinationals. This study will try to give statistical data and example cases in order to figure out the evident effects of American multinationals on American foreign policy.

In this framework, chapter one explores and bring up the definition of multinational corporation and the theoretical context of the thesis. With an introduction to international trade and multinational corporations, I will try to solidify the context and the jargon that will be used in the study. Later, on the theoretical part, I will try to find an answer to my assumption based on Susan Strange's power concepts; whether the multinational corporations have a kind of relational or structural power or not; or are nation-states still alone in using that structural power? I will also substantiate power structures of Susan Strange and make connections with multinational corporations.

In the second chapter the historical evolution of international trade and multinational corporations will be clarified. The roots of the first multinationals and the ancestors will be evaluated in order to understand the historical growth and development of today's giant corporations. After that, the emergence of American multinationals will be examined to find out how did they reach the economic and political power they possess today. This period will be examined in two phases prior to the World War I in 1914, which I assume as a turning point and one of the greatest opportunities for American multinationals. Until this period American multinationals' European counterparts used to be the first runners in international trade and accepted as the model for multinational corporations but with the First

World War, American multinationals gained a chance to develop and broaden their business areas. After this stage they build up corporate identities, concentrate on specific production areas, invest in service sector and move a step forward from their European equivalents.

In the third chapter, the impact of multinational corporations on international relations will be examined. The multinationals of the global century, the latest developments they achieved and the differences they have with their ancestors will be clarified. The home and the host country relations will be studied with examples. The influences they have on both sides including the outcomes of these relations will be revealed. The interdependence, they create among states, world politics and economy including the triangular diplomacy among states and themselves will be the next topic. Finally, the impact of American multinationals on American foreign policy, as the main concern of this thesis will be presented with empirical and statistical data and examples from our daily lives. I will try to turn and show the other side of the coin in corporate-state relations. We will see what has been told to us in the newspapers and what has really happened behind the curtains. American multinationals will appear as the influential actor behind the scenes in many political and economic decisions in international affairs of United States. Finally with the case study chapter the previous part will be solidified with detailed information from the affects of giant American multinationals on American foreign policy with different dimensions. Interesting cases about multinationals like Boeing, Enron, General Electrics, Exxon-Mobil, Lockheed-Martin and many other will be the proof of our assumptions and concerns. I will try to give examples from environmental issues to tax legislations, from military procurements to the signing of international

agreements, from establishment of energy plants to the influence of various multinationals on these issues regarding 3rd country domestic affairs or the manipulation of American foreign policy to affect 3rd countries, international organizations or their decisions on different issue areas.

Extensive literature survey has been done through the secondary sources such as books, articles, and internet resources. The literature on international business, multinational corporations and international relations are melted in the same pot to put forward this multi-discipliner study. Therefore all of these resources are quite valuable and provide successful opportunities to study this contemporary subject.

CHAPTER I.

DEFINITION AND THEORATICAL CONTEXT

In the late 19th and early 20th centuries, the world shrank in its physical dimensions, as steamships, railroads, telegraphs and cables reduced distances. Throughout the whole world economic conditions changed. This was a time of substantial technological advance with new products, processes and forms of business organizations challenging the old order.¹ Developments in communication and transportation had varying consequences in different areas of life. The actors in the international political and economic arena started to change in order to adapt themselves to these new circumstances. During the 20th century states became more cooperative with the private sector and with other non-governmental organizations. The private sector modified itself with the introduction of new institutions in order to keep itself in step with the developments in technology. It is believed that “Multinational Corporations” emerged from this atmosphere as one of the leading actors.

Companies from Britain, the United States, Continental Europe, Japan and Canada extended their activities over seas by making foreign direct investments and controlling some production activities from their home based headquarters.² International trade, which is a part of the world economy, gained a new dimension with the emergence of the multinational companies. These institutions broaden the

¹ Mira Wilkins, “European and North American Multinationals, 1870-1914: Comparison and Contrast”, in Ed. Mira Wilkins, The Growth of Multinationals, Edward Elgar Publishing, US, 1991, p.52

² Ibid.

meaning of international trade by adding new concepts like 'Foreign Direct Investment', 'Joint Ventures' and 'Overseas Operations'.

At this point, a definition of the multinational corporation should be made to clarify the conceptual framework; a company that has its headquarter in one country (which is the home country), and which operates in at least one foreign (host) country.³ Multinational corporations are profit seeking organizations that have activities in more than one country with an aim to expand sales, to acquire resources, to diversify sources of sales and supplies and to minimize competitive risk. In this thesis the term multinational corporation (MNC), as it was commonly used in international business or international relations is used as a synonym for MNE.

The basic aim of this thesis is to bring forward the issue of developing Multinational Corporations. It will deal with their changing definition, their role in the economic arena and in international agenda and their contemporary position in their relation to nation states and their domestic and even international affairs. The basic research of this thesis will try to bring forward the continuous development of the Multinational Corporation, its novel role in international relations and the course of power enhancement it is going through. In the analysis of the rise of Multinational Corporations, our main concerns will be their emergence and historical development. I will also discuss the main motives that trigger their development; the economic, social and political conditions that create the right chemistry. Our second concern will be the theoretical basis of the increasing importance of Multinational Corporations. I will consider Susan Strange's power theory, new diplomacy and the use of structural power and how it is adapted to this thesis. Our third concern in this

³ Ibid. p.53

thesis will be the contemporary positions of the 21st century Multinationals. This thesis will include their role in international affairs, the power they boast and how they use it, specific instances which demonstrate their changing roles in today's global world and their influences on nation states.

This thesis will especially focus on one major effect of leading multinationals. This is the way in which today's most prevalent, influential and enormous multinationals influence on international relations and especially American foreign policy. The place of American multinational companies in American economy, political life and foreign policy will be revealed with examples of the main concerns of this thesis in the following chapters.

To rationalize our concerns we will first focus on the definition of multinational corporations. This definition will be revealed by different opinions from different scholars. Concepts that will be used in this thesis will also be discussed in this chapter. I will try to melt the jargon of the study areas of international relations and international business in the same pot and provide an insight into what will be discussed in the following chapters. The next section of this chapter will cover the theoretical context which will include the international relations theory as it relates to multinational corporations and the debate on the actors of the system and their power relations according to Susan Strange's power theory. This theory will help us to understand the basis of our concerns regarding the power relation between nation states and multinational corporations. We will see the practical applications of Strange's assumptions in 21st century world politics with examples from U.S multinationals, like Boeing, using power structures and triangular

diplomacies to achieve their financial goals.⁴ As this thesis is not a pure IR theory debate, the aim is not to discuss the theoretical paradigms relating systemic formations or the places of the actors in the system but to ensure that the discussion is grounded on theoretical foundations.

Scholars do not totally agree on what a multinational firm is. Some individuals think that a true multinational firm must not only have geographically diverse operations, it must also have ownership and managerial personnel who are an internationally heterogeneous group.⁵ We can see that each scholar has generated his or her own definition. Scholars like Dunning assert the definition as “A multinational or transnational enterprise is an enterprise that engages in foreign direct investment (FDI) and owns or controls value adding activities in more than one country.”⁶ Another definition which is more open to interpretation is that; “Any firm that has a large portion of its operations devoted to activity that is not limited to one country is a multinational firm.”⁷ International business, multinational enterprise, transnational corporations, all involve a company making foreign investments and establishing stakes abroad that are under the control of the parent firm.⁸ George Modelski defines multinational corporations as a network of enterprises which control activities and

⁴ See Susan Strange, States and Markets, Cambridge University Press, England, 1988

⁵ Richard D. Hayes, Christopher M. Korth, Manucher Roudiani, International Business: An Introduction to the World of the Multinational Firm, Englewood Press, U.S, 1972 p.261

⁶ John H. Dunning, Multinational Enterprises and the Global Economy, Cheltenham Press, U.S, 1992 p.3

⁷ Hayes, Korth, Roudiani, op.cit., p.260

⁸ Mira Wilkins, “Modern European Economic History and the Multinationals”, in Ed. Mira Wilkins, The Growth of Multinationals, Aldershot Press, US, 1991 p.5

assets in more than one state and most often three or more states.⁹ This thesis will take the first and the simplest definition of a multinational; a company that has its headquarters in one country and operates in at least one foreign country¹⁰

What are the distinguishing characteristics of a multinational corporation? A MNC tends to be an oligopolistic corporation in which ownership, management, production and sales activities extend over several national jurisdictions.¹¹ It is composed of a head office in one country with a cluster of subsidiaries in other countries. The principal objective of the corporation is to secure the least costly production of goods for world markets by acquiring the most efficient locations for production facilities.¹² A multinational firm can use many kinds of instruments to create business areas. They frequently do this by Foreign Direct Investment (FDI), by joint ventures with firms in the host country or by portfolio investment where they invest in financial instruments like stock shares, bonds, bills and real estates. MNCs not only have multinational investments but also multinational human resources. As a result they also create multinational company culture and multinational business practices in their subsidiaries.

From these explanations it can be seen that; multinational corporations are profit seeking enterprises which have international power, capital, manpower and resource-seeking practices. Multinationals that coordinate production on a global

⁹ George Modelski, "Transnational Corporations and World Order", in Ed. George Modelski, Transnational Corporations and World Order, University of Chicago Press, U.S., 1979 p.1

¹⁰ Mira Wilkins, "European and North American Multinationals, 1870-1914: Comparison and Contrast", in Ed. Mira Wilkins, The Growth of Multinationals, Edward Elgar Publishing, US, 1991 p.52

¹¹ John H. Dunning, "Multinational Corporations and International Production", in Ed. John H. Dunning, The Multinational Enterprise, Edward Elgar Publishing, U.S, 1970 p.232

¹² Ibid.

scale have become enormous in size and gained gigantic powers both economically and politically. Whether we call them transnational corporations, international business enterprises or multinational enterprises; the company that fits into these descriptions is the main subject of this thesis.

From the emergence of the very first private corporation up to the globalized multinational, MNCs have an important place in many different study areas such as International Relations and International Business. The question of whether the MNC is a new actor on the political scene and whether it has caused metamorphosis in the power structures within the system will be discussed in the next chapters.

1.1. Conceptual Setting

The aim of the theoretical part is to question the assumption of the thesis; *“does the multinational corporation have a kind of relational or structural power or not; or are nation-states still alone in using relational or structural power?”* The theoretical part of this thesis will cover both the level and the unit of analyses; therefore I will have a dual approach on the theoretical level. The unit of analysis will be both the state and the Multinational Corporation. And the level of analyses will be both on state level and intra state level. The actorness of MNCs on international relations and relations of non-governmental organizations, with nation states will also be revealed in the following chapters. In the final section of the exploration of theoretical assumptions I will focus on Susan Strange’s Power Structures. We will attempt to understand the meanings of structural and relational

power, triangular diplomacy, and the positioning of nation states and non-governmental organizations in the international arena. I will review Strange's perception of these matters and determine the differences connecting or distinguishing the theory and the practice. We will see how the power structures emerge and how they change with the emergence of fresh actors or with the presence of new power diffusions in terms of the recent global world and its new powerful players; MNEs.

International Relations Theory has made use of many different approaches throughout history. From Realism to Liberalism and from Critical and Modernist Schools, IR students have the chance to see the development of various ideas concerning the actors in international relations. As the main concern of this thesis is the actors in the system, states and governmental organizations (MNCs), the main focus will be on the change of the position of the unit of analyses and the vision of these aforementioned schools in this debate. The theoretical discussions will not be limited to only the state. NGO relations will also be covered and ultimately the altered positions of these actors within their relations and in international arena will be exposed to the reader. Using Susan Strange's theories I will try to reveal the change to the old picture of hegemony where nation states possessing absolute power are set against NGO's which possess limited power.

As it has been told in many scientific studies, the motive of any scientific enquiry is to discover a certain aspect of reality, which is associated both with the unit of analysis and the methodology appropriate for the former. However, when it comes to social science, the ontological and epistemological questions regarding the subject matter do take distinct forms. Thus, we can say for certain that there exists no

single approach, on the path to scientific analysis, especially in IR. Determining the appropriate level of analysis before collecting empirical data is crucial, since it is both a methodological and a conceptual concern which will lead us to the most suitable path. As far as the field of international relations is concerned, and especially in an inter-disciplinary study embracing both international business and international relations such as this, the social scientist should decide whether to focus upon the actions of the state as the prime actor in international affairs or upon the whole system which is composed of interactions between the states and other actors. Certainly, it is not sufficient to use any level of analysis apart from the one which corresponds to the unit of analysis, and this is one of the most crucial elements of any study. In this study, having both nation states and multinational corporations, the unit of analysis is dual. This is to say, one should first be able to verify the ontological status of his or her unit of analysis. As long as the unit or the units of analysis is solidified, it will be easier and more efficient to describe and explain the subject of concern, the basis of the hypothesis and the assumptions and also to make well-founded predictions particularly about supreme actors like nation states, or recently rising ones, such as multinationals.

Since international affairs do take place between countries, nation-states are generally assumed as the level of analysis in IR studies. However, I find it difficult to distinguish between the unit of analysis and the level of analysis in terms of the sub-system level of analysis, which is also the level of analysis of this thesis. That is to say, as long as the Machiavellist type of theory is applied, the nation-state and its power capabilities are the main concern. Therefore the debate does not go beyond a foreign policy analysis, based upon the preceding historical facts, unless the sub-

systemic level actors are not included in the debate. Since the nation-state is the primary concern for most scholars (realists), the states are analyzed in detail which sometimes undermines the other actor's role or the international structure as whole. Thus a sub-systemic level of analysis (studying not only the nation states' behaviors but also the influences of some other actors, like NGOs or more specifically in this thesis, MNCs) is more useful in determining the role and manipulation of Multinational Corporations on the foreign policies of states. This is the main reason, why the sub-system level of analyses will be used in this thesis and the parts of the whole will be discussed to understand the entire system and their role in it.

In other words, this thesis will be debating the role of Multinational Corporations, which we assume to be an element of the system (excluding nation states) on economic, political and even social relations on the 'macro level' (which is the relation level among nation states). The aim of this thesis is to prove that the changes and developments on the micro level, which is the corporate level or the level of the parts forming the system or nation-states, have great effects on the macro level, which is the inter-state relations. It is believed that nation states are not anymore the only actors in the debates of International Relations. Multinational Corporations as Non-Governmental Organizations do play an important role as an actor in relations with or within nation states. Their effects on nation states and on international agenda will be discussed further in the third chapter but it is believed that these giant organizations with annual turnovers bigger than some of the Gross National Products of some states have an importance worthy enough to be debated in a master's thesis. When debating on the sub-systemic grounds or on the corporate level, it should not be forgotten that main actors such as the Nation States are not

overlooked. In this study it is still believed that nation states are the main actors in the system. What has changed is that there are now other actors which also have effects on the system as well as on the nation state itself.

In the theoretical discussion of the thesis I will first highlight the differences between two points of views. On the one hand some scholars argue that the world system which was originally composed of only nation states has changed and the actors in the system are not anymore only those former actors. They believe that non-governmental organizations, like MNCs, are acquiring more power and importance everyday and consequently they are acting as a part of the game in the international arena. On the other hand, other scholars assume that states are still the sovereign powers and the main actors in the international system. According to them, they do not share their jurisdiction or domination power with other actors. Strange thinks that it is hard to definitely decide on the issue of nation states vs. NGOs or multinationals and that there is no crystal clear evidence to prove that the nation states have lost their power against NGOs.¹³ It might simply take time for the states and the governmental mechanisms to adjust themselves to the changing nature of politics and economics. Other scholars like Robert O. Keohane and Joseph S. Nye, also accept the contrasting approaches, but they also assert that neither of these schools is adequate enough to form a framework for understanding the politics of the interdependence of nation states and non-governmental actors.¹⁴ Stephen D. Krasner

¹³ Susan Strange, "International Economics and International Relations – A case of mutual neglect", in Ed. David Baldwin, The Library of International Political Economy 5 –Key Concepts in IPE Vol. I, Edward Elgar Publishing, 1993, US, p.21

¹⁴ Robert O. Keohane and Joseph S. Nye, "Interdependence in World Politics", in Ed. David Baldwin, The Library of International Political Economy 5 –Key Concepts in IPE Vol. I, Edward Elgar Publishing, 1993, US p.286

has totally refused the arguments of Keohane and Nye. He basically asserts that the developments we are facing today in international economic order were the results of the changes in state interests, which also shaped international business.¹⁵ When we look at Robert Gilpin's ideas we can see that he allocates the greatest importance to the multinational corporations and the developments which they have initiated.¹⁶ Gilpin clearly argues that multinationals have blurred the significance of national boundaries, but on the other hand he acknowledges that the nation state continues to command men's loyalties and to be the basic unit of political decision.¹⁷ So, the traditional way of thinking assumes nation states are still autonomous entities which do not share the political power with private actors. And the Modern way of thinking, upon which this thesis bases its assumptions, assumes that these private actors do have a political and economic power which manipulates state actions.

Another categorization concerns the complex relation between the state and the multinational and whether this relation is based on cooperation or interest clash. The literature here is divided into two arguments. On the one hand we have scholars arguing that states (in other words, governments) co-operate with multinationals in economic area to accomplish national interests. This is the category which assumes that states accept the power of the NGOs and try to corporate with them.¹⁸ On the

¹⁵ Stephen D. Krasner, "State Power and the Structure of International Trade", in Ed. David Baldwin, The Library of International Political Economy 5 –Key Concepts in IPE Vol. I, Edward Elgar Publishing, 1993, US p.27

¹⁶ Robert Gilpin, "The Politics of Transnational Economic Relations", in. Ed. Robert Gilpin, The Library of International Political Economy 6 –International System and International Political Economy Vol.I, Edward Elgar Publishing, 1993, US p.3

¹⁷ Ibid. p.3

¹⁸ Ibid. p.18

other hand we have another category which assumes that there is an interest clash between states and firms. This side argues that states still have some kind of absolute power on state affairs and that they try to defend this against the private actors. Interdependence between states and firms is not a new concept. It was first asserted in 1971 by Karl Kaiser in his work.¹⁹ Even at that time Kaiser stated that this was an asymmetrical interdependence and that the state's position before the private actors fluctuates considerably. The interdependence between nation states and firms has increased with the rise of globalization. Globalization has also reduced the autonomy of the state and made governments more vulnerable to the actions of private actors.

In this thesis, while discussing the role of Multinational Corporations on state affairs and foreign relations, the power structure theory of Susan Strange will be utilized in order to explain the power diffusion among the actors. Strange's theory will help us to understand the contemporary developments in the globalizing world of MNC versus Nation States.

According to the work of Susan Strange, the values in a society have different priorities which are security, justice, freedom and welfare. Apart from these basic social values, we have different society structures which are liberal, market society structure, authoritarian structure (which also gives importance to security) and a kind of socialist structure (which gives importance to freedom and justice).²⁰ The reason for this differentiation in society values are the primary and secondary structures of IPE which Strange has introduced to the study area. The primary power structures

¹⁹ Karl Kaiser, Transnational Relations as a Threat to the Democratic Process, in International Organization, Vol. 25, No. 3 Summer, 1971 pp. 706-720

²⁰ See, Susan Strange, States and Markets, Cambridge University Press, England, 1988

according to Strange are Security, Production, Financial and Knowledge Power Structures.²¹ These are the primary power structures and the foundations of the above mentioned types of societies. Apart from the primary power structures, we have the secondary structures which are as important as the primary ones. These are transport, trade, energy and welfare. The common features of secondary structures is that although they are frameworks within which choices are made on the basis of value preferences, they are also vulnerable to the four primary structures which play a large part in shaping the secondary ones. Coincidentally the total of these power structures especially the secondary ones, are not the sum or the components of the formula for the wealthiest, most successful and powerful trading nation state. The proportional weight given to the power structures is once again a question of power. Relative priorities result in different mixtures.²²

A nation state which controls optimum amounts of these power structures will no doubt be one of the world's leading countries. Strange asserts that in the study of political economy it is not enough to ask where authority lies or who has power, but it is more important to ask why they have it and what is the source of power.²³ Strange tries to show how the power has been used to shape the political economy and how the enterprises, social groups and organizations have been affected. I will use this jargon and adopt it not for nation states but for multinational corporations that have started to shape and share the power structures.

²¹ Susan Strange, States and Markets, Cambridge University Press, England, 1988 pp.45-133

²² Strange, op.cit., p.22

²³ Strange, op.cit., p.23

At this point, as a scholar of International Political Economy, Strange has introduced a classification of power. She identifies power as structural and relational.²⁴ Relational power is the power of A to get to B to do something they would not otherwise do. On the other hand **structural power** is the power to shape and determine the structures of the global political economy within which other states, their political institutions their economic enterprises and their scientists have to operate.²⁵ Strange uses this differentiation to explain the hegemony of states and their power politics on macro level. But she also asserts that this is the power states use to rule their inhibitors like citizens or enterprises. She makes her assumptions more concrete with an example of a four-faceted triangular pyramid or tetrahedron.

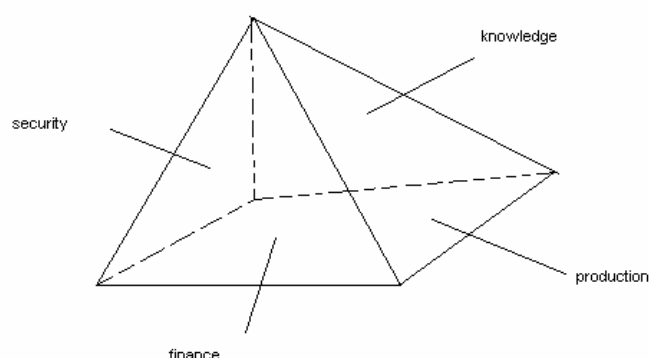


Figure 1: Susan Strange's Tetrahedron Power Structure

Source: Susan Strange, States and Markets, Cambridge University Press, England, 1988 p.27

²⁴ Strange, op.cit., pp.24-26

²⁵ Strange, op.cit., p.24

Strange asserts that no one facet is ever necessarily more important than the other three. Each is supported, joined to and held up by the others.²⁶ In the application of her theory to the real world, Strange mentions that these interacting structures are not peculiar to the global political economy of today's world. In respect to the facets of the pyramid; one that holds the control over security; control over production; control over credit and control over knowledge (beliefs and ideas) have the control of structural power.²⁷ Strange gives the example of the United States as the controller of structural power (especially in the post war period) with examples of its control of all four facets. This thesis assumes that the power structures of Strange are applicable to the 21st century but goes further to acknowledge that new influences on the power structure now exist such as multinational corporations.

We can identify some basic foundations for this thesis. This study assumes that, whether the nation state has structural or relational power or not or whether it sets the agenda for world economy or politics, it is basically no longer alone in using that structural or relational power. The United States, one of the most powerful states in the world, might seem to use structural power in world affairs but we must question whether, it is using it, only in the direction of pure national interests or if there are any outside influence which change the direction for their own purposes.

When aiming to prove the above mentioned ideas, this thesis will draw from certain case studies which include some of the biggest multinational corporations and which will show us the interference of private actors in state relations. These case studies will also help us to determine the effects of the actions of MNCs on their

²⁶ Strange, op.cit., p.26

²⁷ Strange, op.cit., p.26

home government's relations with other countries, international organizations and their own country's domestic affairs.

Another important point which Strange asserts is the way in which the relations between states and firms have changed in a structural way in the last century.²⁸ The competition in the financial and economic sector is so intense that it is no longer limited to the private sector. In order to catch up with the global competition states have had to compete with each other economically. Therefore the diplomacy between the international actors is not bilateral anymore.²⁹ The triangular diplomacy between government-government, government-company, and company-company has been introduced into the agenda.³⁰ This change in international relations has created a triangular bargaining situation and a more intense interdependency between states and multinationals.³¹ To understand this interdependence better, we should also remember the wealth created by these multinationals which initially gave them their bargaining power. This is important because wealth is one of the main concepts of Susan Strange's power theory. Firstly in order to have structural power, wealth is essential. We will see examples of firms such as Enron using their political and economic power to force the government of the United States not to sign international agreements such as Kyoto. This is a quite

²⁸ Gilpin, op.cit., p.21

²⁹ Susan Strange & John Stopford, Rival States, Rival Firms- Competition for World Market Shares, Cambridge University Press, Cambridge, 1991 p.7

³⁰ Gilpin, op.cit.,p.21

³¹ Gilpin, op.cit.,p.29

current issue nowadays. We explore disputes among European Union countries and the United States regarding Airbus-Boeing rivalry.

Strange also talks about the trilateral bargains, in other words neo-corporatism, among the governments, representatives of the management of the industry, banking, trade and the representatives of labor.³² Strange asserts that these bargains give us important clues about the on going system of the 21st century's world order. Using these theoretical assumptions alongside an understanding of the contemporary developments of multinational corporations and facts about the globalizing world, this thesis will try to highlight the involvement of MNCs in politics and state level relations. I will discuss the impacts and outcomes of this involvement in world politics and inter state relations. The direct and indirect effects of these multinationals on international organizations via their home government's foreign policies "by using the structural power" will also be explored.

³² Strange, *op.cit.*, p.40

CHAPTER II.

HISTORICAL EVOLUTION OF MULTINATIONAL CORPORATION

In the second chapter of this thesis, we are going to focus on the historical advancement of multinational enterprises. Their emergence and evolution as well as the circumstances which have changed the so called private corporation into today's Multinational Corporations, will be traced with examples from history. Our main concern is to see how and on which path, the giant global multinational firms developed. In order to understand the effects of MNCs today we should understand what types of developmental stages they have experienced and what external circumstances have effected their development. If we look at this process we can see that they have achieved an enormous success both economically and politically. One should not take the power capabilities of today's multinationals as a given. They have gone through several stages in order to be a powerful economic and political actor. They have also experienced in the past (and some continue to experience today) that nation states and governments can affect their business and can also use them in favor of their foreign and domestic policies. So to see the bigger picture of the 21st century we should first look at the past.

In this context we will start with the emergence of the primitive private corporation which will turn out to be the cradle of the giant corporations of the 21st century. We will first focus on the footprints of the ancestors of today's Multinational Corporations. I will also look at the development of international trade through the internationalization of enterprises with respect to the milestones in history. As our main concern will be U.S multinationals; I will then focus

specifically on the growth of American MNCs. Emergence and development of American MNCs will be studied under two headlines; from their emergence until 1914 with references to the European ancestors and then economic developments since 1914. This second period marks a milestone in the world's and the United State's history as the global economic and political conditions has started to change dramatically after the period of the World Wars starting with 1914 and continuing from 1945 to 1990s which was the period of several developments which became the basis of today's economic and political foundations. Multinationals of the 1990s and 2000s and their positions in the world will be discussed in the third chapter as contemporary examples. The effects of globalization will be figured out in the last part with examples.

The first examples of Multinational Corporations start to emerge with international production from the Middle Ages onward although earlier examples of embryonic MNEs can be found in the colonizing activities of the Phoenicians and the Romans and before that in more ancient civilizations of the Near and Middle East, China and South America.³³ While substantial research has been done on the history of multinational enterprise by many scholars and historians, much more is clearly required. Studies on multinational corporations also contribute to the sub-field of economic history which looks at business government relationships.³⁴ Studies of Multinational Corporations provide insights on the role of governments in economic

³³ John H. Dunning, Multinational Enterprises and the Global Economy, Edward Elgar, U.S, 1992 p.96

³⁴ Mira Wilkins, "Modern European Economic History and the Multinationals", in Ed. Mira Wilkins, The Growth of Multinationals, Aldershot Press, US, 1991 p.22

development, business and politics. Studies of the history of the multinational enterprise start with data on individual firms.³⁵

The cradle of multinationals is Europe. European nations are the homes of and hosts for international business.³⁶ Scholars such as Franko, refute the idea that multinational corporate behavior is a feature of American companies but not of European ones, as mentioned in his book “European Multinationals” which was cited in Mira Wilkins’s book, “The Growth of Multinationals”.³⁷ Mira Wilkins also argues that, the European economic and political history had great effects on the evolution of MNCs and the world economy. So one should first focus on the economic developments, capital flows, European banks, industrial organizations, imperialism and business government relations in Europe; in order to discover the clues for the history of the multinational corporation.³⁸

Historically MNCs have reciprocal influences with nation states and have been in interaction with developments throughout the economic and social life. The discovery of new territories increases in population, advances in the stock of knowledge of production and organizational techniques and the response of governments to these changes have been the prime forces in the interactive development of MNCs. Innovations in technology, transportation and communication had great effects on world trade and in a way this effected the maturing of MNCs. Ultimate innovations in technology, communications and

³⁵ Ibid. p.8

³⁶ See, Raymond Vernon, Storm Over the Multinational, Chap.5, Harvard University Press, US, 1977

³⁷ Wilkins, op.cit., p.23

³⁸ Wilkins, op.cit., p.23

transportation made a boom effect on world trade by decreasing distances, stimulating communication and making things easy by new discoveries.

Before going through the latest developments in technology which have triggered the boom of the MNCs today, we should look back to the cradle of the Multinational Enterprise and also to the individual firms in order to understand the origins, milestones, and catalysts that made these actors so important. Since the dawn of modern civilization, individuals, social groups, institutions and governments have always sought to advance their economic prosperity. There were three factors that prompted this desire; the craving to foster trade and financial activities to desire to acquire new territories and new forms of wealth, and the need to discover new avenues for the use of domestic savings.³⁹ In the period from the 13th to the 18th century, the state was directly or indirectly involved in most kinds of overseas ventures.⁴⁰ The first examples of the modern factory originated in the medieval towns of the Low Countries and Italy, where goods were manufactured for export. Douglass North traces some of the earliest international business ventures to the **Commenda** and, as it was quoted by Dunning that dominated caravan and maritime trade in Medieval Europe.⁴¹

The Commenda was an arrangement by which a principal investor or a group of investors entrusted their capital to an agent who then traded with it and returned to the investor his principal sum and an agreed share of any profits. A person with cash or merchandise could enter into a Commenda agreement with an agent manager who

³⁹ Dunning, op.cit., p.97

⁴⁰ Dunning, op.cit., p.97

⁴¹ Dunning, op.cit., p.97

was to trade with it and return the capital together with the previously agreed-upon share of the profit to the former. The remainder would be the share of the agent-manager as a reward for his labor. The agent, however, had no liability for the losses resulting from the exigencies of sea travel or from an unsuccessful business venture.⁴² In addition to the Commenda, in early Middle Ages there were numerous trading firms based in different parts of Europe which set up offices and representatives in many important cities of Europe. Another example of an early trading MNC, as it was quoted by Dunning, was the **Merchant Adventurers**, a powerful consortium of UK wool and cloth companies which was set up to promote marketing outlets for its members in the Low Countries.⁴³ The name Merchant Adventurers' was originally given to all merchants in England who engaged in export trade, but it was later applied to loosely organized groups of merchants in the major ports concerned with exporting cloth to the Netherlands. They were incorporated as a trading company in 1407. Originally the company's activities centered in Bruges, but in 1446 it obtained trading privileges from the Duke of Burgundy and established its staple (i.e., trading center) at Antwerp.⁴⁴ Despite strong competition from the Hanseatic League⁴⁵, whose dominance in the Baltic caused the exclusion of the Merchant Adventurers from that area, the company flourished, establishing depots in several cities, and in 1560 was given the monopoly on

⁴² 'Commercial Techniques in Early Medieval Islamic Trade', in D.S. Richards (ed.), *Islam and the Trade of Asia: A Colloquium*, Oxford: Bruno Cassirer and Philadelphia: University of Pennsylvania Press, 1970, 47-62.

⁴³ Dunning, *op.cit.*, p.97

⁴⁴ See E. M. Carus-Wilson, *Medieval Merchant Venturers* London : Methuen Press, (2d ed. 1967).

⁴⁵ The Hanseatic League comprised an alliance of trading guilds that established and maintained a trade monopoly over the Baltic Sea and most of Northern Europe for a time in the later Middle Ages and the Early Modern period, between the 13th and 17th centuries.

exporting cloth to West Germany and the Netherlands. It continued to prosper throughout the 16th and 17th centuries, although political rivalries forced it to move its staple to Hamburg (1567) and Dordrecht (1655). The company was dissolved in 1808.⁴⁶

Later in the 14th century the centre of gravity of international commerce switched to Italy. According to the estimates by Hawrylyshyn, as it was referenced by Dunning, by the end of the 14th century there were 150 Italian banking firms which were truly multinational in their operations.⁴⁷ The 16th and 17th centuries saw new developments in international business. As communication skills and trans-border interaction improved the boundaries of commerce improved. This was the era of the first major FDI activities and the major colonizing ventures of Western European companies. The modern multinational corporation has its roots in the East and West Indies traders of the mercantilists during this era (16th-18th centuries). These were rarely multinational and they were often instruments of colonialism. However, traders of the maritime nations of that era led the expansion of trade, which occurred with the age of discovery and the development of accurate long distance navigation at sea.⁴⁸

The coming of the industrial age brought the need to capture markets for an expanding output of basic manufactures. Improvements in ocean and continental transportation and emerging thought about free trade as an element of political and economic freedom, also gave rise to the first rudimentary MNCs. Possessing multiple

⁴⁶ See E. M. Carus-Wilson, *Medieval Merchant Venturers* London : Methuen Press, (2d ed. 1967).

⁴⁷ Dunning, *op.cit.*, p.98

⁴⁸ Multinational corporations (MNCs) in least developed countries (ldcs) available at <http://www.globalpolicy.org/reform/2002/modelun.pdf> accessed on 02.10.2005

markets and raw material sources, the ownership, management and capital of these early MNCs was still largely limited to the nation of origin. They often enjoyed direct or indirect government support by means of tariffs, investment and financing.

Among the best known trading firms of this period were the British East Indian Company, the Dutch East India Company and the Muscovy Company.⁴⁹ The Dutch East India Company was established on 20th March, 1602, when the Estates-General of the Netherlands granted it a 21 year monopoly to carry out colonial activities in Asia.⁵⁰ It was the first multinational corporation in the world and it was the first company to issue stocks. It remained an important trading concern for almost two centuries, until it became bankrupt and was dissolved in 1798.

On the other hand, the British East India Company, sometimes referred to as "John Company", was a joint-stock company which was granted an English Royal Charter by Elizabeth I on 31st December 1600 with the intention of favouring trade privileges in India.⁵¹ The Royal Charter effectively gave the newly created Honourable East India Company (HEIC) a 21 year monopoly on all trade in the East Indies. The Company transformed from a commercial trading venture to one which virtually ruled India as it acquired auxiliary governmental and military functions, until its dissolution in 1858. As we will see in the following chapters of this thesis the main differences between these primitive MNCs and the MNCs today are the obvious government privileges that the older corporations used to enjoy. Of course as

⁴⁹ Dunning, *op.cit.*, p.98

⁵⁰ Dutch East India Company, available at http://en.wikipedia.org/wiki/Dutch_East_India_Company accessed on 11.03.2005

⁵¹ British East India Company, available at http://en.wikipedia.org/wiki/British_East_India_Company accessed on 11.03.2005

monopolies most of the East Indian Companies did not experience high rivalries with other MNCs. Also these older firms have a different kind of organizational and financial structure. They also did not involve multi-national workers.

The second step in this period was to promote colonization and the FDI in these lands. In the 17th century most attention was focused on America and on companies like the Virginia Company, the Massachusetts Bay Company and the Providence Company, most of which originated from England and offered many incentives to emerging international entrepreneurs.⁵² The Virginia Company refers collectively to a pair of English joint stock companies chartered by James I in 1606 with the purposes of establishing settlements on the coast of North America.⁵³ The two companies, called the Virginia Company of London (or the London Company) and the Virginia Company of Plymouth (or Plymouth Company) operated with identical charters but with different territories. By the terms of the charter, the London Company was permitted to establish a colony of 100 miles square between the 34th parallel and the 41st parallel (approximately between Cape Fear and Long Island Sound), and it also owned a large portion of the Atlantic and Inland Canada. The Plymouth Company was permitted to establish a similar settlement between the 38th parallel and the 45th parallel (roughly between Chesapeake Bay and the current U.S.-Canada border). In the area of overlap, the two companies were not permitted to establish colonies within one hundred miles of each other. The charters of the

⁵² Dunning, *op.cit.*, p.98

⁵³ Virginia Company, available at http://en.wikipedia.org/wiki/Massachusetts_Bay_Company accessed on 11.03.2005

companies called for a local council, but with the ultimate authority residing with the King through the Council of Virginia in England.⁵⁴

The Massachusetts Bay Colony on the other hand, sometimes called the Massachusetts Bay Company, was a 17th century English settlement on the east coast of North America, in New England, centered around the present-day cities of Salem and Boston. The area is now in the Commonwealth of Massachusetts, one of the 50 United States.⁵⁵

Mira Wilkins argues that in order to fit the definition of a Multinational Corporation, there must be a cross-border control or potential for cross-border control of the company in financial, economical and even political resources, or the company should be able to make reasonable revenues overseas or multi-geographically.⁵⁶ The problem occurs when defining “home” as opposed to cross-border. Deciding on the cross border activity of a corporate and determining if it really fits into the definition of a multinational corporation or not is the main problem. In the emergence of European and American companies in other countries and the introduction of new businesses and settlements, FDI is not the only result. When referring to an enterprise’s activities in foreign lands we should be also aware of the bigger picture, other activities and the intention of the firm. But it is more important to mention that FDI and MNCs are not the same. Multinational enterprises make foreign direct investments and also set up other businesses abroad.

⁵⁴ Virginia Company, available at http://en.wikipedia.org/wiki/Massachusetts_Bay_Company accessed on 11.03.2005

⁵⁵ Massachusetts Bay Company, available at, http://en.wikipedia.org/wiki/Massachusetts_Bay_Company accessed on 11.03.2005

⁵⁶ See, Mira Wilkins, “European and North American Multinationals, 1870-1914: Comparison and Contrast”, in Ed. Mira Wilkins, *The Growth of Multinationals*, 1991, US p.76

In the early 19th century, the industrial revolution drastically changed the ability and the incentive of firms and countries to engage in trade, FDI and colonizing activities. The 19th century also led to a massive cross border movement of people especially from Europe to North America. In this period firms were prompted to invest abroad for new reasons such as acquiring new minerals and raw materials for the domestic industries (which grew immensely with industrial innovations), to provide food for the rising population or just to widen their indigenous markets. The industrial revolution introduced the factory system and gave birth to the business enterprise as we know it today. It also dramatically influenced the way corporations were managed and the techniques of production. It led to new and more efficient forms of transport, it necessitated changes to the legal and financial status of companies and altered the character of exchange relationships. The industrial revolution enhanced the role of technological capacity, money capital and human competence in the production process.

Taken together these events heralded a watershed in the history of international business. The age of merchant capitalism which had dominated international commerce for the previous two centuries was now replaced by an industrial capitalism.⁵⁷ Although the MNE, as we know it today did not emerge until later in the 19th century, firms from Europe and North America began to invest in foreign plantations, mines, factories, banking, sales and distribution facilities in large numbers.

Each country or group of countries, whether European or American, has a different pattern of national economic development owing in part to different

⁵⁷ Ibid. p.99

endowments of natural resources, different sizes of the domestic market and different types of development paths pursued in achieving industrial development.⁵⁸ The developmental course of international production in each country or group of countries is likely to be different. Since this conceptual framework relates to the economic development of the countries, there are different theoretical approaches to the macro-economic development of countries in the field. When studying MNCs, we should also take into consideration the different conditions of corporations from United States, Europe and other origins. As we are studying American multinationals in this thesis we should understand the economic development of United States which created the suitable conditions for the American MNCs to develop and grow to gigantic sizes. The economic history of the United States has its roots in the quest of European settlers for economic gain in the 16th, 17th, and 18th centuries. The American colonies progressed from marginally successful colonial economies to small, independent farming economies, which in 1776 became the United States of America.⁵⁹ In 230 years the United States grew to a huge, integrated, industrialized economy which makes up over a fifth of the world economy. The main causes were a large unified market, a supportive political-legal system, vast areas of highly productive farmlands, vast natural resources (especially timber, coal and oil), and an entrepreneurial spirit and commitment to investing in material and human capital. The economy has always been short of labor, driving up wages and attracting immigrants by the millions from all over the world. American multinationals had the

⁵⁸ Paz Estrella Tolentino, Multinational Corporations –Emergence and Evolution–, London: Routledge, London, 2000 p.4

⁵⁹ Economic History of United States, available at http://en.wikipedia.org/wiki/Economic_history_of_the_United_States accessed on 03.02.2005

advantage to start up and develop in such an atmosphere. The global economic conditions, the political and economic conditions of the United States and also the period of the World Wars has favored the American multinationals and caused their differentiation from others.

Multinational Corporations do emerge from different habitats in different countries in different ways. One should also be aware of these theoretical approaches to the economic development of different countries in order to understand the emergence and development of MNCs. Tolentino has mentioned in his book about these theoretical approaches as the macroeconomic development theories of international production which describe the dynamic and developmental process, or the way in which stages of development or maturity of countries and firms affect their international production activities.⁶⁰ Theories like Product Life Cycle Theory, try to figure out the emergence, maturing and the standardization of a product and interference to that, the position of the firm in domestic and international market. Enterprises position themselves in the markets with respect to these developments and make decisions in order to become internationalized, make Foreign Direct Investments and become a Multinational Corporation.

The rise of the multinational company can also be related to the economic developments in world economy. But this development has differentiations due to different state economies. At this point we can see that the first and the most successful multinationals first emerged in the industrialized countries such as Britain and United States. Although some scholars think that the evolution of American

⁶⁰ See, Paz Estrella Tolentino, Multinational Corporations –Emergence and Evolution-, London:. Routledge, London, 2000 pp.5-19

Multinational Corporation started in the decade before the American civil war, most of the developments in those institutions which are vital today appeared after the First World War.⁶¹ Other states like continental European countries and Japan followed the American and British models due to their political and economical circumstances and developments in the period after the First World War. I should also differentiate between the development of MNCs after this period, and from the development of the early MNCs from the East Indian Company's period. Although these were the milestones of this progress due to the revolutions in technology, developments in the economy and the changing relationship among states and firms mean that today's MNCs are more developed and therefore fit the definition of MNCs according to this thesis.

We have seen that each watershed in the evolution of MNEs was triggered by a major technological or organizational advance, or by the actions of Nation States or groups of Nation States which had influenced the motivation and capability of firms to manage geographically diversified assets. Sometimes the trigger was innovations which reduced the cost of making transactions over distances and facilitated new forms of organization and management. Examples of such innovations are mobile phones, faster airplanes, ships, cars, internationally valid degree awarding universities or on line currency transaction technologies. Sometimes the advances have come in the guise of new production technologies or through the introduction of new products which have required for the sourcing of foreign materials or the securing of distribution channels for firms. Sometimes the initiative has come from

⁶¹ Mira Wilkins, "The American Model", in Ed. Mira Wilkins, The Growth of Multinationals, Edward Elgar Publishing, US, 1991 p.150

governments through advances in military technology in order to defend themselves against aggressive neighbors, or through import controls to protect themselves against economic warfare such as the development of military technology in the US due to its global domination on political and military issues. Sometimes the impetus has been an expanding market brought about by colonization, population increase or rising incomes, as in the case of Britain and her global colonized empire. In all these cases the initiatives have had widespread consequences on the evolution, the revenue and costs of both domestic and foreign production. They have effected the innovation of new products and methods, the organization of value-added activities between and within firms; the organization of transactions both between firms and markets and within firms, as well as the location of these activities, the interaction between the state and producing and transacting economic agents. In this way corporations emerge, develop and interact with each other and with states.

Now we will see how the American Multinationals emerge, evolve and manage to reach their positions in today's world. One should note that the way US multinationals have developed is quite different from others which has consequently brought them to a notably different economic and political position.

2.1. Emergence and Evolution of the American MNCs

2.1.1. The Period Until 1914

The multinational corporation did not suddenly spring into existence. Contrary to what has often been maintained, U.S corporations are not unique to the

1950s, 1960s and 1970s. Rather the American multinational corporation has emerged, grown and changed over many decades. The origins of the American multinational enterprise go back to the colonial period, when merchants installed members of their families in distant locales.⁶² The origins of modern American multinational corporations date from the 1850s, when technologically advanced US manufacturing companies began to establish operations in Europe.⁶³ As Mira Wilkins asserted in one of her articles, according to some, the American enterprises began to emerge as multinational corporations in the 1850s whereas for others this happened in the 1960s.⁶⁴ While there were direct foreign investments by American traders in the colonial period and thereafter, US investors established businesses abroad in manufacturing, mining, agriculture, banking and transportation. The evolution of what is known today as the American multinational corporation owes its origins to the decade before the American Civil War.⁶⁵

From the late 19th and the early 20th century was the first period in world history when, owing to innovations in transportation and communications, it became possible to have meaningful business coordination, control and influence over long

⁶² Mira Wilkins, "Modern European Economic History and the Multinationals", in Ed. Mira Wilkins, The Growth of Multinationals, Edward Elgar Publishing, US, 1991 p.5

⁶³ Ibid.

⁶⁴ See, Mira Wilkins, "The American Model", in Ed. Mira Wilkins, The Growth of Multinationals, Edward Elgar Publishing, US, 1991 p.149

⁶⁵ Mira Wilkins, "The American Model", in Ed. Mira Wilkins, The Growth of Multinationals, Edward Elgar Publishing, US, 1991 p.149

distances.⁶⁶ In the years prior to 1914 a firm with business abroad in only one foreign country might be starting to expand into other countries as well.

The United States took advantage of the technological innovations in a better way than any European country during this period. As an emerging industrial nation, the US was well equipped to meet and fully exploit the challenges and needs of the last quarter of the 19th century. The last half century before the First World War introduced a wave of technological advances which fundamentally affected the production frontiers of the firms.

Before 1914 the United States was a net importer of capital and its portfolio investments abroad from 1870 to 1914 were very small compared with its foreign direct investments.⁶⁷ US companies moved abroad not to find better financial returns but to reach markets and to source of suppliers. Geoffrey Jones believes that American businesses explored first and foremost geographically nearby countries like Canada, Mexico and the Caribbean and culturally similar countries such as Canada again and the United Kingdom.⁶⁸ Whereas British MNCs tended to favor linguistically and politically ‘nearby’ countries like the United States, Australia, South Africa and the British Empire’s Colonies. The American education system also had an active positive influence on American firms going abroad, with its more practical and engineering-oriented model.⁶⁹ Unlike the European education system,

⁶⁶ Mira Wilkins, “European and North American Multinationals, 1870-1914: Comparison and Contrast”, in Ed. Mira Wilkins, The Growth of Multinationals, Edward Elgar Publishing, US, 1991 p.52

⁶⁷ Ibid. p.68

⁶⁸ Geoffrey Jones quoted in Ibid. p.77

⁶⁹ Ibid. p.68

the American one had a practical basis and was more focused on the adoption of theoretical assumptions from daily life. That is one of the ways in which American companies are more courageous than European ones because they try out new concepts and invest in new businesses.

The 1890s saw a steady growth of U.S enterprise in foreign lands. At the turn of the century there was a veritable wave of new U.S corporations introducing operations beyond American boundaries.⁷⁰ Between 1897 and 1902, Europeans pointed to “the American invasion of Europe” and invasion of goods manufactured in United States.⁷¹ The phrase “American Invasion” was first used by the Austrian minister of foreign affairs and it came to be repeated frequently. On the other hand, between 1893 and 1897 the depression in the United States served to limit domestic demand. This had two influences on the foreign endeavors of U.S enterprise; firstly that companies with surplus stock saw external markets as an outlet to get rid of goods that could not be sold at home, which lead to the rise of export. Another consequence of the depression was that many American companies failed but those which survived grew mighty and expanded into giant corporations. Therefore the depression turned out to be a natural selection for companies.

American foreign policy also influenced the nation’s investors abroad. Until the Wilson administration the United States’ governments clearly sought to assist American business operating outside the country.⁷²

⁷⁰ Mira Wilkins, The Emergence of Multinational Enterprise: American Business Abroad from the Colonial Era to 1914, Harvard University Press, US, 1970 p.70

⁷¹ Ibid.

⁷² Ibid. p.74

American firms sold first at home and then abroad. The administrative hierarchies in business organization emerged more rapidly in the US than in Britain.⁷³ The key to the US market was scale economies. Many companies investing in United States, had a chance to train themselves and their companies in the huge and heterogeneous US market. Also some U.S companies had to stay within borders such as banking firms (due to the U.S banking laws sharply restricting American banks in their expansion at home and abroad) or industries which chose to develop in the huge U.S market to strengthen themselves before investing in foreign markets.⁷⁴

The large American firms which survived often moved overseas. They first set up branch offices and warehouses on foreign shores. Then, as demand grew and local tariffs appeared, or as shipping costs increased and the scheduling of travel across oceans became complex, the enterprises built plants abroad which soon began to be supplied from nearby resources. By 1914 at least 41 American companies had built two or more operating facilities abroad.⁷⁵ But the United States accounted for no more than 18 per cent of the global stock of outward FDI in 1914, a share much lower than that of the largest home country, the United Kingdom, with more than 45 per cent.⁷⁶ These figures indicate that before 1914, instead of the United States, the United Kingdom and other European counterparts were more engaged in FDI and

⁷³ Mira Wilkins, "European and North American Multinationals, 1870-1914: Comparison and Contrast", in Ed. Mira Wilkins, The Growth of Multinationals, Edward Elgar Publishing, US, 1991 p.67

⁷⁴ Ibid.

⁷⁵ Alfred D. Chandler, "The Growth of the Transnational Industrial Firm in the United States and the United Kingdom: A Comparative Analysis", in Ed. Mira Wilkins, The Growth of Multinationals, Edward Elgar Publishing, US, 1991 p.416

⁷⁶ Tolentino, op.cit., p.23

hosting multinational corporations. After 1914, the United States developed much more intensely in the areas of international business and trade and therefore in multinational corporations.

American companies expanded abroad in sewing machines, harvesters and mass produced automobiles. Also, until to the outbreak of the First World War, the United States was a substantial exporter of crude petroleum.⁷⁷ The petroleum industry accounted for some 13 to 14 per cent of American FDI in the period between 1897 and 1914.⁷⁸ The period 1893 to 1914 saw the Standard Oil companies handling the bulk of American oil exports. Between 1911 and 1914 many more American oil companies like Texas Company, Gulf Oil Company and the Magnolia Oil Company began to invest in oil fields abroad.⁷⁹ It was not until the first decade of the 20th century that U.S MNEs began producing crude oil, primarily in Mexico, Canada, Peru and Romania.

Wilkins observes that by far the largest number of foreign investments by U.S MNEs prior to 1914 were in sales or manufacturing activities.⁸⁰ She attributes this situation to the fact that, for most of the 19th century, the US was self sufficient in most minerals, raw materials and foodstuffs. The manufacturing sector accounted for between 15 and 18 per cent of the stock of American FDI worldwide between 1897 and 1914.⁸¹ It was the third largest sector after railroads and mining in 1897, but

⁷⁷ Dunning, op.cit., p.111

⁷⁸ Tolentino, op.cit., p.43

⁷⁹ Tolentino, op.cit., p.45

⁸⁰ Dunning, op.cit., p.111

⁸¹ Tolentino, op.cit., p.36

from the early 1990s it became the second largest sector after mining in terms of size of investment.⁸² However the largest number of foreign stakes of American controlled international corporations in the period prior to 1914 was in the field of sales and manufacturing. In the period leading up to the end of the 19th century, mining and smelting was the second largest sector of American FDI after railroads and it accounted for some 21 per cent, equivalent to \$134 million of American FDI in 1897.⁸³ Since that time and until 1914, the mining and smelting sector became the most important sector of American FDI, with a share of some 27 per cent of American FDI in 1908 and 1914.⁸⁴ By 1914, American FDI in mining and smelting had reached \$720 million.

Alongside their industrial investments, American multinationals had also invested in the agricultural sector. The story of United Fruit's foreign operations in the Caribbean is well known. It is one of the most fascinating stories in the early history of MNE activity. Agriculture was the fifth most important sector of American FDI before the end of the nineteenth century and it accounted for some 12 per cent of American FDI worldwide in 1897.⁸⁵ The relative importance of the sector was maintained until 1914. Investments in foreign agriculture assumed further importance for American firms and the American economy after 1914. This was associated with the worldwide surge in demand for rubber from the early 1920s.⁸⁶

⁸² Tolentino, op.cit., p.36

⁸³ Tolentino, op.cit., p.35

⁸⁴ Tolentino, op.cit., p.35

⁸⁵ Tolentino, op.cit., p.46

⁸⁶ Tolentino, op.cit., p.47

The involvement of US direct investment in the agricultural sector of the Caribbean is also an excellent example of the early interaction between home government and business interests. This is a story which culminates in the action of President Taft sending gunboats and marines into the Caribbean to protect US-owned property and the commercial interests of American affiliates.⁸⁷ (These kinds of stories will be discussed in details in the third chapter) Even in the contemporary world, investments in the agricultural sector (especially regarding bio-diesel technologies) still catch attention of MNCs and nation states.

The period until 1914 was associated with the emergence of American MNCs. Many American firms had obtained a foreign stake in only one country before 1914 but international business did not make a substantial contribution to the profits of American enterprises.⁸⁸

2.1.2. The Period Since 1914

In this section I will cover the period starting from 1914 until the end of the 20th century. We will see the evolution of the American MNCs after 1914. As we have seen, until 1914 only the European investors were considered as multinational corporations. I can easily say that the primitive multinationals were Europeans and the American multinationals started to develop after 1914. In the 3rd chapter we will

⁸⁷ Dunning, *op.cit.*, p.112

⁸⁸ See, Paz Estrella Tolentino, Multinational Corporations –Emergence and Evolution-, Routledge, London, 2000

see the contemporary position of today's MNCs and I will particularly focus on the American MNCs in today's world.

The period since 1914 is associated with the growth and evolution of American MNCs. In the period after 1914 there were significant changes in the relative importance of the major host countries and in the altered position of the United States changing from a debtor nation in 1914 to a creditor nation in 1919.⁸⁹ In 1914, the roots of the present day American Multinational Enterprise were practically evident. U.S direct investments existed worldwide; already certain companies had developed multinational strategies.

For example Singer, a U.S. pioneer of the modern sewing machine, established its first foreign factory in Scotland in 1867.⁹⁰ Investments followed in manufacturing and marketing in other countries, especially Russia. By 1914, Singer held a remarkable 90% share of all sewing machine sales outside the United States and was the seventh largest firm in the world. Yet, it was after 1914 that the blossoming and vast influence of the U.S-headquartered multinational corporation came of age. World War I represents a watershed in the history of the multinational enterprise.

The First World War and the years that followed saw several changes in international production. Of the major investing countries only the US emerged

⁸⁹ Dunning, *op.cit.*, p.55

⁹⁰ Globalizing Consumer Durables: Singer Sewing Machine before 1914, available at <http://www.hbs.edu/businesshistory/cases.html> accessed on 21.09.2005

intact, however along with other countries, even the U.S suffered from the collapse of the international capital markets in the late 1920s and early 1930s.⁹¹

As Europeans fought, Americans had the opportunity to make new direct foreign investments outside Europe. The war in Europe meant a giant demand for motor transport which in turn stimulated demands for rubber tires.⁹² The U.S rubber tire makers anticipated a sharp rise in the price of raw rubber. The war also brought destruction to the sugar plantations in Europe which drove Americans to increase their investments in Cuban cane sugar.⁹³ In addition to this, in order to meet the huge demands for the European army's food stuff, agricultural and agricultural processing FDI increased by significant levels.

The demands of the First World War put a greater emphasis on the importance of certain mining investments to procure nitrates, copper, iron, aluminum and nickel.⁹⁴ The direct involvement of the United States in the war between 1917 and 1918 increased the country's requirements for all of these commodities.

In general the climate for transnational commerce after 1914 was considerably less favorable than in the years prior to 1914. The resulting international economic environment encouraged import substituting investment and the formation of cross border cartels to protect the participants against destructive competition.⁹⁵ Another feature of the inter-war years was the decline of syndicate

⁹¹ Dunning, op.cit., p.119

⁹² Mira Wilkins, The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970, Harvard University Press, U.S, 1974 p.8

⁹³ Ibid. p.9

⁹⁴ Tolentino, op.cit., p.56

⁹⁵ Dunning, op.cit., p.120

and free standing FDI and an increase in all kinds of MNE activity. In this period companies started to invest and settle in countries they wanted to penetrate. This is why after this period alongside FDI, MNC activity has also risen up in many countries.

Not as a home country for FDI but as a host country, the United States also attracted the most attention. Of all the hosts for foreign direct investment, the United States in 1914 was by far the most important.⁹⁶ It was a high income market, surrounded by a high tariff wall. It was rich in natural resources and the opportunities for profit seemed immense. The expansion of American business grew both domestically and internationally through this period.

While the advent of the global enterprise was not yet high, the movement towards the globalization of products and markets certainly began in the 1920s and was primarily of US origin.⁹⁷ American MNEs maintained a vigorous growth in the 1920s. Most of this growth was directed to Canada and Western European countries which, between them, accounted for 72% of all US outbound manufacturing investment between 1919 and 1929.⁹⁸ Between 1925 and 1929 alone 303 new American factories were set up in Europe and Canada.⁹⁹ After 1923 the U.S economy began to boom. Corporations grew in size, obtained new capital from the sale of

⁹⁶ Mira Wilkins, "European and North American Multinationals, 1870-1914: Comparison and Contrast", in Ed. Mira Wilkins, The Growth of Multinationals, Edward Elgar Publishing, US, 1991 p.73

⁹⁷ Dunning, op.cit., p.121

⁹⁸ Dunning, op.cit., p.121

⁹⁹ Dunning, op.cit., p.121

securities, reinvested their profits and added new facilities through mergers.¹⁰⁰ As it was quoted in Wilkins, the era of the “Second Industrial Revolution” was the label that the historian, William E. Leuchtenburg gave to these times.¹⁰¹

The expansion of American business abroad between 1929 and the end of the Second World War was influenced by a number of factors. The depression of the late 1920s and the stock market crash of 1929 either curtailed or caused many American enterprises to retreat from business abroad. However some manufacturing companies felt compelled to initiate international production that would not have been made if there had there been no actions by host country governments to achieve nationalism, autarky and industrialization.¹⁰² This included trade restrains of various forms like tariffs, quotas and embargoes and policies that affect inward FDI. American companies tried to create alternatives for themselves in different market conditions. They differentiated the markets, labor and all other ingredients of their production to be more competitive in the global market. The decade of the 1930s represented the beginning of the *retrenchment and retreat* of American FDI abroad, a trend that was to continue until the end of the Second World War.¹⁰³ Until this period U.S MNC activity had grown in a great scale which constituted a great amount of world MNC activity until the Second World War period. This period turned out to be the bounce

¹⁰⁰ Mira Wilkins, The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970, Harvard University Press, U.S, 1974 p.52

¹⁰¹ Ibid. p.52

¹⁰² Tolentino, op.cit., p.63

¹⁰³ Tolentino, op.cit., p.64

stage of the American MNCs, which in turn was the cradle era for the future giants that would eventually effect US foreign relations.

The share of the United States in the global stock of outward FDI grew rapidly to reach almost 28 per cent by 1938 and more than 47 per cent in 1960.¹⁰⁴ Although the relative importance of the United States as a home country for FDI has declined to 24-25 per cent of the global stock since 1990, owing to the rise in the absolute importance of outward FDI from newer source countries such as Germany and Japan, the United States has nevertheless remained the single largest source country of outward FDI since the Second World War.¹⁰⁵ So as I mentioned above, starting from the 1920s through the Second World War, up until the 1990s and even today, the United States has remained the one and only leader of MNC activity all over the globe. Although other developed states also had multinational investments worldwide, the U.S had always been the undisputable leader in MNC development. This is the main reason why we are focusing on U.S multinationals to explore the impact of multinationals on foreign policy.

The effect of the Second World War was similar to that of its predecessor in that each of the main European belligerents was forced to divest many of its foreign direct assets. This means that European countries had exhausted most of their financial and economic resources to catch up in the race of multinational and national-economic growth.” The United States and U.S multinationals took advantage of this by improving themselves without a serious challenge and supplying a whole continent (Europe) that was hungry for goods manufactured in America.

¹⁰⁴ Tolentino, op.cit., p.23

¹⁰⁵ Tolentino, op.cit., p.25

However unlike the First World War, the second generated a series of major technological advances, while its aftermath produced an international economic and political climate particularly favorable to cross border business activities.¹⁰⁶ To take advantage of this climate the United States' government sought to promote the expansion of all American private investment abroad in 'politically friendly' countries, starting with European ones and continuing in less developed countries in 1950s and 1960s.¹⁰⁷

Promotion of American investment abroad served both economic and political objectives of the U.S government. Not only having a good balance of payments but also containing Communism was the main target of the U.S politicians. The United States dominated the supply of new capital, innovations and entrepreneurship for much of this period. The obligations of United States to keep the dollar convertible to gold at \$35 per ounce meant that it could not devalue the dollar in terms of gold without undermining confidence in the existing system of exchange rates.¹⁰⁸ The overvaluation of the dollar made foreign currencies and foreign assets, goods and services cheap in terms of the dollar and contributed to yet higher levels of outward FDI by American firms.¹⁰⁹

World War II marked the real beginning of multinational business for U.S firms.¹¹⁰ The years 1955-1970 proved prosperous ones for U.S business at home.

¹⁰⁶ Dunning, op.cit., p.125

¹⁰⁷ Tolentino, op.cit., p.65

¹⁰⁸ Tolentino, op.cit., p.66

¹⁰⁹ Tolentino, op.cit., p.66

¹¹⁰ Richard D. Hayes, Christopher M. Korth, Manucher Roudiani, International Business: An Introduction to the World of the Multinational Firm, 1972, U.S p.262

Corporations grew in size, diversified their products and moved into additional industries. Most of them concentrated on specific sectors and improved themselves by selling both in the United States and to Europe. With the capital and the experience they gained through the period of the Second World War, the American MNCs matured and entered into the gigantic level. In 1960s mergers accelerated and giant MNCs started to appear. In 1970 the Office of Foreign Direct Investments in the Department of Commerce collected data on 3.350 direct investors which controlled more than 15.000 foreign business enterprises.¹¹¹ During 1960s, Americans heard of individual foreign investments of more than \$100 million. The outflow for direct investment reached its peak in 1970. The massive move of U.S business abroad in the years 1955-1970 has had great impacts. From the standpoint of the world economy it has contributed to the shrinking of the world's geography. Through the media knowledge of multinational enterprise goods, capital, men, management and technology have spread internationally.

By 1969, the American multinationals alone produced approximately \$140 billion worth of goods, more than any national economy except those of the United States and the Soviet Union.¹¹² By the early 1970s the United States had become more of a foreign investor than an exporter of domestically manufactured goods.¹¹³ In year 1969, of the 50 largest industrial firms of the world, 37 were American; and

¹¹¹ Mira Wilkins, The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970, Harvard University Press, U.S, 1974 p.375

¹¹² John H. Dunning, "Multinational Corporations and International Production", in Ed. John H. Dunning, The Multinational Enterprise, Harvard University Press, U.S, 1970 p.238

¹¹³ Ibid. p.239

of the 20 largest, 18 were American.¹¹⁴ International production by American multinational corporations had surpassed trade as the main component of America's international economic exchange.¹¹⁵ In the same period the rate of foreign investment by American multinationals had first peaked and then begun to decrease in comparison. This was because of the European, and subsequently Japanese, multinationals' entry and initiative to invest heavily and start overseas production in the world markets.

Transportation equipment, chemicals and allied products, machinery, food and related products and electrical-electronic equipment remained the five most important manufacturing industries of American FDI through the 1980s and 1990s, even though the relative importance of the individual industries in American FDI altered since the 1960s.¹¹⁶ Petroleum remained the second largest sector of American FDI from 1929 until the mid 1960s, when its relative importance began to decline from 34 per cent of the stock of American FDI in 1960 to 26 per cent in 1970, 13 per cent in 1989 and 10 per cent in 1997.¹¹⁷ Apart from the five major sectors of American FDI of manufacturing, petroleum, trade, mining and public utilities, American FDI since the late 1950s and 1960s emerged and expanded in finance, insurance and real estate.¹¹⁸ U.S. banks for example were leaders in international government and corporate wholesale banking, following a 1970s boom and a 1980s

¹¹⁴ Hayes, Korth, Roudiani, op.cit., p.268

¹¹⁵ Dunning, op.cit., p.239

¹¹⁶ Tolentino, op.cit., p.69

¹¹⁷ Tolentino, op.cit., p.69

¹¹⁸ Tolentino, op.cit., p.70

bust. International overexpansion in petro-dollar recycling in the 1970s was followed by the "developing country debt crisis" that brought failure and consolidation to many former American banking leaders.¹¹⁹ But the survivors (notably Citigroup, JP Morgan Chase and a radically re-worked Bank of America) were able to rise again, aided both by the booming 1990s U.S. economy and by aggressive moves into capital markets and securities floatation, as the legal wall between investment and commercial banking crumbled. American banks also joined in the business of financing trade and commerce across borders.¹²⁰ Even so, the U.S. financial services companies achieved notable global positions in some retail banking segments such as credit cards, with American Express and Visa having achieved truly global spreads, albeit typically in joint ventures with local or foreign institutions.

From an accumulated direct investment of only \$11.8 billion in 1950, the book value of American direct investment abroad had risen to approximately \$233.4 billion by 1984 (US Department of Commerce, 1984).¹²¹ In 1981, American foreign direct investment was more than two-fifths of the world's total foreign direct investment.¹²² By around 1989, another structural change in the industrial pattern of American FDI became evident with the ascendance of services (with a share of 47

¹¹⁹ Lawrence G. Franko, Financial Services Forum College of Management, University of Massachusetts Boston October 2004, available at <http://www.financialforum.umb.edu/documents/Franko%20Fin%20Svc%20Global%20Comp.pdf> reached on 05.03.2005

¹²⁰ Lawrence G. Franko, Financial Services Forum College of Management, University of Massachusetts Boston October 2004, available at <http://www.financialforum.umb.edu/documents/Franko%20Fin%20Svc%20Global%20Comp.pdf> reached on 05.03.2005

¹²¹ Dunning, *op.cit.*, p.238

¹²² Dunning, *op.cit.*, p.239

per cent of the stock of American FDI abroad) as the single most important economic sector for American MNCs.¹²³ And after this period U.S multinationals managed to stay as the leading service supplier multinationals in the global market. The biggest service supplier companies in the world such as Price Waterhouse Coopers, AC Nielsen and Google, are all American originated multinationals.

During the past decade and a half, the World Bank and International Monetary Fund have also promoted reforms to lift controls on investment in banking, telecommunications, and other services, opening new markets for the global giants in these sectors. Between 1983 and 1999, the share of total sales of the Top 200 multinationals made up by service corporations increased from 33.8 percent to 46.7 percent.¹²⁴

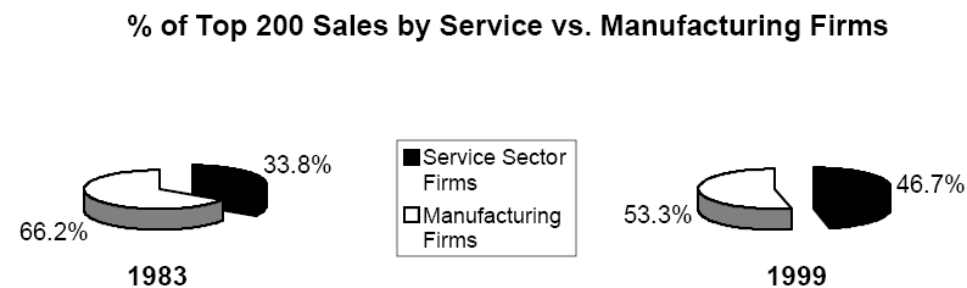


Figure 2: Service firms vs. manufacturing firms

Source: The Rise of Corporate Global Power by Sarah Anderson and John Cavanagh, available at http://www.ips-dc.org/downloads/Top_200.pdf accessed on 18.01.2004

¹²³ Tolentino, *op.cit.*, p.70

¹²⁴ The Rise of Corporate Global Power by Sarah Anderson and John Cavanagh, available at http://www.ips-dc.org/downloads/Top_200.pdf accessed on 18.01.2004

When we look at the emergence and evolution of the American MNEs, we can see a systematic growth and development parallel to the economic history. No matter what the roots of the American MNEs or when the real corporate or multinational enterprise had been established, the American business abroad had a significant success all through the decades and a constant rise ahead of all corporations originating from other developed countries. Economically and politically powerful MNEs, which are the main concern of this thesis, do emerge and evolve first in United States and consequently Multinational Corporation notably sounds like an American phenomenon. Not only through the interwar years or in 1970s but also in 1980s and 1990s, MNEs with the power of globalization do emerge as one of the leading actors on the globe. Especially with the world turning into a global village, with the new legal arrangements and economic orders like WTO, the European Union, NAFTA and many other bilateral or multilateral agreements, the world become or was purposely fashioned by developed states, as the playground of giant multinationals.

Multinational Corporations do take advantage of this atmosphere and use it for their own benefits. Through the 1980s and 1990s, MNEs with the wind of globalization behind them diversified their investments, increased their profits, employed more men, accumulated more capital, discovered high technologies and acquired a stronger input in economic and political issues. In the next chapter we will see how did they used these powers, how they interacted with host and home governments and how they interfered with new areas of interest and new actors.

CHAPTER III.
THE IMPACT OF MULTINATIONAL CORPORATIONS ON
INTERNATIONAL RELATIONS

The third chapter of this thesis will try to cover the contemporary issues regarding the developments of multinational corporations in the last decade. I will try to show the outcomes of the historical evolution of the Multinational Enterprise, specifically in reference to the position of American multinationals today. I shall discuss the political and economic position of today's multinational corporations with respect to the role and strengths of nation-states with examples from U.S multinationals and the United States in world politics and international relations. I shall also discuss the power balance and the formation of the power structures between the nation states and the multinationals both in theoretical and in practical respects. In this chapter I will try to clarify the impact multinational corporations have had in the 21st century especially in terms of their American foreign and domestic policy.

In the first part of this section, in order to understand how MNCs have grown to a size which can be effective on interstate level we will look at their developments in the 1990s and 2000s. Through examples, we will study the metamorphosis 21st century multinationals have been going through in terms of globalization, interdependence, changing home. Host country relations or triangular diplomacy will be our main concerns. In the following parts, the issue will be specifically related to U.S multinationals. The interaction of the United States' government and U.S multinationals and the effects on American foreign policy will be studied with

different examples. The motives and basic concerns of this interaction will be solidified with examples. I will try to accomplish this thesis's main aim of putting forward "the impact of U.S multinationals on the United State's foreign policy". In the final chapter, our main concerns as I have mentioned above be clarified with case studies and examples from the United States and U.S multinationals.

3.1. Multinationals of the Global Century

In their traditional forms of international trade, as well as their newer from of multinational business operations, international business and multinational corporations have become massive in scale and have come to exercise a major influence over political, economic and social developments throughout the world. The emerging global order had brought many new concepts and actors into the world agenda. The new economic relations, the new tools for trade, the new interdependence not only between states but also between states and multinationals, created new circumstances.¹²⁵ The unstoppable rise of multinationals gave them both an economic and political power to manipulate state actions. The interference of these private actors in state affairs had spread to inter-state relations and even to the domestic issues of third states via other state's foreign policies.

The emerging global order is spearheaded by a few hundred corporate giants, many of them bigger than most sovereign nations. Ford's economy is larger than

¹²⁵ New Interdependence: Firms became more involved with governments and governments now recognize their increased dependence on economic resources controlled by firms. Both actors admit their reliance on each other.

Saudi Arabia's and Norway's. Phillip Morris's annual sales exceeded New Zealand's gross domestic product.¹²⁶ The new giant firms of the 21st century have achieved something that no other nation could manage today. They have reached millions of people through different kind of global webs like shopping, culture, workforce and finance.¹²⁷ These worldwide webs of economic activity have already achieved a degree of global integration never before achieved by any world empire or nation state. So that the actors on the top of these webs like Microsoft, IBM, Airbus or Boeing, now have a say on many different political issues and have the power to cause economic effects on many different areas, which never had before.

From a mere three thousand in 1990 the number of multinationals has grown to over 63,000 today.¹²⁸ Along with their 821,000 subsidiaries spread all over the world, these multinational corporations directly employ 90 million people (of whom some 20 million in the developing countries) and produce 25 per cent of the world's gross product. The top 1,000 of these multinationals accounts for 80 percent of the world's industrial output. With its \$210 billion in revenues, Exxon-Mobil is ranked number 21 among the world's 100 largest economies, just behind Sweden and above Turkey.¹²⁹

When we consider these powerful corporations, they may seem to be a boom to mankind, superceding the nation-state, diffusing technology and economic growth to developing countries and interlocking national economies into an expanding and

¹²⁶ Tolentino, op.cit., p.14

¹²⁷ Tolentino, op.cit., p.15

¹²⁸ Medard Gabel & Henry Bruner, op.cit., p.28

¹²⁹ Medard Gabel & Henry Bruner, op.cit., p.35

beneficial interdependence.¹³⁰ Or they may seem as imperialistic predators, exploiting all for the sake of the corporate few while creating a web of political dependence and economic underdevelopment. Many of them are extremely powerful institutions and possess resources far in excess of most of the member states of the United Nations.

The rise of multinationals has threatened the absolute power of nation states. Both domestically and internationally, states start to share their political and economic power with institutions like MNCs. Interdependence is not valid only between states anymore, states and private actors have to cooperate in order to protect their interests.¹³¹

Nowadays it seems that the sovereign states are feeling naked. Concepts such as national sovereignty and national economic strength appear curiously drained of meaning.¹³² Even in the year 1971, governments had begun to ask how these entities were affecting their national interests and what policies were needed to deal with them.¹³³ Multinationals used various kinds of tools to achieve this much success, such as FDI (Foreign Direct Investment), Joint Ventures and Portfolio Investments. While they were crossing the border they did not only interact with the host governments but they also cooperated with their home governments. When multinationals broadened their businesses, they became great political and economic

¹³⁰ Modelski, Multinational Corporations, Freeman&Co, G.B, 1979, p.231

¹³¹ Gautam Sen, "The State and Globalization: Autonomy and International Cooperation Under Anarchy", paper presented to the Conference on The Political Economy of Globalization- The new identity of state in 21st century, Istanbul 1999, p.5

¹³² Raymond Vernon, Sovereignty At Bay –The Multinational Spread of U.S Enterprises-, Routledge, U.S, 1971, p.3

¹³³ See, Raymond Vernon, Sovereignty At Bay –The Multinational Spread of U.S Enterprises-, Routledge, U.S, 1971

tools for their home governments to intervene in domestic affairs of their neighbors. While states sometimes saw foreign multinationals as rivals or intruders, they did not miss the opportunity to use their home based multinationals to interfere with other state's domestic affairs. Many developed countries, like the United States, had always tried to use the big U.S multinationals, especially in 3rd World countries, to interfere in the domestic politics or in bilateral relations with that particular country on economic or political sense.¹³⁴ The United State's interference in the domestic political affairs of the South American countries via U.S originated firms is a good example of this.

The international political system after the 1980s and 1990s started to be defined as a global system with the concept of interdependence heading world politics. Globalization and interdependence between states and firms came to a point to affect our social, political, economic and cultural lives.

The emergence of the developments in science and technology had not only created multinational corporations. With the disappearance of the absolute national border lines and the improvements in communication, technology and transportation and with economic agreement pacts like EEC, NAFTA etc., the world had become more like a global village where people could meet, trade, interact and effect each other more than ever. Globalization, which is perhaps the most repeated phenomenon of our century, had changed the rules of the games of economy, international relations and politics.

¹³⁴ See, David N Gibbs, The Political Economy of Third World Intervention: Mines, Money, and U.S. Policy in the Congo Crisis, The University of Chicago Press, Chicago, 1991

While some scholars think that globalization has added much to the integration of the world, some others think that the process of global economic integration is stimulating political and social disintegration.¹³⁵ Scholars like Ohmae; (as Dent quoted him in his book) view globalization as de-legitimizing the national economy and the nation state.¹³⁶ While the nation state is losing power, other non-governmental actors such as MNCs are having more say on the national and international economic issues of states.

Another scholar, Robert Gilpin, from his position as a Realist argues that despite all polemics against multinational corporations there is little evidence to support the view that multinationals have been very successful in replacing the nation state as the primary actor in international politics.¹³⁷ But he also asserts that MNCs are successful in influencing their home government's policies and are able to influence the host government policies via their home governments who act as agents for their own countries.¹³⁸

A globalized world defines the interconnection of political, cultural and economical events and makes them more intensely effected by the developments taking place in one another. One of the reasons for the globalization is the economic developments which I mentioned above. With the dissolution of the bipolar world, the economic integration within the states had become one of the most important

¹³⁵ Richard J. Barnet & John Cavanagh, Global Dreams-Imperial Corporations and the New World Order-, Simon & amp New York, 1994, p.13

¹³⁶ Christopher M. Dent, "Transnational Capital, the state and foreign economic policy: Singapore, South Korea and Taiwan", in Review of International Political Economy, 10:2 may 2003 p.248

¹³⁷ Robert Gilpin, "The Politics of Transnational Economic Relations", in Ed. Robert Gilpin, The Library of International Political Economy 6 –International System and International Political Economy Vol.I, Harvard University Press, US, 1993, p.23

¹³⁸ Ibid.

aspects of the 21st century. Not only by trade agreements like GATT/WTO but also with regional integrations like EU or NAFTA, nation states are trying to overcome the effects of new interdependence as the outcomes of globalization. Nation states, even the wealthiest or the most powerful ones like U.S, can not stand alone anymore in front of multinational corporations in economic and political arenas. The structural changes in the world economy and competition on products and markets created new kinds of relationships between states and corporations. Governments initiated several strategic economic policies to overcome and tackle the new standards and hard conditions of the international markets mostly affecting their relations with MNCs.

3.2. Home and Host Country Relations of MNCs

Since 2000 it has been recognized that governments, firms and markets are partners in advancing the economic development and national competitiveness. Governments promote market friendly policies in order to take the advantage of the new globalized economy and in order to cope with the multinationals. As a result of the emergence of the new global world, it became necessary to conform not only to the economical developments but also to the political ones. After the two world wars and the collapse of the Soviet Union and the breakdown of the Berlin Wall, capitalism became the major economic system and power diffusion among the states became more obvious favoring the United States. American power brought liberalization. The power became one of the most important aspects (in terms of political, military and economic power) which brought the American structure into

the scene. American leadership brought globalization and globalization brought the multinationals to be one of the leading actors not only on the economic platform but also, eventually on the political platform. Probably the main factor behind the economic globalization, which also brought the political one, is the technological advancements. Today technological changes not only affect the economic issues but also the socio-cultural structures of the societies. Countries that aim to get an advantageous place in the globalizing markets spend a large amount of capital on Research and Development. Besides governments, as partners in the world markets, MNCs also lead the R&D competition in the technology race.

Due to the emergence of globalization, governments have had to pass multiple legislative measures, regulations, executive orders and court decisions enabling foreign firms to operate in their territories, their own firms to operate abroad and to make their markets global.¹³⁹ As it was quoted in many articles and books, the emerging consensus is that; globalization is reducing the autonomy of the state.¹⁴⁰

Globalization is de-nationalizing the capabilities that are basis of the territorial organization of military power of the state.¹⁴¹ Globalization is not only internationalizing the financial and natural resources of a nation state but also at the same time it creates interdependency among nation states, multinational corporations and international organizations that weakens states' will and right to use their military, economic and political power to protect their rights in every single arena.

¹³⁹ Saskia Sassen, "Globalization or denationalization?", in Review of International Political Economy, 10:1 February 2003, p.8

¹⁴⁰ Sen, op.cit., p.1

¹⁴¹ Sen, op.cit., p.8

This kind of circumstances (or what we call today a global village or globalization itself) to a certain extent naturalizes the use of the sovereignty power of a nation state. An important point that Sen has asserted in his article is about the relation between globalization and interdependence. He writes that “Globalization is closely related to economic interdependence per se, but not synonymous with it. The former is a structural phenomenon because it institutes a deeper level of economic interpenetration than the latter and becomes more consequential as a rule.”¹⁴²

Christopher Dent explains this interdependence and globalization equation between firms and governments as a state’s ability to conduct an effective diplomacy with foreign MNCs. This depends on the state’s own power base, technocratic capacities, general adaptive qualities and the development level of the economy over which it presides.¹⁴³ While MNCs seek to extract policy concessions from states and influence state’s economic policy making processes, they also view those states endowed with sufficient technocratic capabilities as adaptive partners, whereby both agents gain by working in conjunction to respond to the mutual challenges presented by globalization.¹⁴⁴

Besides the partnership of the two actors, the goals of the multinational firms and the home or host countries are not always identical. To be more concrete, what is good for the U.S based multinational company is not necessarily what is good for the national interest of the United States or any other state. Each nation state tries to maximize its own national goals. Therefore inevitably a potential conflict exists

¹⁴² Sen, op.cit., p.2

¹⁴³ Dent, op.cit., p.250

¹⁴⁴ Dent, op.cit., p.271

between the multinational enterprise and the nation state. In all business operations, whether domestic or international, the business enterprise and governments have common interests that overlap and are in harmony as well as potential areas of conflict where the interests of the two parties diverge.

As a sovereign power, nation states have the power and the responsibility to govern business transactions within their boundaries that will increase the national interest and intervene on outside intruders because; “The multinational corporation not only promises the most efficient use of the world resources but as an institution it poses the greatest challenge to the power of a nation-state since the temporal position of the Roman Church began its decline in the 15th century.”¹⁴⁵

The challenge that MNEs pose against the sovereignty of the nation state have different degrees. Economic sovereignty reflects the ability of a government to choose how to best to manage its resources for wealth creating activities. Cultural sovereignty reflects the freedom of a country to determine its own way of life, including the extent to which it wishes to adopt the customs, ideologies and values of other societies. Legal sovereignty defines a country’s authority to devise its own laws and regulations, independent of any outside interference. Political sovereignty embraces economic, cultural and legal sovereignty. It is the prerogative of a country to manage all its affairs as it wishes and without any unacceptable influence from another jurisdiction. Political sovereignty in any meaningful sense rests on the status, power and independence of a nation state in relation to that of other nation states which may directly or indirectly affect its own well-being. In order to understand

¹⁴⁵ Jack N. Behrman, “Control of the Multinational Enterprise: Why? What? Who? And How?”, in Eds. Patrick M. Boorman & Hans Schollhammer, Multinational Corporations and Governments – Business Government Relations in an International Context, Praeger Publishers US, 1975, p.33

how an MNC has an affect on a nation-state's sovereignty, it is necessary to examine the extent to which and what ways the ultimate sovereignty has been effected.¹⁴⁶

MNCs may effect the sovereignty of a nation state by their actions or by their reactions to the policies of governments in the political, social or cultural arena. But perhaps the most important effect of MNCs is on national security and in political areas. Although nation states, with or without their permissions are obliged to overlook the interference of other actors on their sovereignty, there are some strategic interests like national security upon which no nation state can tolerate outside influence.

In order to explain the bargaining between the governments and corporations and the influence on sovereignty, Raymond Vernon has figured out a thesis called "Sovereignty At Bay".¹⁴⁷ This thesis assumes that the bargaining advantages are, and always will be, on the side of the corporation. In contrast to the corporation's vast resources and flexibility, the nation state has little with which to bargain. Most nation states lack the economies of scale, indigenous technological capabilities, or native entrepreneurship to free themselves from dependence upon American or other developed county originated multinational corporations. According to this argument, the extent to which Nation State's reassert their sovereignty is dependent upon the economic price they are willing to pay and it assumes that when confronted with this cost they will retreat from nationalistic policies.

¹⁴⁶ John H. Dunning, Multinational Enterprises and the Global Economy, Cheltenham Press, U.S, 1992 p.529

¹⁴⁷ See, Raymond Vernon, Sovereignty At Bay –The Multinational Spread of U.S Enterprises-, Routledge, U.S, 1971

In an age of rising economic expectations, the sovereignty at bay model rests on an important truth: a government will be reluctant to assert its sovereignty and drive out the multinational corporations if this means a dramatic lowering of the standard of living, increasing unemployment or decreasing tax income etc. Nation states are still the core element of the international system and they are, in appearance at least the sole user of the sovereignty power in many senses but they are not alone anymore on the game field.

3.3. Interdependence and Triangular Diplomacy

In the 21st century governments have come to recognize that their increased dependence on the scarce resources has been controlled by firms. When Keohane and Nye has stated in one of their articles that; “We live in an era of interdependence”¹⁴⁸ they were referring to the power calculations which are now more delicate than in the previous ages among states. Today we are living in a world of vulnerabilities and benefits between states, other states and even multinational corporations. Actors of the international arena are sharing more common economic or political interests than they ever did before. I have referred to the challenge between the Modern and the Traditional way of thoughts and they point out the debate of whether the territorial state, which has been dominant in world politics for four centuries since the feudal times, has ended and is being eclipsed by non-territorial actors such as multinational

¹⁴⁸Robert Keohane & Joseph S. Nye, “Interdependence in World Politics”, in Ed. David A. Baldwin, The Library of International Political Economy 5 –Key Concepts in IPE-, Vol.I, Aldershot press, Brookfield US, 1993, p.224

corporations. Nowadays almost five of the ten dominant power of the world are not nation states. The world politics still seem to be ruled by powerful states but the main actors are not only states anymore. What traditionally oriented scholars forget to calculate are the outcomes of the fundamental changes in technology, communication, social and economic transactions which leads us to a new world of interdependency among nation states and multinational corporations.

In this section of the thesis our aim is to figure out the interdependence not only between the states but, due to contemporary changes, the interdependence between the new actors of the game such as Multinational Corporations. I will examine the economic and political interdependence in contemporary world politics with references to the “Triangular Diplomacy” of Susan Strange. Our task in this part is not to argue about new theoretical approaches but to provide means to develop an analysis on the interdependence among states and corporations.

The turmoil, which is the result of globalization, in world politics in the last decades has altered the relationships among states and non governmental actors. Growing interdependence among states in economic growth, trade surplus or political superiority and influence has now become a rivalry between states and multinational corporations. Once the only competitor for a nation state was a superior one but now they also have to because of the powerful multinationals unbalancing their trades, interfering with their import export balances or manipulating the political position of a home or host government. Securing their place in world economy and politics, not only among nation states but also among other actors like NGOs and more specifically among important economic actors as MNCS, has become far more significant. The competition for power as a means for wealth has

become a global competition for wealth as a means for power. These changes in world politics have added two new dimensions to diplomacy. No longer do states negotiate among themselves they must now also negotiate with foreign firms.¹⁴⁹

Multinational firms are becoming more like statesmen as they seek corporate alliances to enhance their capacities to compete with others for world market shares. These structural changes in international political economy have altered the nature of the game thus affecting the actions and responses among firms and states.

Intensifying cross border competition brings interdependence among governments and firms. No longer the absolute power in their states, within their territories it becomes applicable for governments to use transnational politics. National boundaries do not define the rules anymore. Negotiation and action carried out on a triangular basis is the name of the game in the global century.¹⁵⁰ In addition to the traditional players of the old game such as minister and ambassadors executives of both domestic and multinational firms are now involved. The growth of global competition can be seen as moving the world towards a position where events are conditioned more by an emerging private managerial technocracy than by the traditional notions of state power.¹⁵¹ Besides the competition and diplomacy among the actors, supra-national bodies (another gift of globalization) emerge to offset the growing power of the world market such as free trade areas and agreements.

¹⁴⁹ Susan Strange & John Stopford, Rival States, Rival Firms- Competition for World Market Shares, Cambridge University Press, US, 1991, p.2

¹⁵⁰ Ibid. p.21

¹⁵¹ Ibid. p.22

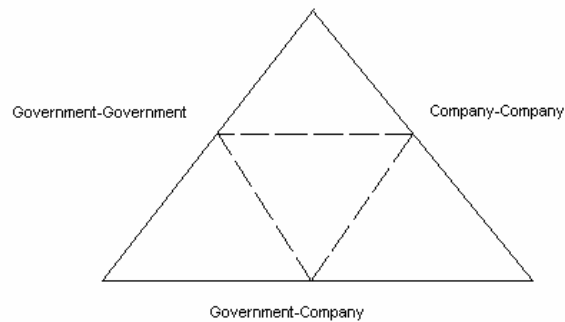


Figure3: Triads of relationships

Source: Susan Strange & John Stopford, *Rival States, Rival Firms- Competition for World Market Shares*, Cambridge University Press, US, 1991, p.2

Change in the international economy points one way: states are losing their power to pursue independent policies and now must master the new game of triangular bargaining. The new game is about keeping relations at a level which please everyone at the same time. States are now in the middle of a Bermuda triangle. Governments need to manage a series of difficult trade-offs among competing internal and external objectives. The more complex the economy, the greater the difficulty in establishing and maintaining explicit policies in these trade-offs. When making these trade-offs they have to take care of several kinds of relationships.

This new diplomacy has three critical ingredients: bargaining among states for power and influence, the competition among firms contesting the world market

and the specific bargaining between states and firms for the use or creation of wealth-producing resources.¹⁵² All three are critically influenced by and in turn influence the world structures of security, finance and knowledge. Changes in these structures throughout in the last century and in this century have also created new possibilities for obtaining wealth. States and multinational corporations adjust themselves to these changes in order to take the best advantages from the triangular diplomacy of world affairs. Not only in the international arena but also in domestic politics the influence of state-firm bargaining has proportionally grown. The growing interdependence of the world economy has put new pressure on the national political authority. Opinions may differ on the relative contributions of different factors to the changes but the pressures are pushing governments further and faster into the arms of the multinationals.¹⁵³ States are being drawn, without order, into a new game with more complex rules. The new game of competing for world market shares alters the order of importance of the functions of the state. The dual role of the state both to support business and provide finance on the one hand and to be guardian of social welfare and redistributors of resources on the other, is exceedingly difficult to manage coherently. The choice indicates how much the state is willing to take on an active role of managing national resources for greater international competitiveness. There are bargains between ministers within the government; there are bargains between political parties supporting the government, there are bargains with labor unions, with business associations, with religious groups and ethnic minorities. There are also bargains which interlock all these together with foreign corporations, foreign

¹⁵² Ibid. p.32

¹⁵³ Ibid. p.55

governments and international organizations. In all of these bargains being over-generous with one partner can cost dearly in relations with another. The global strategies and the interference of multinational corporations in state actions force states to share some of their rights and reorganize their structures.

When we look at the relations of nation state and foreign firm, we see governments typically perceiving themselves as caught between the upper milestone of structural changes which forces them to compete for the world market shares, and the lower milestone of their dependence for survival both on foreign investors and on local political support.¹⁵⁴ On the other hand, multinational firms have to use *corporate diplomacy* to get the best possible deal from their home and host governments. A private corporation may wish to protect its exports in a particular country and persuade its own government to suspend actions that might otherwise be undertaken by using corporate diplomacy. A recent example is that of the Boeing Corporation's dependence on the Chinese purchasing aircraft and its role in persuading the US government to take a more relaxed view of exports of sensitive technology to China thus ignoring its violations of the NPT (Nuclear Non-Proliferation Treaty).¹⁵⁵ Significant foreign engagement could also have the reverse effect if a private corporation needs assets located in a third country to be protected by diplomacy as in the case of US oil importers operating in potentially hostile countries. Growing interdependence force both actors to act with respect to each other. The United State's Middle East politics and U.S interventions in this region jeopardize in a way the power balances and increase the commercial risks in the

¹⁵⁴ *Ibid.* p.203

¹⁵⁵ Sen, *op.cit.*, p.5

states in the area. On the other hand, the United State's strategic policy of aiming to control the power resources in the world creates a base and support for the American oil firms to invest in the area.

Another example of this corporate diplomacy and influence over the U.S government is Microsoft lobbying efforts on the U.S Congress and government. The software giant's budget for its Political Action Committee (PAC) increased from about \$16,000 in 1995 to \$1.6 million in 2000.¹⁵⁶ What makes Microsoft's lobbying so unique is not necessarily the size of political contributions but the scope of its efforts and the speed at which Microsoft went from having almost no political presence in Washington to having one of the "largest and most sophisticated political operations." In 1995, the company had just a single lobbyist based in Chevy Chase, Maryland but today it has one of the largest PACs in U.S. corporate history. Microsoft has leapt to the top of the corporate contributor list. The main reason for its contributions is that Microsoft has successfully influenced the U.S administration's antitrust policy, with major implications for a legal antitrust precedent.¹⁵⁷

There is even a certain amount of public awareness of the effects of big multinationals on U.S Foreign policy. Especially in reference to the mergers in the energy sector where non-governmental citizen organizations try to show their concerns on big corporate mergers. For example the acquisition of Texaco by Chevron for \$36 billion which was followed by the BP-Amoco and Exxon-Mobil

¹⁵⁶ US: Microsoft's Lobbying Efforts by Matt Loney, available at <http://www.corpwatch.org/article.php?id=1771> accessed on 12.02.2004

¹⁵⁷ US: Microsoft's Lobbying Efforts by Matt Loney, available at <http://www.corpwatch.org/article.php?id=1771> accessed on 12.02.2004

mergers. Director of Public Citizen's Critical Mass Energy Project, "Hauter", reported on the organizations web site that: "This trend towards more consolidation in the oil industry is bad for consumers in the long run and has the added impact of increasing the political power of these larger companies to influence energy policy. So rather than transitioning away from the use of oil, these larger, more politically powerful companies can influence public policy and this results in more subsidies, more tax breaks for the oil industry and increased pressure to drill in environmentally sensitive areas. It also influences foreign policy as the U.S. taxpayer funds military operations to advance these companies' interests around the globe."¹⁵⁸

As I have mentioned above, governments now give greater priority to the accumulation of wealth-creating resources. This had direct implications for the pre-assumed Hobbesian international society and nation state, where each state claims sovereignty and there is no superior ruling authority or interfering multinationals. The over-riding concern of every state was its own security.¹⁵⁹ This view assumed that governments as guardians of the national interest pursued power as a means of securing their independence from interference by other states. International relations was therefore about the pursuit of power as a means of self defense and wealth was primarily needed to provide the state with the revenue with which to match the offensive military capability of predatory neighbors. Now, it is argued that wealth is needed to preserve the state more from internal rather than external threats, for example the multinational corporations. Without wealth, or the prospect of future

¹⁵⁸ Energy Company Mergers, available at http://www.citizen.org/cmep/energy_enviro_nuclear/electricity/deregulation/mergers/ accessed on 21.06.2005

¹⁵⁹ Strange & Stopford, *op.cit.*, pp. 203-218

sources of wealth, even if there is no external security threat, the state loses its power to exercise the right of sovereignty and even begins to fall apart.

So who has gained power? Or what kind of interdependence, is there between nation-states and private multinational corporations? Or what kind of impacts do multinationals have on nation-states? Let's find the answers to these questions. First of all no one can deny that multinationals have gained enormous power since their existence. Multinationals have experienced a type of economical and even political power development which has global economic, social, political and cultural roots.

Multinational corporations are the driving force behind globalization, and many commentators agree that they have benefited from it the most. Larger than many host nations, the multinationals are often in a powerful position to dictate terms. Payment of bribes or 'commission' has fuelled corruption and secured favorable terms for multinational companies in their operations around the world.¹⁶⁰ The consequences of this growing corporate power can be seen clearly in relation to their foreign investment role. At its best, investment by a foreign company can provide jobs, stimulate economic growth and offer developing countries access to key technology and skills. At its worst, multinationals exploit the cheap labor or natural resources which poor countries offer, and leave them nothing in return. So how can we ensure that all investment follows the best practice? Many governments have made performance requirements of multinationals so as to ensure that their presence works for the benefit of the host community. For example, any hotel chain

¹⁶⁰ Globalization & Corporate Power by John Pilger, available at <http://corporatewatch.org/article.php?id=13089&printsaf=1> accessed on 05.07.2004

wishing to start up business in China has to do so in partnership with a Chinese enterprise.¹⁶¹

In 1952 General Motors CEO Charles Wilson made the famous statement that "What is good for General Motors is good for the country."¹⁶² During the past decade and a half, General Motors and other global corporations have obtained much of what they claimed was good for them. They have succeeded in obtaining trade and investment liberalization policies that provide global firms considerable freedom to pursue profits internationally. They have also persuaded governments to take a generally hands-off approach to corporate monopolies, claiming that mega-mergers are needed for firms to compete in global markets.

In September 2000, Business Week magazine released a Business Week/Harris Poll which showed that between 72 and 82 percent of Americans agree that "Business has gained too much power over too many aspects of American life."¹⁶³ In the same poll, 74 percent of Americans agreed with Vice President Al Gore's criticism of "a wide range of large corporations, including 'big tobacco, big oil, the big polluters, the pharmaceutical companies, the HMOs.'" And 74-82 percent agreed that big companies have too much influence over "government policy, politicians, and policy-makers in Washington."

¹⁶¹ Globalization & Corporate Power by John Pilger, available at <http://corpwatch.org/article.php?id=13089&printsafe=1> accessed on 05.07.2004

¹⁶² Charles Wilson quoted in Top 200: The Rise of Corporate Global Power by Sarah Anderson and John Cavanagh, Institute for Policy Studies, available at http://www.ips-dc.org/downloads/Top_200.pdf accessed on 18.01.2004

¹⁶³ Aaron Bernstein, "Too Much Corporate Power?" Business Week, September 11, 2000.

A kind of interdependence was formed among nation states and corporations due to this complex formation. We can even say that in some cases, MNCs have become so enormous that they can influence not only the economic agenda but also the political issues among nation states that they have interests in.

Briefly, governments as a group have indeed lost bargaining power to the multinationals as the possibilities for collective action have diminished. Intensifying competition among states seems to have been a more important force for weakening their bargaining power than have the changes in global competition among firms. This is not to deny that governments maintain considerable power in their dealings with any of the foreign firm. States still control access to land and to the labor living on the land. Firms control capital and technology or at least have access to both. They can raise both debt and equity capital on international markets, whereas governments have started to lose their access to capital nowadays. Governments, or in other words the nation states of the global century, have become inadequate at catching up with the rapid changes of world economy. In order to survive they have to become inter-dependent on multinationals which are in favor of their national interests or find emergency exits for the interest-clash issues. One can easily argue that from their original position before the global economy emerged, states have started to lose power. And one can also argue that multinational corporations have great effects on Nation States and influence their policies on many different issues.

3.4. U.S Multinationals and Their Impact on U.S Foreign Policy

Regarding all of these issues -interdependence, triangular diplomacy and development of MNCs- one can easily see that there shall be an outcome or an impact from these on the affairs of nation states. Especially the most developed American multinationals have an effect on their home governments domestic and foreign affairs. In order to understand this impact and to figure out on what basis American MNCs manage to achieve this, we shall first look at their economic and political power and backgrounds.

As Strange confirms, it is only in the last century that the multinational corporation has emerged in forms that we would recognize today.¹⁶⁴ Pioneer firms like the American gun producer, Colt which established a revolver factory in Britain in 1852, began to change the old order where trade and finance were the primary weapons of international business by applying new techniques of production, new methods of trading them and implementing new distribution channels in new markets.¹⁶⁵ Strange also claims that it is notoriously difficult to answer the question of; how these multinationals become so powerful. Just to give an example, nearly 300 giant firms add almost three billion dollars every year to the world economy, which is already bigger than the gross national product of the 80 member states of UN.¹⁶⁶ Most of these firms are American originated.

¹⁶⁴ Strange & Stopford, op.cit., p.13

¹⁶⁵ Strange & Stopford, op.cit., p.13

¹⁶⁶ Joseph S. Nye Jr., "Multinational Corporations in World Politics", in *Foreign Affairs*, 1999 p.153

Nongovernmental organizations are important societal actors in the U.S. foreign-policy process. Unlike traditional domestic-policy interest groups, NGOs involved in foreign policy often cross national boundaries. In this sense, both transnational organizations and multinational corporations place political pressure on U.S. foreign-policy makers. Interest groups are also more significant than advocacy groups and can be found in the private sector around the world. Multinational corporations (MNCs) have increasingly been eyed as powerful political actors influencing most foreign-policy areas, including trade and energy policies.¹⁶⁷ The classic MNC example is the military-industrial complex that links the Department of Defense with construction and defense corporations. “Corporate warriors,” or private military contractors, have been used increasingly by the United States firstly during the post–cold war period and recently in the war on terrorism.

Multinationals have close ties to global governance and U.S. foreign policy. Through political contributions and lobbying, they can achieve political interference. Multinationals are an inherent part of the U.S. foreign-policy process and continue to influence government actors.

U.S multinationals would be the most appropriate examples for this study with their innovations in many important sectors including informatics, aerospace and automobile with investments totaling around \$233.4 billion by 1984.¹⁶⁸ The US government supports this activity through advantageous legislations and international protection of American firms and goods by international agreements, as in turn American corporations serve the important national interests of the United States. It

¹⁶⁷ See, Steven W. Hook, U.S Foreign Policy –The paradox of world power-, CQ Press, U.S, 2005

¹⁶⁸ Ibid. p. 155

can also be argued that American policies have encouraged corporate expansion abroad and have tended to protect them. It is quite common in US political history that American multinational corporations have also been regarded as a tool of diplomacy. American government has tried to manipulate or control the activities of American corporations in order to induce or coerce other governments to do its bidding.¹⁶⁹ American multinationals have also been regarded as an instrument of global economic development and as a mechanism to spread the ideology of the American free enterprise system.¹⁷⁰ Beginning with the Marshall Plan, many have seen the multinational corporation as a way to strengthen foreign economies. Thereby containing Communism by revealing, through the export of American technology, capital and managerial know-how, an alternative to the Communist or socialist models of economic development.¹⁷¹ This commitment to the multinational corporation as a vehicle for spreading the free enterprise system is reflected in the American position on almost all international economic issues.

American multinational corporations have always been the leader in the race for the world shares. They have innovated many technologies and have always been a first runner on the R&D battle. Apart from the national interests of U.S government, American multinationals have contributed to the global economy a lot in the last century. Because of their undisputable economic and political power they are the best model to prove the impact of Multinational Corporations on nation-state's foreign policy. In addition to this, the United States, its foreign policy and U.S

¹⁶⁹ Dunning, op.cit., p.243

¹⁷⁰ Dunning, op.cit., p.246

¹⁷¹ Dunning, op.cit., p.243

multinationals as intruders and as tools for diplomacy are the ultimate examples for this thesis and maybe the best proof for the hypothesis of this paper. For example Lockheed Martin is the world's largest military contractor. Providing satellites, planes, missiles and other lethal high-tech items to the Pentagon keeps the profits increasing. Since 2000, the year Bush was elected, the company's stock value has tripled. As the Center for Corporate Policy (www.corporatepolicy.org) notes, it is no coincidence that Lockheed Vice President Bruce Jackson; who helped draft the Republican foreign policy platform in 2000, is a key member of the Project for a New American Century, the intellectual incubator of the Iraq war.¹⁷² Lockheed Martin is not the only defense contractor that goes behind the scenes to influence public policy, but it is one of the worst. Stephen J. Hadley, the Assistant to the President for National Security Affairs (the position formerly held by Condoleezza Rice), was formerly a partner in a DC law firm representing Lockheed Martin.¹⁷³ He is only one of the beneficiaries of the so-called revolving door between the military industries and the "civilian" national security apparatus. These war profiteers have a profound and illegitimate influence on the country's international policy decisions.

To understand the role of multinational corporations in foreign affairs and especially the effect of American multinationals on American Foreign Policy, we should first ask some important questions to highlight some important points and find some answers to these issues.

¹⁷² See, www.corporatepolicy.org

¹⁷³ The 14 worst corporate evildoers, available at <http://www.corpwatch.org/article.php?id=12869> accessed on 25.04.2006

Up to this point we have seen that MNCs have gained considerable power to allow them to interfere in state politics. They have gained political and economic power that can create disparities even between themselves and nation states in some areas. But we must consider what these powers are and to what extent we can see these differences. In other words, how big have these multinationals, and above all the American multinational corporations, grown in size?

What are the main features of American multinational firms? In what areas they have invested and developed? How are the political and economic powers of these American multinational enterprises effective on governments?

Is the multinational enterprise being used by a dominant power (the United States) as a means of penetrating and controlling the economies or politics of other countries?¹⁷⁴ Or is the American multinational firm using American domestic & foreign policy as a tool for its own benefit? Does American multinationals manipulate domestic or foreign affairs of the United States?

To finalize and summarize, I should firstly put forward our main subject; “The impact of American multinational corporations on international relations and U.S foreign policy”

In response to all of these questions, let’s start with some facts about multinational corporations and more specifically some significant details about American multinationals. Below you can find evidences for the global rise of the American MNCs.

¹⁷⁴ See, Raymond Vernon, Sovereignty At Bay –The Multinational Spread of U.S Enterprises-, Routledge, U.S, 1971, p.5

Although this thesis assumes that nation states are still one of the most important actors in the international arena, in some cases there can be some disparities regarding the economic scale even in favor of MNCs, mostly the ones that are of U.S origin. American multinationals and the American economy have grown to such an extent that enormous gaps have been formed not only between U.S and other nations but also between third nation states and American multinationals. Some examples will illuminate these disparities.

In order to understand why American multinationals and their impact on the United State's foreign policy forms the subject of this thesis we should first understand the development level of American multinationals and American economy. The GNP of South Africa, a country considered to be the powerhouse of Africa, is only but one-fiftieth of the GNP of the USA-or equal to the gross product of the average US state, Missouri. Namibia, considered to be well off by African standards, has a GNP that is one-fiftieth of South Africa's, which makes Namibia's entire GNP equal to that of a small US city.¹⁷⁵ Black Africa's combined GDPs do not equal that of Belgium. Currently, the USA's single richest person has a personal net worth greater than the annual GNP of any black African country except Nigeria. Yet there are numerous such economically weak states around the world. Ranked by wealth, California would be the seventh most powerful country were it independent. And a ranking of national GNPs and annual corporate sales places General Motors into the 20th position, considerably ahead of Finland, Saudi Arabia and Indonesia. In fact, such a combined list of the top 100 *economies* and corporate sales includes 51

¹⁷⁵ Multinational Corporations, World Facts on EPNET <http://web17.epnet.com/#bib3> accessed on 22.12.2003

corporations. For example, Exxon, as the second largest corporation, ranks again ahead of South Africa.¹⁷⁶ These data should illustrate the realities of economic concentration, power and vulnerability in the *international* system. Countries may enjoy a fictitious sense of equality at the United Nations, but in terms of economic realities, this is a dangerous presumption.¹⁷⁷ MNCs and particularly American MNCs are widening the gap in economic terms and using their advantage to transfer their economic power to a political arena. This will also lead to the formation of a gap and disparity of political power among MNCs and state; and also a deformation on state-MNC relations and power balance.

With respect to these disparities we should also consider; how big American multinationals grow. As we can see from the figures above, both the American economy and the American Multinationals have significantly grown in size. When we have a look at the geographical distribution of the largest multinationals in the world, we can see that most of the largest companies (by revenue) are American or Japanese. Starting in 1996, 162 of the 500 largest companies globally were from the United States and 126 from Japan.¹⁷⁸ Only a few of the largest companies are from developing countries. Measured by foreign assets, the distribution of the largest companies looks very much the same. Most of the top 100 companies with largest foreign assets are from the United States, Japan, the United Kingdom, France and Germany. In the figures below we can see the undeniable differences that U.S

¹⁷⁶ Multinational Corporations, World Facts on EPNET <http://web17.epnet.com/#bib3> accessed on 22.12.2003

¹⁷⁷ Multinational Corporations, World Facts on EPNET <http://web17.epnet.com/#bib3> accessed on 22.12.2003

¹⁷⁸ "Multinational Corporations" available at <http://www.itcilo.it/english/actrav/telearn/global/iilo/multinat/multinat.htm> accessed on 04.04.2006

multinationals have superiority against all others regarding both revenues and foreign assets.

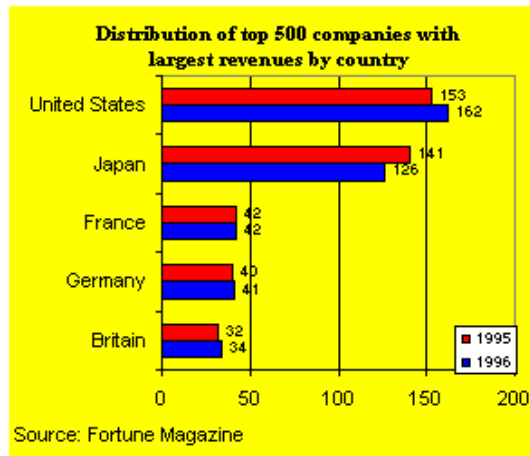


Figure 4: Distribution of top 500 companies with largest revenues by country

Source: “Distribution of top 500 companies with largest revenues by country” available at

<http://www.itcilo.it/english/actrav/telearn/global/ilo/multinat/multinat.htm> accessed on 04.04.2006

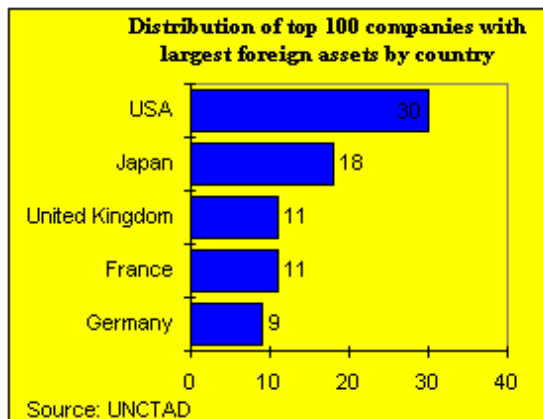


Figure 5: Distribution of top 100 companies with largest assets by country
Source: “Distribution of top 100 companies with largest foreign assets by country” available at <http://www.itcilo.it/english/actrav/telearn/global/ilo/multinat/multinat.htm> accessed on 04.04.2006

Although the above mentioned figures represent years starting with 1995-96, this inclination continues with an ascending trend. Below you can find the most up to date list, ranking the top U.S multinational companies in 2005. This is an obviously an example which shows the trend of the growth of American multinationals in the U.S market.

Rank	Company	Revenue (\$ millions) in 2005
1	Exxon Mobil	339,938.0
2	Wal-Mart Stores	315,654.0
3	General Motors	192,604.0
4	Chevron	189,481.0
5	Ford Motor	177,210.0
6	ConocoPhillips	166,683.0
7	General Electric	157,153.0
8	Citigroup	131,045.0
9	American International Group	108,905.0
10	Intl. Business Machines	91,134.0

Figure 6: Top 10 American Multinationals

Source: Fortune 500, America's Largest Corporations, available at http://money.cnn.com/magazines/fortune/fortune500/full_list/ accessed on 15.03.2006

American multinationals are not only the top ranked MNCs in the world but they also have a great share in the U.S economy and due to this they have an indirect effect on U.S politics. They can affect the governments in many different ways. For example in the American tobacco industry; the aggressive marketing tactics of the multinational tobacco companies have greatly contributed to the tremendous increases in smoking in developing countries, particularly amongst women. These companies use their enormous political and financial power to influence home and host country governments and promote their products in every corner of the globe. The expansion of these companies into the developing world has meant that in the near future it will be developing countries which will carry the majority of the burden of disease due to tobacco use. Currently, approximately 80% of the world's

smokers live in developing countries where smoking rates have risen dramatically in the past few decades. Yet it is the poor who can least afford to waste money on the purchase of tobacco products. Much of the tobacco industry is dominated by multinationals, so profits flow from poor to rich countries. Since most poor countries are net importers of tobacco , precious foreign exchange is being wasted in favor of big multinationals and developed countries like the United States. American tobacco multinationals affect both US governments and host country governments to achieve their financial goals regardless of the outcomes.

U.S based multinationals accounted for 25% of American GDP and 20% of its employment in 2001.¹⁷⁹ In 2001, 77% of the global production, 80% of the global capital spending, and 74% of the global employment of U.S. multinationals occurred at home. From 1991 to 2001, these companies added five jobs in the U.S. for every three overseas. U.S. multinationals are also significant traders. In 2001, they accounted for about 58% of U.S. merchandise exports and about 38% of U.S. merchandise imports. Trade within U.S. multinationals, between parents and their foreign affiliates, accounted for a quarter of all U.S. exports and 16% of U.S. imports.¹⁸⁰

It is quite clear with reference to the above mentioned data that American multinationals have crucial importance and effects for American economy and government. American multinationals have been the locomotive of the American

¹⁷⁹ “Why The Trade Deficit May Not Loom So Large; Sales by foreign units of U.S. companies brighten the outlook” available at http://www.businessweek.com/magazine/content/04_23/b3886033.htm accessed on 10.02.2006

¹⁸⁰ “Why The Trade Deficit May Not Loom So Large; Sales by foreign units of U.S. companies brighten the outlook” available at http://www.businessweek.com/magazine/content/04_23/b3886033.htm accessed on 10.02.2006

economy in many different respects. Undertaking the economic leadership in their home country has been one of the most important features of the American multinationals. They have invested in many different areas abroad on large scales. New spending by U.S. firms on businesses and real estate abroad, or U.S. direct investment abroad, reached \$248 billion in 2004, a 40% increase from the amount invested in 2003 and more than twice the amount foreign firms invested in the United States, according to the Department of Commerce.¹⁸¹ These great amounts of economic significance in United State's economy give American multinationals an undeniable power on politics in their homeland, in their relations with the U.S. government and with 3rd countries. American multinationals often make decisions which effect the long term welfare of citizens in host countries, particularly about environmental matters. For example they often have no incentive to consult host governments about the use of non-renewable resources. Furthermore, American multinationals often influence the political processes of host countries. In 1973, for example, American multinational, International Telephone and Telegraph, backed a military coup in Chile, during which the democratically elected president, Salvador Allende, was assassinated and replaced by the notorious General Pinochet. IT&T's continued financial support allowed Pinochet's dictatorship to survive until 1990, in much the same way as Shell's generosity is facilitating the present military dictatorship in Nigeria.¹⁸²

¹⁸¹ Bach, Christopher L., U.S. International Transactions, 2004. Survey of Current Business, 2005, Washington D.C., p.46

¹⁸² See, Michael Woodiwiss, Organized Crime and American Power, University of Toronto Press, US, 2001

Not only do multinationals themselves influence the political processes, but home country governments often become involved too. The United States, for example, backed General Pinochet's coup in 1973, largely because President Allende's plans to nationalize the Chilean telecommunications industry would have threatened IT&T's profits. Whether it was formally accepted by U.S. government or not; without the economic power of American multinationals supporting the country, the United States would not be enjoying either its political or economic power influence, which it controls today. The reverse of this statement, should also be taken for granted.

In what areas have American multinationals improved themselves? Patterns in U.S. direct investment abroad generally reflect fundamental changes that have occurred in the U.S. economy during the same period. As investment funds in the U.S. economy shifted from extractive, processing, and manufacturing industries toward high technology services and financial industries, U.S. investment abroad mirrored these changes.¹⁸³ As a result, U.S. direct investment abroad focused less on the extractive, processing, and basic manufacturing industries in developing countries and more on high technology, finance and services industries located in highly-developed countries with advanced infrastructure and communications systems. U.S. direct investment abroad during the 2000-2003 period increased about 36% particularly in the above mentioned sectors.¹⁸⁴

¹⁸³ James K. Jackson, CRS Report for Congress, U.S. Direct Investment Abroad: Trends and Current Issues, available at <http://www.fas.org/sgp/crs/misc/RS21118.pdf> accessed on 11.01.2006

¹⁸⁴ James K. Jackson, CRS Report for Congress, U.S. Direct Investment Abroad: Trends and Current Issues, available at <http://www.fas.org/sgp/crs/misc/RS21118.pdf> accessed on 11.01.2006

Apart from U.S multinationals, the United States has been one of the centers of attention for other multinational corporations. Not only being as a home country but also as a host country, the United States plays an important role in multinational corporation development. The cradle for the biggest multinationals in the world also forms a good market for European, Japanese and other multinationals. American economy draws big multinationals to itself with different opportunities it offers both economically, politically and legally. Since the mid-1990s, the combination of strong growth and low inflation in the U.S. economy attracted foreign investors, as indicated in figure below. Since 2002, U.S. direct investment abroad has been more than twice the amount and foreigners have invested in the U.S. economy, reflecting the period of slower growth in economy from 2001-2003. U.S. firms continue to be the most prolific overseas investors, a recent study by the United Nations indicates that U.S. firms are the largest foreign direct investors in the world and own as much abroad as the British and Germans combined, the next largest foreign direct investors.¹⁸⁵

¹⁸⁵ As it was quoted in James K. Jackson, CRS Report for Congress, U.S. Direct Investment Abroad: Trends and Current Issues, available at <http://www.fas.org/sgp/crs/misc/RS21118.pdf> accessed on 11.01.2006

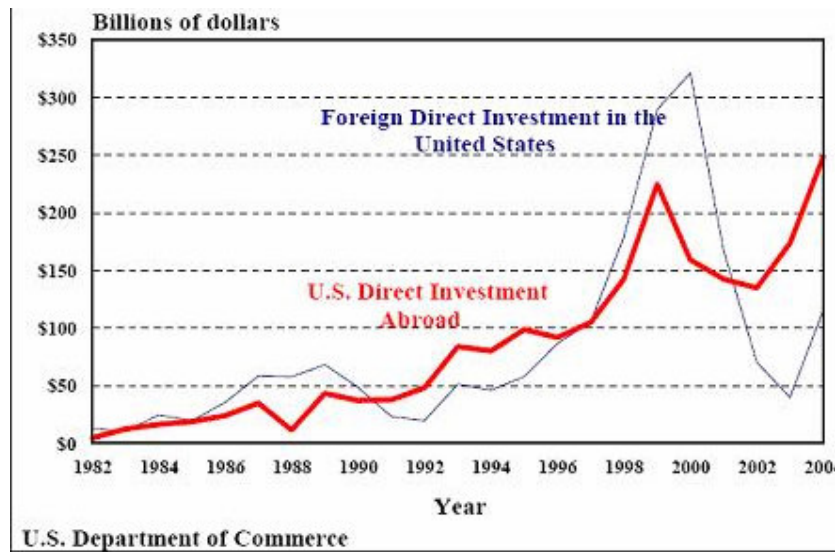


Figure 7: U.S. Direct Investment Abroad and Foreign Direct Investment in the U.S. Economy, annual Flows 1982-2004 (in billions of dollars)¹⁸⁶

Source: James K. Jackson, CRS Report for Congress, U.S. Direct Investment Abroad: Trends and Current Issues, available at <http://www.fas.org/sgp/crs/misc/RS21118.pdf> accessed on 11.01.2006

Not only American firms abroad but also the U.S economy and the U.S government have gained some accounts with respect to multinationals investing in U.S. The American government has taken advantage of its economy and market, to draw the economic, human and know-how resources of other countries to itself. In this way, it does not only reinforce its economy but also consolidates its control over world economic and political activities. The U.S government makes legal arrangements to encourage U.S firms to invest abroad and also to attract foreigner firms to invest in U.S. In this way, the U.S government tries to keep the track in superiority in global economic developments, international relations and multinational activities. We can see that the United States seems to loose its post

¹⁸⁶ James K. Jackson, CRS Report for Congress, U.S. Direct Investment Abroad: Trends and Current Issues, available at <http://www.fas.org/sgp/crs/misc/RS21118.pdf> accessed on 11.01.2006

Cold War hegemonic power and tries to keep its economic and political superiority by attracting global firms in 21st century. But is it acceptable to say that the U.S has a policy of using U.S multinationals as economic or political agents outside U.S? We can see answer to this question in examples from the U.S.'s foreign policy. The answers and examples to these questions will also improve our understanding of; giant multinationals affecting foreign policy, and this will particularly be a strong proof of the American tendency for interaction between private sector corporations and state affairs, foreign policy and 3rd country implications.

In different references we see different interpretations. Like Colombia; which is referred as an extreme example of the local oligarchy colluding with multinational corporations and U.S., to make grotesque profits while the people and environment are devastated.¹⁸⁷ Billions of dollars from U.S. is keeping the people from overthrowing the oligarchy, which kills 5,000 to 10,000 people every year. It was also mentioned that more than half of all legal Colombian exports travel to the U.S. as Colombia has become a beneficial profit center for the U.S. The Colombian oligarchy is the business partner for many U.S. corporations and it is the ally of the U.S. and its foreign policy. Not only by political means but also by economic means; the U.S multinationals and also indirectly, the United States, have some influence over economic and industrial issues in overseas countries.

There are a few countries in the world where U.S multinationals do not represent a dominant proportion of all enterprise in that country, whether the

¹⁸⁷ US firms like Coca Cola are implicated in Colombia's brutality by Aram Roston, available at http://www.thirdworldtraveler.com/Transnational_corps/RealThing_CocaCola.html accessed on 10.01.2006

dominance is measured by sales or assets or employment.¹⁸⁸ For example, during the mid-1960s the U.S controlled companies that were engaged in manufacturing in Canada which accounted for about 60 percent of total manufacturers in that country.¹⁸⁹ On the other hand, in United Kingdom the proportion of U.S controlled subsidiaries engaged in manufacturing accounted for about 10 percent and in Italy it was 3 percent in the same year.¹⁹⁰ The U.S controlled multinational enterprises were especially prominent in the European manufacturing economy and they also had importance for the Canadian economy. They have different vulnerabilities for different countries. In Italy during the 1960s, U.S enterprises were reported as controlling 100 percent of the ball bearing industry and most of the electrical mechanical industry.¹⁹¹ The question of whether U.S controlled enterprises have generated a kind of control over economic indicators and indirectly on political ones in the countries in which they are located should not be confused with the question of whether they have contributed to the welfare of those countries. American multinationals have improved themselves, they have invested in the host countries but we must not undervalue their effects because they also have contributed to the American economic and political presence over the globe. This thesis also assumes that the U.S government has, in many cases, taken the advantage of U.S multinationals in countries where it has some geo-political and economic incentives and vulnerabilities, like in the Middle East, South America or Caucasian. American

¹⁸⁸ Raymond Vernon, Sovereignty At Bay –The Multinational Spread of U.S Enterprises-, Routledge, U.S, 1971, p.20

¹⁸⁹ Ibid.

¹⁹⁰ Ibid.

¹⁹¹ Ibid.

dependency on oil from the Middle East constitutes a good example for this. Although it has fallen to about 17 percent of national consumption, Saudi Arabia remains the cornerstone, producing 50 percent of the whole world's supply. So in order to keep this economic balm flowing, to keep the status quo static and the balance sheets of the major oil companies brimming, the United States installed her military as a kind of mega police force in the region. Its official reason for being there is to ensure "stability," one of the great buzzwords in the history of business, but this is nothing more than spin -- the military is in the Middle East to guarantee that whatever comes out of the ground is exploitable and controlled by American multinationals.¹⁹² On the other hand, U.S multinationals also did not keep their hands of the political and economic issues regarding government business both in home and host countries. The contributions or vulnerabilities of American multinationals may change from state to state but what have been obvious in these examples is that, American multinationals represent and favor either their own benefits or United State's interests. For example, George Bush's decision not to sign the United States up to the Kyoto global warming treaty was partly a result of pressure from Exxon-Mobil, the world's most powerful oil company, and other industries, according to US State Department papers seen by the Guardian.¹⁹³

I should also mention the influence of American multinationals over the domestic, economic and foreign politics of the United States. Almost two-thirds of

¹⁹² USA: It's the Oil, Stupid by Johnny Angel, available at <http://corpwatch.org/article.php?id=7>, accessed on 21.02.2004

¹⁹³ See The Guardian, available at <http://browse.guardian.co.uk/search?search=kyoto%20bush%20not%20signing> accessed on 13.01.2006

U.S. exports were realized by U.S. multinationals. The foreign affiliates of U.S. multinationals purchased \$203 billion of goods from the United States in year 2000. U.S. multinationals also exported an additional \$267 billion of merchandise to unaffiliated foreign customers.¹⁹⁴ In total, U.S. multinationals were responsible for \$440 billion of merchandise exports in 2000, representing 63% of all U.S. merchandise exports. U.S. multinationals figure equally prominently in imports. The United States imported \$377.1 billion of goods that involved multinationals; which is 37% of U.S. total imports. The involvement of the United States in global trade has impacts on income and employment in the U.S. economy. In the year 2000, U.S. multinationals (excluding banks) had a gross product of \$2.4 trillion, making up over one quarter of total U.S. GNP of \$9.3 trillion. The contribution of multinationals is much higher in manufacturing where U.S. parent firms produce 54 percent of all U.S. manufactured output. U.S. multinational firms are also the source of a large number of jobs. Parent firms employed over 21 million people in the United States, out of a national workforce of 130 million.¹⁹⁵ Not only as a contributor but also as manipulators, American firms have a say on both domestic and international affairs of U.S government. We can see that American multinationals, even in their home countries, are fighting in the American Congress to protect their tax advantages. Big American manufacturers, including Boeing Co. and Caterpillar Inc., as well as those that sell entertainment or intellectual property-based goods overseas, such as

¹⁹⁴ Tax Policy and International Competitiveness by R. Glenn Hubbard, Washington D.C., 2002, available at http://www.whitehouse.gov/cea/international_taxpolicy_forumspeech_dec9_2002.pdf accessed on 21.04.2004

¹⁹⁵ Tax Policy and International Competitiveness by R. Glenn Hubbard, Washington D.C., 2002, available at http://www.whitehouse.gov/cea/international_taxpolicy_forumspeech_dec9_2002.pdf accessed on 21.04.2004

Microsoft Corp. and Walt Disney Co., would refuse to pay higher taxes.¹⁹⁶ Companies such as Ford Motors, General Motors Corp. and Procter & Gamble are expected to persuade and lobby the U.S government in order to introduce new legal legislations in favor of the big American multinational firms. Not only in tax legislations but also in politics in the international arena, these big MNCs would interfere with state politics to favor the corporate benefits in different issue areas. Examples are Exxon-Mobile hindering the signing of the Kyoto agreement, the Enron scandal and its ties with U.S Government Agencies, and the preliminary approval of Pentagon for the merger of Boeing Co. and Lockheed Martin Corp. for military rocket launches endorsing a rare monopoly which according to industry and government officials could set a precedent for defense contractors facing slower military spending.¹⁹⁷

The Bush administration's foreign policy may jeopardize the economic health of American multinational companies abroad according to an international consumer survey.¹⁹⁸ According to this international survey of 8,000 consumers taken by Global Marketing Insite World Poll., 10 through 12, fifty percent of foreign consumers distrust American companies as a result of the U.S. decision to invade Iraq and the war on terror. Additionally, 79 percent said they distrusted the American government, while 39 percent said they distrusted Americans. Some American brands become closely connected to their country of origin and they represent the

¹⁹⁶ Capital Climate Discomfits Multinationals --- Business Frauds, Patriotic Fever Dominate Debates on Offshore Havens, Tax Breaks, By David Rogers, 25 July 2002 available at <http://www.house.gov/neal/news/news22.html> accessed on 05.03.2006

¹⁹⁷ US: Boeing-Lockheed Granted Monopoly by Andy Pasztor and Jonathan Karp, available at <http://www.corpwatch.org/article.php?id=13049> accessed on 15.02.2006

¹⁹⁸ Europeans costing American companies by Donna Borak, available at <http://www.washtimes.com/upi-breaking/20041227-062212-4711r.htm> accessed on 18.03.2005

American lifestyle, innovation, power and leadership like McDonalds, Marlboro, Nike or Microsoft. The negative international perception of the United States matched the unenthusiastic views of American multinational businesses which are expected to result with a negative reaction of American MNCs. Boycotts of American products were popping up around the globe. Coca-Cola, McDonald's and Budweiser were among the most visible and frequently targeted companies. There were even some small-scale terrorist attacks, including a bomb-blast at an Istanbul McDonald's on 15 April 2003. American multinationals would not hesitate to take action against government policies in conditions like this. If state politics would interfere with corporate benefits, American MNCs would not pause to oppress the government in any issue areas. State welfare and the use of sovereignty power do not always come ahead of corporate benefits for many American MNCs in 21st century global business world.

The emerging world order is likely to involve a range of heterogeneous units in multiple, interwoven and overlapping layers of governance. Effective economic and political governance may well involve governments, the private sector MNEs, a broad range of civil society groups and international organizations. Furthermore, the line separating what is state's business and what is private business is rapidly being erased in many issue areas. States will exist and will certainly continue to play a major role in international political and economic system. However that, is not the same as saying that they will remain the supreme authority domestically or the only essential units of the international system. This time around the nation state's domestic authority and control over foreign benefits and affairs may really be 'under influence'. Even the most powerful state; the United States, is experiencing these

kinds of decline in the use of power against multinationals. One can say that the political and economic power of American multinationals has come to an extent that these organizations even have influential power over domestic and international affairs of their home and host countries. American multinationals develop preferences based on their relative influence and benefits in various arenas, with respect to the costs of political participation and competitive considerations.¹⁹⁹ The preferences and power of American MNCs vary across issues and sectors, and from one negotiating forum to another. What is obvious is that, American multinationals do have a say on every issue area that they have self interests. No matter what the issue is, an international or a national security matter or an economic or geo-political vulnerability, if there is an interest for an American multinational, it will never hesitate to try to influence its home government, host government or the inter-state relations between these two countries. We basically see this in the efforts of Exxon-Mobil to block the United States from signing the Kyoto agreement on environmental issues, in order to avoid additional liabilities, taxes and strict legal arrangements. It can also be seen in Boeings efforts to slow down the undeniable rise of Airbus by the American governments political pressures on the world market and European countries. Or as in the example of Philippines; when a new intellectual property law was needed to protect the foreign software or textbooks, Microsoft, other U.S. firms, and the U.S. government exerted tremendous pressure on the

¹⁹⁹ David L. Levy & Aseem Prakash, *Bargains Old and New: Multinational Corporations in Global Governance* available at http://www.bepress.com/cgi/viewcontent.cgi?context=bap&article=1051&date=&mt=MTE0NTE5OTE1Mg%3D%3D&access_ok_form=Processing... accessed on 12.02.2006

Philippine government to pass this law.²⁰⁰ We also see a similar case in Peru. Out of fear that Peru may adopt a bill decreeing the use of open-source software in all government systems, Microsoft apparently enlisted the American ambassador in Lima to help try to convince the Peruvians to kill the legislation. A copy of a letter sent by U.S. Ambassador John Hamilton to the president of the Peruvian Congress, expressing his dismay at the proposed legislation has been revealed to the press. Congressman Edgar Villanueva, the bill's chief sponsor, said he considers Hamilton's letter to be "overt pressure" on Peru by the United States and Microsoft.²⁰¹ MNCs seem to use the structural power concept of Susan Strange quite along with the nation states themselves. On the other hand governments influence corporate costs and revenues in various ways, including subsidies, barriers to market entry, and procurements. American firms are interested in influencing these policies too. The incentives for political participation, created by government resources and coercive powers, are present for corporations wherever they come from.²⁰² One good example of the international influence of big multinationals is the tobacco industry. The multinational tobacco companies advertise and market their products internationally in ways long banned in the United States, such as selling their cigarettes without health warnings and advertising on television. Furthermore the multinational tobacco companies also interfere with the national public health laws of countries via

²⁰⁰ Philippine Greens Protest the Visit of Bill Gates by Roberto Verzola, available at <http://www.corpwatch.org/article.php?id=1568> accessed on 25.05.2004

²⁰¹ PERU: Microsoft's Big Stick by Agustin d'Empaire, available at <http://www.corpwatch.org/article.php?id=3268> accessed on 25.05.2004

²⁰² Wendy L. Hansen & Neil J. Mitchell, Globalization or National Capitalism: Large Firms, National Strategies, and Political Activities, available at http://www.bepress.com/cgi/viewcontent.cgi?context=bap&article=1015&date=&mt=MTE0NTIwOTI2OA%3D%3D&access_ok_form=Processing... Accessed on 12.02.2006

political and commercial pressure to open markets and host country governments and to promote their product under the guise of free trade agreements and economic help via U.S governments backup.²⁰³ Therefore I can argue that MNCs basically try to influence the politics and therefore the economy for their own benefits. In addition to the campaign contributions of American multinationals to elected officials and candidates; they spend billions of dollars each year to influence Congress, government and federal agencies. This is in a way the use of, “structural power of Susan Strange” by American multinationals or in other words to synchronize the government policies and international affairs with 3rd parties, along with corporate benefits. We can see from the table below that the lobbying spending in United States has increased in an escalating trend from 1998 to 2005. If we look at the top spenders from the next table we can see that most of them are giant multinational corporations that try to influence American Congress and the government. Apart from specific examples from corporate-government relations, even on the macro level we can see that there is an obvious trend in US multinationals to affect US foreign and domestic policy in favor of their economic and political benefits.

²⁰³ Global Tobacco Control Policy Framework available at <http://www.corpwatch.org/article.php?id=3973> accessed on 14.12.2005

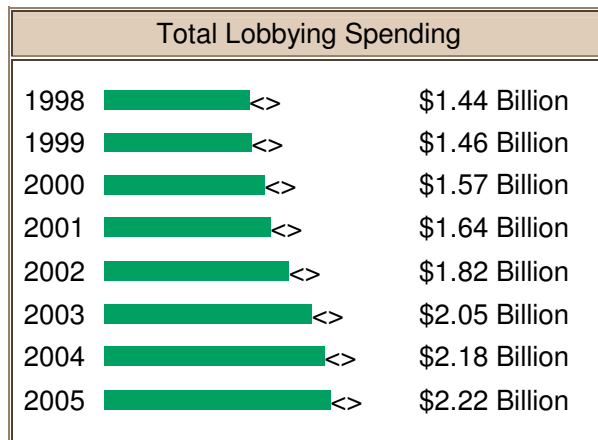


Figure 8: Lobbying Spending in United States from 1998-2005

Source: Lobbying Database available at

<http://www.opensecrets.org/lobbyists/index.asp> accessed on 15.04.2006

Client	Total
US Chamber of Commerce	\$243,564,680
American Medical Assn	\$136,415,500
Pharmaceutical Rsrch & Mfrs of America	\$133,096,515
American Hospital Assn	\$117,776,891
General Electric	\$116,130,000
Edison Electric Institute	\$89,142,628
Business Roundtable	\$84,600,000
National Assn of Realtors	\$80,750,000
Northrop Grumman	\$78,952,509
Philip Morris	\$75,500,000
Blue Cross/Blue Shield	\$74,880,855
AARP	\$73,700,000
Freddie Mac	\$73,020,000
Lockheed Martin	\$70,229,965
Boeing Co	\$68,738,310
SBC Communications	\$67,953,327
Verizon Communications	\$62,946,522
General Motors	\$62,333,483
Fannie Mae	\$60,797,000
American Farm Bureau Federation	\$58,072,669

Figure 9: Top Lobbying Spending in U.S, 1998-2005

Source: Lobbying Database available at

<http://www.opensecrets.org/lobbyists/index.asp> accessed on 15.04.2006

The impact of American multinational corporations on the United State's foreign policy is quite a well excepted phenomenon of 21st century global politics. One of the most powerful NGOs in the world; multinational corporations have evolved throughout history, dating back to the Dutch Indian Company or even earlier, in a very remarkable way. With the trade generated throughout the world and with respect to the economic conditions over history, multinational corporations found different ways to improve themselves. Developing world economy and politics have clarified the main picture we are facing today in different aspects. Globalization has been the most important catalyst in the development of multinational corporations. It did not only increased the pace of organizational and economic development of multinational corporations but it also created the most suitable environment for MNCs to be political actors in global world politics. Globalization and the multinational corporation are as interrelated as the chicken and the egg. Without technological advances, corporations would not have been able to spread as far and as wide as they have. And without the resources and the drive to use these technologies, the pace of globalization might have been much slower. Therefore, both globalization and MNCs have worked in a way that has revealed the MNC to be an actor which has an effect not only in economy, trade or business but also on domestic affairs of states, world politics and even on foreign affairs of states with other states.

The United States and U.S multinationals have been our main and most appealing examples to come forward in this thesis as the most important models of every different aspects of multinational activity. The United States as one of the biggest economies in the world and American multinationals, representing the top

ranked multinational corporations, had different and important effects on their surroundings. I tried to figure out the main effects of these giant corporations on their host countries and specifically on the foreign relations of their home countries. I tried to clarify that American multinationals interfere in different areas as long as they have an interest or benefit. This does not include as state politics or international relations.

In a world where NGOs apply enormous pressures on nation states it would not be a dramatic statement to say that multinational corporations have an effect on international relations. The influential strength of a multinational depends on its size. American multinationals with their gigantic formations and enormous benefits all over the world are the most suitable examples for our hypothesis. The United States despite being one of the most powerful states in the world, could not isolate itself from this influence. Multinationals, because of rivalries with other firms or protests against the government or with some other interests, do interfere with state politics. The United States, as the most active character in the international arena face the intervention and influence of American multinationals in her domestic and international affairs. Like in the cases of Boeing vs. Airbus and U.S government or United States vs. Oil companies; the U.S government has always experienced to an extent the influence and impact of American multinationals in its foreign relations. The last case study chapter will help us to solidify our assumptions and examples in this respect. We will clearly see on what circumstances multinational corporations have an effect on state affairs and what kind of motives set these giants into action against or for the state.

In the last chapter we will see that U.S Foreign policy would not be as it is today if U.S multinationals did not exist to influence and manipulate it. They did not create only an economic actor but also an indirect political actor that affects American foreign and domestic policy in many different ways. American multinationals have an influence on economic, environmental, tax policies, 3rd country relations and relations with international organizations.

CHAPTER IV.

CASE STUDIES

In this last chapter we are going to focus on case studies which will help us to solidify our hypothesis and main concern of the effect of the American multinationals on United State's foreign policy. As we have seen, the biggest multinationals of the world are mostly of U.S origin. As they grew in size they become much more powerful and effective both economically and politically. The effects of American multinationals on American foreign policy and international relations (and generally the effect of giant multinationals on nation state's foreign policies) have been demonstrated in many examples which solidify the mentioned effects of these corporations. In this chapter, I will try to give some examples especially from the aerospace industry which has always been one of the biggest interest clash areas of both MNCs and nation states. We will also see some examples where the energy and oil industry interferes with governmental institutions. The cases we are going to focus on in this chapter will give us a perspective of both the corporate and the government point of view. We will see that both the nation states and multinationals have influenced each other in many ways, in order to protect their interests in different issue areas. In this way we will see that; not only have these giant corporations have influenced the foreign affairs of states, but these actions have been developed further by nation states taking advantage of these firms' economic power in order to reach their national goals.

The connection and interaction between American business and foreign policy has always been vital both to the national interest and corporate interests. For

most of the country's history, foreign policy has reflected an obsession with open markets for American firms. At one time, protecting the interests of a company like United Fruit was synonymous with policy toward Latin America.²⁰⁴ United Fruit began with enviable connections to the Eisenhower administration. Secretary of State, John Foster Dulles, and his former New York law firm, Sullivan and Cromwell, had long represented the company. Allen Dulles, head of the CIA, had served on UFCO's board of trustees. Ed Whitman, the company's top public relations officer, was the husband of Ann Whitman, President Eisenhower's private secretary. (Ed Whitman produced a film, "Why the Kremlin Hates Bananas," that pictured UFCO fighting in the front trenches of the cold war.) The fruit firm's success in linking the taking of its lands to the evil of international communism was later described by one UFCO official as "the Disney version of the episode." But the company's efforts paid off. It picked up the expenses of journalists who traveled to Guatemala to learn United Fruit's side of the crisis, and some of the most respected North American publications - including the New York Times, New York Herald Tribune, and New Leader - ran stories that pleased the company. A UFCO public relations official later observed that his firm helped condition North American readers to accept the State Department's version of the Arbenz regime as Communist-controlled and the U.S.-planned invasion as wholly Guatemalan."²⁰⁵

Even though business has the money, technology, and management that make today's world spin, it needs Uncle Sam's help, in a world where governments are

²⁰⁴ Business and Foreign Policy by Jeffrey E. Garten, available at <http://www-stage.foreignaffairs.org/19970501faessay3772/jeffrey-e-garten/business-and-foreign-policy.html> accessed on 14.11.2005

²⁰⁵ Quoted from "Walter La Feber, Inevitable Revolutions - The United States in Central America 2nd ed. 1993, Norton & Company", U.S pp. 120-121

awarding big contracts and companies are becoming trapped in issues such as human rights, labor practices, environmental protection, and corruption.²⁰⁶ These circumstances are forcing them for a cooperative deal or enforcement of government agencies regarding their interests.

Quite often, a strategic alliance between multinational corporations and America's Congress align to promote free trade liberalism, open trade agreements with other countries, and even foster military insurgency to advance or protect American business ventures and American multinational interests abroad like ITT in Chile, US-back overthrow of Mohammed Mossadeg to restore Iran's Pahlevi Shah to power and American and British Oil Co.'s 7 Sisters in the Persian Gulf.²⁰⁷ Hanging in the balance, the White House and Congress have always had hard times with the balance of the American corporate interest with US national interest.²⁰⁸ Richard Barnet and John Cavanaugh in their book, *Global Dreams*, hypothesize the globalization of nation states, where multinationals will consolidate consumer tastes regardless of national origin, and where American MNCs will continue to supersede over domestic priorities.²⁰⁹ They assume that the interests of American multinationals will continue to have priority over American national interests. If not, MNCs will do whatever they can to influence the governmental policies in favor of

²⁰⁶ Business and Foreign Policy by Jeffrey E. Garten, available at <http://www-stage.foreignaffairs.org/19970501faessay3772/jeffrey-e-garten/business-and-foreign-policy.html> accessed on 14.11.2005

²⁰⁷ AMERICAN GLOBAL INVESTMENT by Lindsey K. Robinson available at <http://www.globalexchange.org/campaigns/wto/882.html> accessed on 06.07.2005

²⁰⁸ AMERICAN GLOBAL INVESTMENT by Lindsey K. Robinson available at <http://www.globalexchange.org/campaigns/wto/882.html> accessed on 06.07.2005

²⁰⁹ See Richard J. Barnet & John Cavanaugh, *Global Dreams: Imperial Corporations and the New World Order*, New York: Simon & Schuster, 1994

their benefits. In this chapter, we will see how this interaction of MNC-state relation takes place.

4.1. Boeing vs. Airbus

The main topics of this part will be the story of Boeing and Airbus in terms of their competition and their effects on their home and host governments and foreign relations among them. Both of them are the leading aerospace multinationals of the United States and some of the European Union State's respectively. Boeing is one of the world's leading aerospace companies and the largest manufacturer of commercial jetliners and military aircraft. Boeing's reach extends to customers in 145 countries around the world, and it is the number one U.S. exporter in terms of sales.²¹⁰ Headquartered in Chicago, Illinois, U.S.A., Boeing employs more than 153,000 people in more than 67 countries.²¹¹ On the other hand, Airbus began its life 35 years ago with the world's first wide-body twin-engine passenger jet, the A300. Today Airbus, headquartered in Toulouse, France, produces a comprehensive range of 14 aircraft and employs 55,000 people worldwide.²¹² Airbus, since 2001 a fully integrated single company, started life as a French-German consortium in 1970. Later it was joined by CASA of Spain and British Aerospace.

²¹⁰ Boeing About Us, available at <http://www.boeing.com/companyoffices/aboutus/> reached on 12.02.2005

²¹¹ Boeing About Us, available at <http://www.boeing.com/companyoffices/aboutus/> reached on 12.02.2005

²¹² Company evolution, available at http://www.airbus.com/en/corporate/people/Airbus_short_history.html reached on 12.02.2005

For over 30 years, Boeing and Airbus, supported by their respective governments, have argued over how various government policies affect and distort what is widely seen as a strategic industry for economic growth and national security.²¹³ And in respect how these companies affect their home government policies towards each other. The long standing dispute between Airbus and Boeing has started with the European's attack on aerospace industry. For most of its history, Boeing enjoyed the monopoly and the power of its home government aside. With the emergence of Airbus, rules of the game have changed. The struggle between the two companies has created different kinds of disputes since the 1970s. Every time each side is ready to launch a new aircraft, the trade dispute comes back because both sides think that they can gain leverage. Launching a new aircraft contains high risk. That is why both of the companies would like to control other sides' activities and try everything to stop the correspondent's business, which creates trade dispute.²¹⁴ Both sides claim the moral high ground in this dispute claiming that home governments should not help or subsidize the aerospace industry in any terms but in fact governments on both sides of the Atlantic heavily subsidize their jet makers. Washington first launched this dispute argument even though Boeing, as an American firm may be the largest beneficiary of corporate welfare in U.S.²¹⁵ In fact, the actor behind the curtain in this trade dispute is mainly Boeing, forcing the U.S government to bring the dispute in front of the international organizations in order to

²¹³ The Boeing-Airbus Trade Dispute: Implications for Transatlantic Relations and Global Trade, available on <http://www.brookings.org/comm/events/20050602.htm>, accessed on 30.03.2006

²¹⁴ The Boeing-Airbus Trade Dispute: Implications for Transatlantic Relations and Global Trade, available on <http://www.brookings.org/comm/events/20050602.htm>, accessed on 30.03.2006

²¹⁵ Boeing vs. Airbus, available at <http://www.cei.org/gencon/004,04679.cfm> accessed on 18.10.2005

defeat its competitor by blocking the economic subsidizations, although both companies are more or less in the same position. The World Trade Organization has handled 317 cases since its creation in 1995. But the latest is one of the most important: The case filed on October 6th 2004 charging that European Union subsidies, to aircraft producer Airbus Industry, violate the WTO's 1994 Agreement on Subsidies.²¹⁶ Again with the respective influence of Airbus and Boeing on their governments it has been decided that the issue shall be analyzed among the governments on both sides of the Atlantic. A statement made by French Minister of Foreign Trade, Francois Loos in Paris on January 11, 2005 clarifies the issue.²¹⁷ M. François Loos, deems positive the initiative of starting negotiations between the European Union and the United States on the subsidies to Boeing and Airbus. The United States has finally decided not to bring the trade dispute which pits Boeing against Airbus to the World Trade Organization. It agreed to start negotiations with the European Union. The Minister stated: "The aim of the negotiations now starting will be to identify which forms of subsidies will be prohibited, which are disputable and which are authorized. We want these negotiations to define the conditions for fair competition. Subsidies are not banned under World Trade Organization rules, except for export subsidies which the Organization has again recently condemned."²¹⁸

²¹⁶ Time for Airbus to Keep Itself Aloft By Edward Gresser available at http://www.ppionline.org/ppi_ci.cfm?knlgAreaID=108&subsecID=128&contentID=252970 accessed on 03.02.2005

²¹⁷ EMBASSY OF FRANCE IN WASHINGTON – PRESS & COMMUNICATION SERVICE, available at <http://www.ambafrance-us.org/news/standpoint/stand104.asp> , accessed on 15.10.2005

²¹⁸ EMBASSY OF FRANCE IN WASHINGTON – PRESS & COMMUNICATION SERVICE, available at <http://www.ambafrance-us.org/news/standpoint/stand104.asp> , accessed on 15.10.2005

Now if we have a look at the other side of the coin we should understand in what ways Boeing has influenced the U.S government foreign policy in order to create this dispute. First of all Boeing is one of the most important military contractor for the US army and government. Secondly Boeing is the most important producer of commercial airplanes in North America, which gives her an economic power as a monopoly in her home market, until the entrance of Airbus into the aviation industry. Boeing claims that the subsidies from the EU to Airbus forced American government to put sanctions on it's competitor via international organizations. In many international airplane procurement tenders, Boeing uses American military and economic power in order to bully 3rd world nations such as African countries.²¹⁹ The main reason behind the scene is Boeing's close relations with the Pentagon and its position as one of the most favored contractor giant of American government. All of these reasons and more give Boeing the ability to manipulate US foreign policy and economic relations. As we can see from the trade disputes, Boeing, one of the biggest American multinationals has manipulated its home government in order to prevent her competitor to gain leverage in the aerospace industry race between them. In fact just like Airbus, Boeing is one of the companies that take advantage of many government subsidies. This is one of the most appealing examples of the influence of American multinationals on U.S foreign policy.

In addition to the actions of Boeing and Airbus, other European MNCs are also influencing the E.U governments at the same time. The following action of European NGOs is a striking example of the level of MNC manipulation of state

²¹⁹ Boeing Articles available at <http://www.corpwatch.org/article.php?list=class&type=106&class=3&all=1> accessed on 18.04.2005

politics both in U.S and in Europe. In year 2004, 50 European NGOs wrote an open letter to the European Commission warning of "the excessive influence of corporate lobby groups and multinationals over EU policy making" that they say is approaching levels seen in the United States.²²⁰ This action and the letter of the European NGOs is an indirect example of the influence of American multinationals on American foreign or domestic policy.

Another case regarding Boeing's international interference in U.S foreign policy and in other states politics is from Middle East. This story has diverse roots from commercial markets to national security matters and inter-state relations. One of the main actors of this case apart from U.S government and Boeing is Kamal Adham, who was one of the true inside power players of the Middle East, a smart man who had for decades straddled the worlds of Middle Eastern business and politics.²²¹ He was the half brother of Iffat, the favorite wife of King Faisal, who ruled Saudi Arabia from 1964 until his death in 1975. Like so many other enterprising Arabs in the 1960s and 1970s, when oil revenues were booming and foreign companies were lining up to sell their products, Adham had used his connection to commercial advantage. In order to sell a product or service in Saudi Arabia, you had to know someone in the royal family, which authorized all expenditures. If you did not know a prince or a royal cousin, then you hired an "agent" who provided you access for a "commission." Though this commission often looks very much like a "bribe" it was nonetheless the way business was done, and

²²⁰ EU: Corporate Lobbying Grows By Stefania Bianchi, available at <http://www.globalpolicy.org/soecon/tncs/2004/1222murkylobby.htm> accessed on 04.05.2005

²²¹ Spotting the Boeotians, available at <http://www.the-catbird-seat.net/BoeingBound.htm> accessed on 21.11.2005

few were better at it than Kamal Adham.²²² The list of his agency deals was long and illustrious. He also came to be the principal broker for weapons purchased by Saudi Arabia on behalf of Egypt. But perhaps his richest contract was with Boeing Company, which paid him millions of dollars in commissions to help it sell passenger jetliners to the fledgling Saudi airlines.²²³ That and other similar transactions had led to a three-year investigation of Boeing's commission payments by the U.S. Securities and Exchange Commission, whose goal in part was to figure out exactly who Boeing was using to accomplish these sleights of hand. Boeing's efforts to suppress those names, particularly Adham's has been accomplished with significant help from the State Department, which entered a court fight between the U.S. Securities and Exchange Commission and Boeing to argue that disclosure of Boeing's 'highly placed' consultants abroad could harm U.S. foreign policy interests.²²⁴ How could the mere disclosure of Adham's name affect U.S. foreign policy? In two ways. Firstly, Adham was the head of the Saudi internal security service – arguably the most important agency of the government, since it protected the royal family – and the General Intelligence Directorate of Saudi Arabia. But the second and more important foreign policy concern was that Adham was the U.S.'s key link to Egyptian President Anwar Sadat in the years leading to the Camp David accords in 1979 – the years following the 1973 war, when the Saudi-Egypt axis

²²² Spotting the Boeotians, available at <http://www.the-catbird-seat.net/BoeingBound.htm> accessed on 21.11.2005

²²³ Spotting the Boeotians, available at <http://www.the-catbird-seat.net/BoeingBound.htm> accessed on 21.11.2005

²²⁴ Spotting the Boeotians, available at <http://www.the-catbird-seat.net/BoeingBound.htm> accessed on 21.11.2005

acquired key strategic importance. We can come to a conclusion from this case that an American multinational can even have a legal dispute with governmental organizations regarding the interest clash between the corporation's and the national security ones. Not just on economic issues, but on political issues like national security or foreign policy interests, U.S multinationals can take a risk of facing government oppositions. Firms like Enron, Boeing or Ford would not hesitate to oppose the American government if they had an interest clash in any respect. These multinationals would always take advantage of manipulating the US foreign policy if they could benefit from it.

Despite the confrontations between American MNCs and the U.S government, there is a wide network of American multinationals trying to influence the U.S Congress. In order to influence the government and to protect their interests these giants spend millions of dollars and do lobbying in every possible way.

4.2. Lockheed Martin & Other Military MNCs

In 1991, the ten biggest defense companies had a total of 108 lobbyists registered in Washington.²²⁵ As of mid-1997, Lockheed Martin alone has 87 lobbyists registered with Congress, 26 working out of the company's own offices and 61 at outside firms.²²⁶ Lockheed's total lobbying expenditures for 1996 totaled \$3.8

²²⁵ Ken Silverstein, Washington on \$10 Million A Day : How Lobbyists Plunder the Nation, Monroe, U.S, 1998, p.86

²²⁶ Ibid. p. 108

million, 10 times more than the combined lobbying expenditures for the ten biggest defense contractors in 1985. While Boeing has fewer lobbyists on its payroll, it spent 70% more than Lockheed, shelling out \$5.2 million for lobbying in 1996. Other arms makers have similarly huge efforts, with Northrop employing 58 lobbyists and McDonnell Douglas 53.²²⁷ The reason for mentioning these data and numbers is to show how seriously these multinationals spend time and money to influence the American government. These companies are profit seeking institutions and they would not spend even a cent for a purpose that is not for their benefits. The total lobbying spending of Boeing in 1996 was \$5.2 million. Their aim is to manipulate the actions of the American government both in domestic affairs and in international relations. Not only Boeing but also many other big multinational firms today spend millions of dollars on lobbying activities in Washington D.C. Today, the intention of these firms to influence American government for their own sakes is a fairly well known phenomenon in American society. Below you will find more examples of this phenomenon with financial data.

In 1996, Philip Morris spent \$19.6 million on lobbying programs vs. \$4.2 million on campaign donations (making it the leader in both categories). The same pattern holds true with other firms. For 1996, Georgia Pacific spent \$8.9 million for lobbying and handed out \$527,000 for campaign usage. Corresponding figures for AT&T are \$8.4 million vs. \$1.8 million; for Pfizer, \$8.3 million vs.²²⁸ \$775,000; for **Boeing**, \$5.2 million vs. \$770,000; for ARCO, \$4.3 million vs. \$1.4 million; for

²²⁷ Ibid. p. 115

²²⁸ See Ken Silverstein, Washington on \$10 Million A Day : How Lobbyists Plunder the Nation, Monroe, U.S, 1998

Lockheed, \$3.5 million vs. \$1.26 million; for FedEx, \$3.1 million vs. \$1.9 million; for Dow Chemical \$1.5 million vs. \$578,000.²²⁹ In 1996, Boeing hired seven outside lobby shops for the sole purpose of pushing renewed Most Favored Nation trade status for China, paying them a combined total of at least \$160,000 for their efforts.²³⁰ Multinational corporate lobbying has long been a major force in American politics and this makes calculating corporate lobbying expenditures nearly impossible, though it's safe to say that lobbying has now become a multi-billion dollar-per-year industry.²³¹ And it is quite obvious that this much of money spend on political institutions is not for charity activities but for forcing the government and putting pressure on politicians for the sake of corporate interests worldwide.

Another case reflecting the influence of American multinationals on American foreign relations is Boeing's influence of American foreign policy for the oppression of Export-Import Bank to be financial sponsor for many Boeing activities in global markets. Ex-Im Bank had been in the aircraft financing business since 1957 and through 1987 had expanded financing worth 19.16 billion dollars on exports of 37 billion.²³² This top American multinational in that was the particular beneficiary of Ex-Im Bank, was Boeing. Boeing has always been active on Capitol Hill hoping for a greater role for Ex-Im Bank in lending operations which would benefit for Boeing's aerospace activities with its millions of dollars spending on

²²⁹ See Ken Silverstein, Washington on \$10 Million A Day : How Lobbyists Plunder the Nation, Monroe, U.S, 1998

²³⁰ Ibid.

²³¹ See Ken Silverstein, Washington on \$10 Million A Day : How Lobbyists Plunder the Nation, Monroe, U.S, 1998

²³² Steven McGuire, Airbus Industrie – Conflict and Cooperation in US-EC Trade Relations-, St Martin's Press, London, 1997, p.56

lobbying activities. It was so successful in this regard that the bank was variously known as “the Boeing Bank” or “Boeing Savings and Loan”²³³ One aircraft deal in particular have even catch the congressional criticism to Ex-Im Bank supported Boeing’s sale of 25 aircrafts to the Australian, Ansett Airlines in 1980. This was the procurement of 25 commercial airlines with financial support from an international financial organization in consortium with one of the bidding aircraft firms. In this deal, Ex-Im Bank offered Boeing a financial support with better terms than Airbus’s offer. The Airbus with European Aerospace consortium was trying to sell Ansett twelve Airbus A300s and promised export finance support. Boeing influenced the American government to oblige Ex-Im Bank to match or beat the Airbus offer by not allowing for exchange rate fluctuations in setting its interest rate.²³⁴ Ex-Im Bank’s financial support to Boeing in beating Airbus in this offer appeared to be a problem for Congress. Not only did it violate the convention of matching, but not exceeding a competitor’s financing, it also undercut American credibility at the OECD.²³⁵ There was a concern that Ex-Im Bank’s operations under the influence of an American multinational, Boeing, had damaged American diplomatic efforts internationally. Although this had been a wound in American credibility in international arena, Boeing did not stop her actions regarding her activities influencing government policies on economic and political issues. No matter what the outcome shall be, it is corporate interest that has the higher priority.

²³³ Ibid. p.57

²³⁴ Ibid. p.58

²³⁵ Ibid. p.58

As a foresighted man President Eisenhower saw the potential of giant multinationals to influence the major power structures of American society like economics, politics, military, press, international presence and relations of U.S. In his final address to the American nation before leaving office in 1961, issued a rather extraordinary warning to the American people that the country “must guard against unwarranted influence, whether sought or unsought, by the military-industrial complex. The potential for the disastrous rise of misplaced power exists and will persist.”²³⁶ Following the same course that virtually every other major industry has in the last two decades, a persistent series of mergers and corporate takeovers has consolidated control of the media into the hands of a few corporate giants in U.S. It is certainly true that by all outward appearances, the United States does appear to have a free press. Yet behind this picture of plurality there are clear warning signs that an increasingly dangerous relationship exists between the media titans and the corporate military powers that Eisenhower so feared. For example, the number-one supplier of broadcast news in United States-NBC, with both MSNBC and CNBC under its wing, as well as NBC news and a variety of “news magazines” is now owned and controlled by General Electric, one of the largest defense multinationals.²³⁷ It is significant that as General Electric’s various media subsidiaries predictably lined up to cheerlead the use of U.S. military force in Kosovo, it was at the same time posting substantial profits from the sale of the high-

²³⁶ The Bribes and Boondoggles of Boeing, The Media, available at <http://www.the-catbird-seat.net/BoeingBound.htm> accessed on 21.11.2005

²³⁷ The Bribes and Boondoggles of Boeing, The Media, available at <http://www.the-catbird-seat.net/BoeingBound.htm> accessed on 21.11.2005

tech tools of modern warfare.²³⁸ American multinationals in this sense are not only active in manipulating international activities of U.S government but they are also influencing domestic politics and agenda in order to protect their interests worldwide. In order to sell warfare goods or military equipments they can even try to change U.S's attitude to a war or a problematic area in the world like Kosovo or Middle East. Many NGOs and anti-war supporters blame big American military multinationals for the U.S's presence in Middle East.²³⁹ They also accuse American government for risking American foreign policy and credibility in the world for the sake of economic and political benefits of American multinationals.

The power of multinationals not only from aerospace industry but also and especially from the oil and energy industry have become so intense that they can even affect the governmental bureaucrats of other nations. Below we will see a case of big multinationals trying to the use "structural power" of Susan Strange in world politics. This recent example had been witnessed in Iraq. US oil firms affecting not even United State's but Iraq's foreign affairs. A senior Iraqi official has asserted that, Iraq has begun to court several European oil company investors as it seeks to spur development of the country's massive oil reserves before Washington hands over power. As part of the process, new Iraqi Oil Minister Ibrahim Bahr al-Uloum will insist multinationals help train Iraqi engineers, who are finally freed of Saddam Hussein and more than a decade of United Nations sanctions to international

²³⁸ The Bribes and Boondoggles of Boeing, The Media, available at <http://www.the-catbird-seat.net/BoeingBound.htm> accessed on 21.11.2005

²³⁹ See <http://www.commondreams.org/>

standards.²⁴⁰ An Iraqi delegation attended OPEC's Sept. 24 meeting in Vienna. "Dr. Ibrahim's idea is to get some social development projects injected into the process and one of the main areas is training Iraqis outside Iraq."²⁴¹ European majors will be encouraged by Iraq's informal overtures; but Musawi, a deputy on Iraq's U.S.-backed Governing Council, has revealed that U.S. firms may be given preference in Iraq's oilfields, home to the world's second-largest reserves just because of the political pressure of American energy and oil industry giants.²⁴² The presence of U.S in Iraq is not only because of the country's political benefits but also because of the political and economic pressure of American multinationals on American government. Like in this case, American giant oil multinationals manipulate American government's decisions and use of power in order to create suitable beneficial circumstances in Iraq.

4.3. Exxon-Mobil

Another example of U.S multinationals affecting U.S foreign policy is President George Bush's decision not to sign the United States up to the Kyoto global warming treaty. This was partly a result of pressure from Exxon-Mobil, the world's most powerful oil company, and other industries, according to US State Department

²⁴⁰ Iraq: Total, ENI, Royal Dutch/Shell In Oil Development Talks available at <http://www.corpwatch.org/article.php?id=11170> , accessed on 10.06.2006

²⁴¹ Iraq: Total, ENI, Royal Dutch/Shell In Oil Development Talks available at <http://www.corpwatch.org/article.php?id=11170> , accessed on 10.06.2006

²⁴² Iraq: Total, ENI, Royal Dutch/Shell In Oil Development Talks available at <http://www.corpwatch.org/article.php?id=11170> , accessed on 10.06.2006

papers seen by the Guardian.²⁴³ The documents, which emerged as Tony Blair visited the White House for discussions on climate change before next G8 meeting, reinforce widely-held suspicions of how close the company is to the administration and its role in helping to formulate US policy.²⁴⁴

As it was quoted: "In briefing papers given before meetings to the US under-secretary of state, Paula Dobriansky, between 2001 and 2004, the administration is found thanking Exxon executives for the company's "active involvement" in helping to determine climate change policy, and also seeking its advice on what climate change policies the company might find acceptable."²⁴⁵

Until now Exxon has publicly maintained that it had no involvement in the US government's rejection of Kyoto. But the documents, obtained by Greenpeace under US freedom of information legislation, suggest this is not the case. As it was cited in Greenpeace web site: "In the email, Myron Ebell of the Exxon-funded Competitive Enterprise Institute writes to Phil Cooney, a senior official at the White House Council for Environmental Quality. He describes his plans to discredit an EPA study on climate change through a lawsuit. He states the need to "drive a wedge between the President and those in the Administration who think that they are serving the president's interests by publishing this rubbish." He notes his group is considering a call for the then-head of the Environmental Protection Agency,

²⁴³ US: How Oil Giant Influenced Bush by John Vidal available at <http://www.corpwatch.org/article.php?id=12368> accessed on 09.06.2006

²⁴⁴ US: How Oil Giant Influenced Bush by John Vidal available at <http://www.corpwatch.org/article.php?id=12368> accessed on 09.06.2006

²⁴⁵ US: How Oil Giant Influenced Bush by John Vidal available at <http://www.corpwatch.org/article.php?id=12368> accessed on 09.06.2006

Christine Todd Whitman, to resign, and openly suggests that she'd make an appropriate "fall gal" if the administration is serious about getting back into bed with conservatives opposing action on climate change."²⁴⁶

His memo to the US government official begins "Thanks for calling and asking for our help." That statement, and the cosy, conspiratorial tone of the document was enough to make Richard Blumenthal, State Attorney General of Connecticut, and G. Steven Rowe, State Attorney General of Maine, demand an investigation by US Attorney General John Ashcroft into whether Cooney or other officials in the Bush administration solicited the Competitive Enterprise Institute's filing of the new lawsuit, as the memo certainly makes it appear.²⁴⁷ "President of the United States rejected Kyoto in part based on input from you [the Global Climate Coalition]," says one briefing note before Ms Dobriansky's meeting with the GCC, the main anti-Kyoto US industry group, which was dominated by Exxon.²⁴⁸ This was in fact what should be seen on the scene for Exxon's efforts in international arena. In order to cover up its actions Exxon proposed its ideas as the suggestions of Global Climate Control Coalition. But today it is was accepted by 199 nation states that Kyoto protocol's aim is to protect the world's climate and reduce the dangerous emissions that harm atmosphere.²⁴⁹

²⁴⁶ Greenpeace obtains smoking-gun memo: White House/Exxon link, available at <http://www.greenpeace.org/international/news/investigation-of-exxon-front-g> accessed on 17.04.2006

²⁴⁷ Greenpeace obtains smoking-gun memo: White House/Exxon link, available at <http://www.greenpeace.org/international/news/investigation-of-exxon-front-g> accessed on 17.04.2006

²⁴⁸ US: How Oil Giant Influenced Bush by John Vidal available at <http://www.corpwatch.org/article.php?id=12368> accessed on 09.06.2006

²⁴⁹ Russia drags its feet on climate change available at <http://www.greenpeace.org/international/news/russia-and-kyoto> accessed on 14.02.2005

The papers further state that the White House considered Exxon "among the companies most actively and prominently opposed to binding approaches [like Kyoto] to cut greenhouse gas emissions".²⁵⁰ But in evidence to the UK House of Lords Science and Technology Committee in 2003, Exxon's head of public affairs, Nick Thomas, said: "I think we can say categorically we have not campaigned with the United States government or any other government to take any sort of position over Kyoto."²⁵¹ This is a rejection of the allegation that they manipulated the American government's actions on the protocol but it is quite obvious as claimed by many NGOs that Exxon has a great influence on the rejection of Kyoto.

Exxon, officially the US's most valuable company valued \$379bn this year, portrayed in the papers to share the White House's unwavering skepticism of international efforts to address climate change.²⁵² The documents, which reflect unanimity between the company and the US administration on the idea that the need for more global warming science and the unacceptable costs of Kyoto, state that Exxon believes joining Kyoto "would be unjustifiably drastic and premature". This line has been taken consistently by President Bush, and was expected to be continued in yesterday's talks with Tony Blair who has said that climate change is "the most pressing issue facing mankind".²⁵³ As it was quoted, President Bush tells Mr. Blair that; "He's concerned about climate change, but the documents reached by

²⁵⁰ US: How Oil Giant Influenced Bush by John Vidal available at <http://www.corpwatch.org/article.php?id=12368> accessed on 09.06.2006

²⁵¹ US: How Oil Giant Influenced Bush by John Vidal available at <http://www.corpwatch.org/article.php?id=12368> accessed on 09.06.2006

²⁵² US: How Oil Giant Influenced Bush by John Vidal available at <http://www.corpwatch.org/article.php?id=12368> accessed on 09.06.2006

²⁵³ US: How Oil Giant Influenced Bush by John Vidal available at <http://www.corpwatch.org/article.php?id=12368> accessed on 09.06.2006

Greenpeace reveal the alarming truth that policy in White House is being written by the world's most powerful oil company.”²⁵⁴ Although the official policy of United States is not signing Kyoto, the President Bush is aware of the fact that this policy has been shaped by one of the most powerful oil multinational of the country, Exxon.

4.4. Enron

Another energy giant multinational, Enron used the U.S. government to coerce the World Bank and poor nations to grant concessions for financial resources and access various energy tenders and resolve its investment problems. According to documents and correspondence released by the Treasury Department, Enron, a bankrupt company that allegedly paid no taxes in the 15 years before it went broke in 2001--despite earning billions of dollars in declared profits--, regularly and aggressively called on staff from Treasury, the State Department, the office of the U.S. Trade Representative and the World Bank to meet with foreign officials to favorably resolve its problems and disputes with their governments. This way Enron influenced not only the American government but also the 3rd state's affairs and inter-state relations between U.S and other countries to reach its financial and commercial goals. This corporate habit belongs not only to Enron but also to most of the giant U.S multinationals. This is also the basic concern of this thesis to figure out and exemplify the influence of American multinationals to American foreign policy.

²⁵⁴ US: How Oil Giant Influenced Bush by John Vidal available at <http://www.corpwatch.org/article.php?id=12368> accessed on 09.06.2006

The company collapsed at the end of 2001 with billions of dollars in debt and facing accusations of accounting frauds. The incidents, according to Treasury documents obtained by consumer groups under the U.S. Freedom of Information Act, concerned its subsidiaries' activities in countries including Argentina, India, Nigeria, the Dominican Republic and Turkey.²⁵⁵ Nations like India, Argentina and Mozambique have long publicly complained that Enron was particularly heavy-handed in using the local U.S. embassy or Washington to apply pressure if disputes were not resolved to its satisfaction. The new documents, though heavily censored, are among the first examples of concrete evidence of how the highly controversial company managed to outdo other U.S. firms in aggressively pulling strings in Washington.²⁵⁶

What "sets Enron apart was that, it was always willing to take things a little further than everybody else," said Tyson Slocum, a research director with Public Citizen, a U.S.-based consumer group.²⁵⁷ "Enron, for its size, flexed an enormous amount of political muscle that gave it tremendous access that a lot of other companies did not enjoy as consistently. It just excelled at pushing its influence to a level more advanced and a little higher than many of its competitors".²⁵⁸

²⁵⁵ USA: Enron Used U.S. Government to Bully Developing Nations by Emad Mekay, Inter Press Service, available at <http://www.corpwatch.org/article.php?id=6971> accessed on 02.06.2006

²⁵⁶ USA: Enron Used U.S. Government to Bully Developing Nations by Emad Mekay, Inter Press Service, available at <http://www.corpwatch.org/article.php?id=6971> accessed on 02.06.2006

²⁵⁷ USA: Enron Used U.S. Government to Bully Developing Nations by Emad Mekay, Inter Press Service, available at <http://www.corpwatch.org/article.php?id=6971> accessed on 02.06.2006

²⁵⁸ USA: Enron Used U.S. Government to Bully Developing Nations by Emad Mekay, Inter Press Service, available at <http://www.corpwatch.org/article.php?id=6971> accessed on 02.06.2006

For example in India, according to the documents, senior government officials intervened with their Indian counterparts to settle a dispute over the Dabhol power plant in Enron's favor. Officials from the Treasury, the State Department and even the National Security Council were involved in resolving problems over the \$3 billion project on behalf of the U.S. firm.²⁵⁹ The Indians were concerned that the project was not viable in the first place, and that Enron had been accused of profiteering by charging power prices that were at least three times higher than elsewhere in the country. But in negotiations between India, Enron, and other agencies, "the objective is to steer the discussion away from whether the (Dabhol) project is in default or not".²⁶⁰ Just like Exxon, Enron also used U.S state agencies to manipulate commercial and political affairs of 3rd states with respect to its benefits. This also means the influence of another U.S multinational on American Foreign Policy. In another document, U.S. officials briefing then Secretary of Treasury, Paul O'Neil suggested that messages he deliver on a trip to India include, "without a quick resolution of the Enron dispute, the financial relationship between the U.S. and India would suffer as a result."²⁶¹ "Unless expeditiously resolved, the Enron dispute could affect India's investment climate and hamper development of our bilateral economic and political relations," said another "talking point" provided to O'Neil. It continues: "The U.S. government hopes that a creative resolution can be found to Dabhol so that

²⁵⁹ USA: Enron Used U.S. Government to Bully Developing Nations by Emad Mekay, Inter Press Service, available at <http://www.corpwatch.org/article.php?id=6971> accessed on 02.06.2006

²⁶⁰ USA: Enron Used U.S. Government to Bully Developing Nations by Emad Mekay, Inter Press Service, available at <http://www.corpwatch.org/article.php?id=6971> accessed on 02.06.2006

²⁶¹ USA: Enron Used U.S. Government to Bully Developing Nations by Emad Mekay, Inter Press Service, available at <http://www.corpwatch.org/article.php?id=6971> accessed on 02.06.2006

we can focus without distraction on our growing economic and political ties." Enron even reportedly pushed administration officials to threaten foreign governments with sanctions if their disputes could not be settled advantageously. On August 23rd, 2001 the Financial Times newspaper said that company executives threatened to have the United States impose sanctions on India.²⁶² The Dabhol plant, which is still 65 percent owned by Enron, was shut down as the company went into bankruptcy and Indian lenders started court action to recover loans. The end results of lobbying efforts on behalf of Enron are unclear, but the documents clearly show how the firm arm-twisted U.S. officials to intervene on its behalf. "To get the secretary of Treasury to raise the issue of a specific company's contractual dispute in high-level official diplomatic meetings is not common," said Slocum, referring to O'Neil's trip to India. Washington also intervened on Enron's behalf elsewhere. Other examples show that in 2001 Enron lobbied the government to "exercise influence of the United States to the World Bank" to persuade the international lender, which often attaches economic policy conditions to its credit, to intervene in economic policy in Turkey so that Enron's investment there would be protected. Both the World Bank and the International Monetary Fund had at the time wanted to impose a deadline on offering guarantees for certain energy projects in Turkey, some of which involved Enron.²⁶³

Similarly, in 2001 Enron sought help from "officials who are handling U.S. foreign policy relations with Argentina," including the U.S. Trade Representative,

²⁶² "Enron Warns India Over Possibility Of Sanctions" by Sheila McNulty, Financial Times Aug 23, 2001 available at <http://search.ft.com/searchArticle?queryText=enron+sanctions+to+india&javascriptEnabled=true&id=010823006946> accessed on 02.06.2006

²⁶³ USA: Enron Used U.S. Government to Bully Developing Nations by Emad Mekay, Inter Press Service, available at <http://www.corpwatch.org/article.php?id=6971> accessed on 02.06.2006

State Department officials and the Treasury, to resolve a conflict with Argentina over a \$500 million investment dispute with Enron's water services subsidiary, Azurix. The U.S. firm had complained that local authorities would not allow Azurix to charge the high rates provided in the contract for its portable water and wastewater services. Argentina finally agreed to buy back the project by the political and economic influence of American government with the pressure of Enron.²⁶⁴ One more time a giant American multinational influenced American International Relations for the sake of its own benefit.

These examples help us to explain how Enron used its financial power and connections to distort government policies in a way to suit its own benefits and business expectations. Activists and watchdog groups have long decried the apparently open channels between corporations and successive U.S. administrations, often established through hefty election campaigns contributions. According to the Washington-based Center for Responsive Politics, which analyzes federal elections documents, from 1989 to 2002 Enron and its employees gave nearly \$6 million in individual, political and soft money contributions to federal candidates and parties.²⁶⁵ Three-quarters of the candidates were from the Republican Party of President George W. Bush. Enron was also a major donor to the election campaign of Bush and Vice President Dick Cheney, while at least 15 high-ranking administration officials owned stock in the energy company in 2001. Activists say this cozy relationship between

²⁶⁴ USA: Enron Used U.S. Government to Bully Developing Nations by Emad Mekay, Inter Press Service, available at <http://www.corpwatch.org/article.php?id=6971> accessed on 02.06.2006

²⁶⁵ USA: Enron Used U.S. Government to Bully Developing Nations by Emad Mekay, Inter Press Service, available at <http://www.corpwatch.org/article.php?id=6971> accessed on 02.06.2006

the U.S. government and corporate executives leaves consumers and the poor at a disadvantage, particularly in defenseless developing nations.²⁶⁶

The US public is only just beginning to comprehend the devastating domestic impact of Enron's financial machinations and dirty deals. However, the part of the story that has been eclipsed until now, is that Enron's international empire, which was fraught with charges of human rights and environmental abuses, was built on a foundation of about \$7 billion in taxpayer money. This \$7 billion came from institutions whose mandates range from poverty alleviation to promoting the US Merchant Marines or German exports, yet Enron convinced each that it was in their interest to promote the capitalization of Enron. Enron not only did influence international relations or political affairs of U.S but also benefit economically from various institutions in U.S. Since Enron's inception in 1992, at least 20 agencies, representing the U.S. Government (leading the way with over \$3 billion), the British, Italian, French, German, and Japanese governments, as well as the Inter-American Development Bank, the European Union and the World Bank, approved \$7 billion in financing toward overseas projects in which Enron had substantial involvement. Enron leveraged this public finance into a worldwide web of power and energy projects with an array of political interventions from local politicians to the Vice President of the United States. Enron's overseas operations rewarded shareholders temporarily but often punished the people and governments of foreign countries it

²⁶⁶ USA: Enron Used U.S. Government to Bully Developing Nations by Emad Mekay, Inter Press Service, available at <http://www.corpwatch.org/article.php?id=6971> accessed on 02.06.2006

targeted with price hikes and blackouts worse than those suffered by Californians in 2001.²⁶⁷

In desperately poor countries where Enron operated, these hardships sparked protests or riots. Local government leaders were, in many cases, implicated in the scandals or in the violent suppression of dissent. For example in the Dominican Republic, nine people were killed when police were brought in to quell riots after blackouts lasting up to 20 hours followed an Enron-initiated power price hike.²⁶⁸ Among the complaints of protesters was the allegation that Enron had purchased the local power plant at a vastly undervalued price. In fact this claim was quite right as Enron secured its presence and acquiring of the power plant with political back up from U.S government. In India, police hired by Enron beat non-violent protesters who challenged the \$30 billion power purchasing agreement, the largest deal in Indian history, struck between local politicians and Enron. Enron in this case influenced not even the international relations but the domestic relations of the host country. The \$30 billion purchase shall bring a giant multinational from a non-governmental actor to a political and economic power center that can manipulate nation state domestic and international affairs. The president of Guatemala tried to dissolve the Congress and declare martial law after rioting followed an Enron-

²⁶⁷ Enron's Empire-How Government and International Agencies Used Taxpayers Money to Bankroll the Energy Giant's International Investments by Daphne Wysham and Jim Vallette available at <http://www.corpwatch.org/article.php?id=2279> accessed on 03.05.2006

²⁶⁸ Enron's Empire-How Government and International Agencies Used Taxpayers Money to Bankroll the Energy Giant's International Investments by Daphne Wysham and Jim Vallette available at <http://www.corpwatch.org/article.php?id=2279> accessed on 03.05.2006

maneuvered price hike.²⁶⁹ In Panama, the man who negotiated the asking price for Enron's stake in power production was the brother-in-law of the head of the country's state-owned power company. Rioting followed suspicions of corruption and Enron's price hikes and power outages there, too. In Colombia, two politicians resigned amid accusations that one was trying to push a cut-rate deal for Enron on the state-owned power company.²⁷⁰

While all this was occurring, the US Government and other public agencies continued to advocate for Enron, threatening poor countries like Mozambique with an end to aid if they did not accept Enron's bid on a natural gas field.²⁷¹ Enron was so intertwined with the US Government in many people's minds that they assumed, as the late Croatian strongman Franjo Tjudman did, that pleasing Enron meant pleasing the White House. For Tjudman, he hoped that compliance with an overpriced Enron contract might parlay into an array of political favors, from softer treatment at The Hague's War Crimes Tribunal to the entry of his country into the World Trade Organization.²⁷²

Only when Enron's scandals began to affect Americans did these same government officials and institutions hold the corporation at arm's length. And only

²⁶⁹ Enron's Empire-How Government and International Agencies Used Taxpayers Money to Bankroll the Energy Giant's International Investments by Daphne Wysham and Jim Vallette available at <http://www.corpwatch.org/article.php?id=2279> accessed on 03.05.2006

²⁷⁰ Enron's Empire-How Government and International Agencies Used Taxpayers Money to Bankroll the Energy Giant's International Investments by Daphne Wysham and Jim Vallette available at <http://www.corpwatch.org/article.php?id=2279> accessed on 03.05.2006

²⁷¹ Dirty Deals and DNC Cash Machine by Charles R. Smith available at <http://www.newsmax.com/archives/articles/2003/5/14/124745.shtml> accessed on 04.05.2006

²⁷² Dirty Deals and DNC Cash Machine by Charles R. Smith available at <http://www.newsmax.com/archives/articles/2003/5/14/124745.shtml> accessed on 04.05.2006

when Enron's leadership revealed their greed on home turf it did become the biggest corporate scandal in recent US history.

The World Bank and Enron's relation is a Converging Agenda. The history of Enron's rise and fall would be incomplete without some background on the public agencies that assisted the corporation in its global expansion. It is important to mention the World Bank because this institution, more than any other, often creates an agenda that other bilateral and multilateral development banks follow.²⁷³ In many cases World Bank is on the top of the list of institutions Enron had influenced for its own benefit.

To follow is an explanation of how it worked: The World Bank would issue loans for privatization of the energy or the power sector in a developing country or turn this to a condition of further loans, and Enron would be amongst the first, and often the most successful, bidders to enter the country's newly privatized or deregulated energy markets. The US Commerce Department, State Department, or Energy Department would then send officials to meet with politicians in the targeted country as this process is triggered by the company itself. After meeting with these officials, deals would mysteriously turn in Enron's favor.²⁷⁴ Sometimes suspicions would be raised by the amazing deals Enron would strike -- purchasing power plants or buying shares in a gas field at vastly undervalued prices. Perhaps a politician or two would be exposed and be forced to resign. But soon thereafter the public finance

²⁷³ Enron's Empire-How Government and International Agencies Used Taxpayers Money to Bankroll the Energy Giant's International Investments by Daphne Wysham and Jim Vallette available at <http://www.corpwatch.org/article.php?id=2279> accessed on 03.05.2006

²⁷⁴ Enron's Empire-How Government and International Agencies Used Taxpayers Money to Bankroll the Energy Giant's International Investments by Daphne Wysham and Jim Vallette available at <http://www.corpwatch.org/article.php?id=2279> accessed on 03.05.2006

would begin to flow -- from U.S. and other export credit agencies, multilateral development banks, and private financiers. And another project would be on its way. Although formally not accepted in many cases as mentioned before or will be mentioned in the following parts, Enron or other giant U.S. multinationals influence directly American government or American foreign policy or via these instruments other institutions for political, economic or commercial advantage.

Another specific case occurred in the Dominican Republic. In the early 1990s, the Dominican Republic opened its doors to independent power producers, to help the cash-strapped country produce power for the public use for its citizens. On 22nd of July, 1994, the World Bank's IFC approved a \$132.3 million loan, and a year later, an additional \$1.5 million currency swap, in support of a 185-megawatt combined-cycle power facility mounted on a barge at Puerto Plata. The barge-mounted power plant was owned by Enron's subsidiary, Enron Global Power & Pipelines, which acquired the parent company's 50% share in the barge power plant in 1995.²⁷⁵

In December of 1996, the U.S. Maritime Administration (MARAD) provided a \$50 million guarantee toward two Enron power barges for this project. In January 1998, the World Bank's IBRD approved a \$20 million loan to privatize the country's power sector. The goal, said the World Bank, was to open up the power sector to private companies, through reforms at the state agency, Corporation Dominica de Electricidad (CDE).

²⁷⁵ Enron's Empire-How Government and International Agencies Used Taxpayers Money to Bankroll the Energy Giant's International Investments by Daphne Wysham and Jim Vallette available at <http://www.corpwatch.org/article.php?id=2279> accessed on 03.05.2006

When the government privatized its power sector, Enron (along with several other firms) rushed in to buy a stake in the generating capacity of the Dominican Republic, while AES and Union Fenosa of Spain bought into the distribution networks. Shortly after the private companies took over, power rates skyrocketed by 51-100% or more. Consumers refused to pay the higher rates, and ultimately forced the government to absorb most of the tariff increase.²⁷⁶

As a result, the government paid around \$5 million per month to the power companies, with an accumulated debt of more than US \$135 million. The mounting debts in turn caused Enron and others to turn off the power, with blackouts sometimes lasting as much as 20 hours, affecting hospitals, businesses, and schools. By early 2001, widespread frustration with the situation triggered protests, some of which turned violent after police clashed with demonstrators. At least nine people died in the protests, including a 14-year-old boy.²⁷⁷

In June 2001, the President of the Dominican Republic announced that the contracts awarded during the privatization of the power sector would be investigated. In a situation with similarities to California's 2001 energy debacle, shortages were originally blamed on private power generators, which at the same time of the energy crisis were only supplying a little less than half of the 815,000 kilowatts they were capable of producing. The electricity issue also sparked a confrontation between the Dominican government and the U.S. Embassy, after the former accused the Smith-

²⁷⁶ Enron's Empire-How Government and International Agencies Used Taxpayers Money to Bankroll the Energy Giant's International Investments by Daphne Wysham and Jim Vallette available at <http://www.corpwatch.org/article.php?id=2279> accessed on 03.05.2006

²⁷⁷ Enron's Empire-How Government and International Agencies Used Taxpayers Money to Bankroll the Energy Giant's International Investments by Daphne Wysham and Jim Vallette available at <http://www.corpwatch.org/article.php?id=2279> accessed on 03.05.2006

Enron joint venture of outright fraud for failing to deliver its promise to generate at least 175 megawatts a day which later on turned out to be not enough for the country. The country expressed the discomfort about the situation and the multinational but the U.S Embassy favored Enron's side and backed in this dispute to close the case.²⁷⁸

Although Enron-related projects obtained more than \$7 billion in public financing from all over the world, from 1992 to 2001, US Government agencies (the US Overseas Private Investment Corporation, Export-Import Bank, the US Maritime Administration Trade and Development Agency) lead the way with \$3.4 billion in support of Enron-related projects abroad. This assistance, and other, less tangible favors, was provided by US officials and institutions despite widespread evidence of Enron's involvement in fraud, corruption, and human rights abuses.²⁷⁹

The World Bank was the second largest supporter of Enron projects abroad. Despite some reluctance to support several deals obviously favorable to Enron, the World Bank did provide \$745 million in support for Enron-related overseas projects from 1992 to 2001. Beyond direct support for specific projects, it also provided Enron an opportunity to enter to many developing countries by pushing its agenda of privatization and deregulation of the energy and power sectors to supply further loans.

So long as the World Bank, IMF, WTO, US Government and corporations continue to advance this agenda of energy and power deregulation, all signs suggest

²⁷⁸ Enron's Empire-How Government and International Agencies Used Taxpayers Money to Bankroll the Energy Giant's International Investments by Daphne Wysham and Jim Vallette available at <http://www.corpwatch.org/article.php?id=2279> accessed on 03.05.2006

²⁷⁹ Enron's Empire-How Government and International Agencies Used Taxpayers Money to Bankroll the Energy Giant's International Investments by Daphne Wysham and Jim Vallette available at <http://www.corpwatch.org/article.php?id=2279> accessed on 03.05.2006

that future "Enrons" will continue to occur, with many future examples of giant multinational corporations intervening in 3rd states domestic affairs or international organizations financial or political policies.²⁸⁰

From oil and energy giants to other big U.S multinationals, there have always been pressures from the multinationals side to U.S governments in order to affect the domestic and foreign policies.²⁸¹ Especially tax issues have always been a matter of interest clash between multinational firms and U.S governments. We can see other examples of American multinationals affecting, this time not foreign but financial policies of United States government.

The following example may not be a case for foreign policy manipulation of multinational corporations but an example that can clarify the economic and political influence power of the giant multinationals on U.S legal system and domestic affairs. This way one shall easily figure out the power capabilities of American multinationals. In late winter 2004, when President Bush was shaping his \$1.35 trillion tax cut, corporate lobbyists were told to wait, their turn would come.²⁸² The \$100 billion tax-cut bill narrowly passed by the House and sent to the Senate that has been lauded by the White House as a broad stimulus package that will pull the United States economy out of a stall made worse by the terrorist attacks. But it also

²⁸⁰ Enron's Empire-How Government and International Agencies Used Taxpayers Money to Bankroll the Energy Giant's International Investments by Daphne Wysham and Jim Vallette available at <http://www.corpwatch.org/article.php?id=2279> accessed on 03.05.2006

²⁸¹ The Mega Corporate World available at <http://www.multinationalmonitor.org/hyper/issues/1984/07/nader.html> accessed on 07.06.2006

²⁸² The Mega Corporate World available at <http://www.multinationalmonitor.org/hyper/issues/1984/07/nader.html> accessed on 07.06.2006

allows the Bush administration to deliver on its promise to corporate lobbyists.²⁸³ Just 30 percent of the proposed tax relief would go to individuals, with the rest helping corporations, including large, prosperous ones like I.B.M. and General Electric, which have done well even in the economic downturn. And though one of the bill's costliest provisions is intended to produce a rebound in capital spending by businesses, such a recovery is far from certain.²⁸⁴ Charles Gabriel, the senior Washington analyst at Prudential Securities, said it was no surprise that the House bill heaped the biggest rewards on corporations. "It's political payback of sorts," he said. "To get his tax cut through earlier this year, Bush had to sedate the lobbyists, telling them; "Don't worry, there will be another bill coming through." Now you've got another green light for a tax bill, and there's a presumption that it will be skewed toward corporate tax cuts.²⁸⁵ As I have stated in the beginning of this case, tax issues and confrontations of U.S multinationals with U.S government create another important example case for the influence of multinationals on American government and its domestic and international affairs. Corporate pleading for tax cuts is nothing new, of course, particularly if a bill is viewed as the last gravy train pulling out of the Washington station for a while. What emerges from the Senate is almost certain to be a less generous proposal. Still, the administration's argument that the bill is broad-

²⁸³ US: Economic Stimulus With Corporations in Mind, by Gretchen Morgenson, New York Times, available at <http://www.corpwatch.org/article.php?id=749> accessed on 05.06.2006

²⁸⁴ US: Economic Stimulus With Corporations in Mind, by Gretchen Morgenson, New York Times, available at <http://www.corpwatch.org/article.php?id=749> accessed on 05.06.2006

²⁸⁵ US: Economic Stimulus With Corporations in Mind, by Gretchen Morgenson, New York Times, available at <http://www.corpwatch.org/article.php?id=749> accessed on 05.06.2006

based is weakened when so much goes to a handful of wealthy multinational corporations.²⁸⁶

Furthermore, the effort to stimulate the economy could be disproved by the immense pressure the bill would put on state governments -- which by law must maintain balanced budgets. Conservatives say giving tax breaks to business or big multinationals is not a payoff to campaign contributors, but a vital and efficient way of stimulating new investment, protecting jobs and shoring up corporate earnings and stock prices. "You can't restore a dysfunctional economy without helping business stabilize and recover," said Representative Bill Thomas of California, the Republican chairman of the House Ways and Means Committee and the main author of the bill.²⁸⁷ Another aspect of the House bill that aids a small but powerful group of large multinational corporations is the plan to make a temporary tax break for companies with financial operations permanent. The tax break lets companies shield income earned in those businesses from taxes by shifting money to offshore subsidiaries. In 2004, the tax break, known as the exception for active financing income, cost the government \$3.8 billion in taxes. If it became permanent, it would cost \$21 billion over the next decade, Mr. McIntyre said. It works this way: companies that lend money to customers buying their goods -- G.E. or the Ford Motor Credit Corporation, for example -- can offset the income tax they owe on the interest

²⁸⁶ US: Economic Stimulus With Corporations in Mind, by Gretchen Morgenson, New York Times, available at <http://www.corpwatch.org/article.php?id=749> accessed on 05.06.2006

²⁸⁷ US: Economic Stimulus With Corporations in Mind, by Gretchen Morgenson, New York Times, available at <http://www.corpwatch.org/article.php?id=749> accessed on 05.06.2006

payments they receive by putting enough money in an offshore entity to generate the same amount of income tax-free.²⁸⁸

Even though the House bill has White House support, lawmakers in the Senate are sure to examine whether these proposals will provide the stimulus that the economy needs, or if they are a way for multinational corporations to get their tax-cut wishes in the name of economic growth.²⁸⁹ In fact what shall come out at the end of this is the roots of the bilateral relation based on economic benefits among American government and U.S multinationals. In a way or other multinational corporations would not hesitate to do anything to influence government institutions to increase their profits or to protect their economic interests.

American multinational corporations have so much grown, blend, established and are a part of the system right now that nowadays it is even hard to identify what is American national interest and what corporate benefit is. American multinationals are not only influencing the foreign affairs of United States but they are also manipulating the domestic affairs and public conception. Giant multinationals like Boeing, Enron or General Electric have evolved as economic but none the less as political actors both in domestic and international grounds. With the striking examples we have seen above, one can not deny the effect of American multinational corporations on American foreign policy. United States, as one of the most powerful nation states in the world still has the leading role in the world politics, but it is quite undeniable that even U.S governments are quite aware of the existence and influence

²⁸⁸ US: Economic Stimulus With Corporations in Mind, by Gretchen Morgenson, New York Times, available at <http://www.corpwatch.org/article.php?id=749> accessed on 05.06.2006

²⁸⁹ US: Economic Stimulus With Corporations in Mind, by Gretchen Morgenson, New York Times, available at <http://www.corpwatch.org/article.php?id=749> accessed on 05.06.2006

of American multinationals in many different issue areas. Nation states are not alone anymore in dealing with world politics, economics or domestic issues. Multinationals, economically and politically the most powerful NGOs, are now taking the Oscar for the best supporting actor in 21st century world politics.

CONCLUSION

From the daily products we use to gigantic power plants, military aircrafts and petroleum refineries we have seen the footprints of giant multinational corporations in all parts of life. Multinationals have become an undeniable part of our lives. As the citizens of nation states we have accepted their existence and benefiting from them. Our concern in this study is that; if nation states have accepted their presence or not and if they were aware of their importance and influence on them. To justify this concern I tried to define the multinational corporation first to distinguish the new actor of the international political scene. With the help of Susan Strange's power concepts and the assumption of "the use of structural power", I tried to exemplify the role and influence of multinational corporations on nation states in using the political and economic powers. With a glance throughout the history I tried to follow the route of the development of the multinational corporations we see today. From East India Company to World Wars period, from globalization until the beginning of the 21st century I tried to figure out the main features of multinationals.

Regarding the main concerns of this thesis the United States, its foreign policy and the influence of American multinationals on it, constituted the most important part of this study. With their annual turnovers greater than many of the nation states in the world or with the gigantic production capabilities or with their presence in different levels of governmental institutions, American multinationals had solidify their importance and existence in U.S political and economic life. In general we can easily accept that nation states are not alone anymore neither in economic nor in political grounds even on the macro, inter-state level. Multinational

corporations, no matter where they come from, are now a part of the decision making system in nation states or on the inter-state level in one way or another. Although nation states still hold the sovereignty power in themselves and with no doubt that they are still the most important actor in international relations, most of them are not able to use the so called “structural power” alone anymore. Depending on many economic, political or military vulnerabilities they have to share this right with a non-governmental actor. Whether the nation states accept it or not the influence of multinationals and their “behind the scenes” presence is quite undeniable even in the most powerful nation state in the world, United States.

American multinationals are affective not only on economic or political decisions of U.S government but also on foreign relations of United States with 3rd countries. Even on the relations of American government with international organizations or on decisions on signing of an international agreement, American multinationals would interfere to change the conduct with respect to their own benefits. I tried to exemplify these attitudes of American multinationals with different cases from different sectors. Moreover, with statistical data I tried to give the range of lobbying efforts of multinationals spending millions of dollars in order to influence American government and congress.

In this study, I tried to figure out the importance of multinational corporations and their increasing role in world politics and economics as an actor along with the nation states. With the literature survey and examples from contemporary developments, I try to make the issue concrete in the eye of the reader. The influence of multinational corporations on international relations and mainly the effect of American multinationals on American foreign policy is well known and accepted

issues. The aim of this study is to put forward the important aspects of this issue with real examples. And to give a theoretical perspective to the “sole actor” position of nation states in politics.

This thesis intends to put forward the rising importance of MNCs and their place in world politics and their relations with nation states. Up to this point I tried to solidify my assumptions of the positions of multinationals in economic and political life. So what? Their influence over other actors and implications of these developments will be more obvious in the coming years. The undeniable role of MNCs and the outcomes of their effects on various actors will sure be different. Their growing importance and influence on world politics will have the most important effect on nation states. Nation states will start to add these new actors to their power calculations. International organizations will also have to take into considerations these new actors as the new source of international political and economic power. MNCs will be effective in determining economic relations between nation states. Trade disputes will be solved according to the benefits of MNCs. Governmental policies regarding tax, environmental issues and economic relations will be shaped with the influence of MNCs. In the 21st century these new actors will have economic and political effect not only on political actors like nation states but also they will be affecting human beings, societies, economic, social and cultural life. MNCs with their political and economic power will be effective in all areas of our lives. They will continue to grow and influence international relations with different outcomes in the future.

To sum up, from their emergence, through their developments, multinational corporations have always been important actors in world economy. With milestones

as opportunities in the past like industrial revolution, World War I or the technological developments, this important actor has start to gain another role in world politics. Willingly or not, nation states start to share their rights with multinationals and an interdependent and sometimes a mutually beneficial relationship has formed among these actors. Nation states, especially the most developed ones, still hold the leading act in international relations but this study has tried to portray the new supporting actor of the global century. Multinational corporations seem to preserve their importance in our daily lives and will increase their role in every social ground to be more influential on the faith of global politics and economics. American multinational corporations will continue to be one of the most important actors in U.S politics in the upcoming years with new functions in new issue areas.

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