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Multinational Corporations and the Politics of DependenceCopper in Chile by Theodore Moran

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Multinational Corporations and the Politics of Dependence: Copper in Chile. By Theodore H. Moran. Princeton University Press, Princeton, 1974. Pp. xiv, 286. Statistics, Appendices, Bibliography, $12.50.

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In this recent product of the Center for International Affairs at Harvard University, Theodore Moran has expanded his valuable approach to the analysis of the peculiar "love-hate" relationship between the multinational enterprise and its less developed country host, a concept first evidenced at the Aspen Institute in September, 1973.[1] A self-styled skeptic, Moran does an admirable

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1. Gunnemann, J. P., ed., *The Nation State and Transnational Corporations in Conflict,* Praeger, 1975, pp. 20–25.

job both as historian to the Chilean copper industry and as political economist.

Copper in Chile is a classical economic analysis of several decades in the evolution of the Chilean copper industry. This study demonstrates that traditional economic constructs used to measure the performance of an industrial enterprise (its investment decisions, its pricing policies, and its non-price, competitive techniques) are equally applicable to the domestic corporation, facing less-than-perfect competition, and the multinational enterprise in an international oligopolistic milieu. During the intense period of Chileanization and nationalization of the copper mines, and the immediate aftermath of inflammatory threats and counterthreats, any dispassionate attempt by an American to apply the rules of economic rationalism to an event of expropriation would have been immediately discounted. Now, however, the study can be seen as a valuable review of a difficult experience.

The growth of economic nationalism and feelings of *dependencia* in Chile are traced from their early origins. One can easily see how the endlessly repeated tales of the risks, problems and courage of the early American explorers and the exorbitant profits extracted would provide the growing group of nationalists with a *cause celebre*. The institution and reinstitution of wartime artificial price controls on copper at a period when foreign exchange was of extreme value to Chile's industrialization plans (and often without consultation with Chilean officials), the seemingly extreme examples of market power forbearance exhibited by the U.S. home office parents, and the suspicion of profit minimization in Chile through transfer pricing and forward integration by the copper giants finally persuaded virtually all political figures to conclude that Chile was being "raped" — even if these charges might be somewhat lacking in economic factual underpinning.

By the end of the Korean War, Chileans were ready to assume a much stronger role in the exploitation of their copper as a socio-political phenomenon, as a result of pure frustration with the economics of copper, and given the rising level of Chilean technical and fiscal expertise. The post-war marketing monopoly may have been a failure, and the Nuevo Trato a temporary retreat, but the seeds of Chilean control were sown. By the late 1960s, nationalization was almost inevitable. The election of Allende confirmed the trend.

The copper industry in Chile provides a unique vehicle for analysis. The catalog of control techniques used, with varying success, by successive administrations in Chile to maximize the economic and political return is itself educational. Chile, during the last several decades, has fostered the development of a basic industry with various tax and other incentives, permitted the dictation of external price controls during wartime, engaged in endless renegotiations of basic concession agreements, experimented with a state-owned marketing monopoly, demanded the progressive Chileanization of the technological and managerial personnel, experimented with classical *laissez faire* economic incentives in the Nuevo Trato, nationalized her basic industry, and operated that industry within a weak oligopolistic marketing system, both as a good and bad oligopolist. The Chilean experience provides a rich source of raw materials for the economic analyst and a how-to-do-it book for third-world nations desiring to maximize exploitation of natural resources for industrialization and development.

The value of Moran's study, however, is not so much in the accurate portrayal of the economic history of a major exploitive industry in the underdeveloped world. Moran's objectives are much broader. He desires to construct a predictive model so that foreign host and multinational corporation alike may project the scenario of their long-term relationship. Predictability, if not security, is exceptionally important to the multinational corporation. Exploitive investment is necessarily long term in nature, and will only be commenced if the multinational corporation has some assurance of predictability, if not security. It might be argued that the existence of international guarantee programs for multinational investment have minimized the need for this predictability. However, as any businessman will admit, the mere existence of insurance is not sufficient to outweigh the total unpredictability of the experience. The multinational enterprise enters into investment for profits, not for recapture of investment after extended debate with an international insurance agency. If it cannot predict its long-run involvement, it will not begin at all.

The model advanced in the study is a dynamic one, attempting to encompass political and economic uncertainties, and certain readily predictable consequences of investment: the growth of the technocracy of the host country, the multitudinous political and social forces behind the national host country representative and the shifting balance of bargaining power. Moran suggests that the relationship between the multinational enterprise and the host country is likely to have relatively unpredictable "ups and downs" resulting from domestic political instability, international warfare and economic dislocation, and the vagaries associated with natural resource discovery, development and exhaustion. However, he argues that the long-term relationship is readily predictable.

At the concession stage, the multinational enterprise has substantial bargaining power. It controls both the capital and the technology required by the aspirant host. It can dictate terms. As time goes on, however, the risks are reduced, or at least quantifiable, nationals of the host acquire the necessary expertise, and the host country becomes less willing to pay extreme enterpreneurial rents. Thus, the long-term relationship involves either successive adjustment to the new realization of the relative bargaining power of the host and the multinational enterprise or cataclysmic events, such as expropriation, if the multinational enterprise refuses to adjust.

Moran concludes that the restraint in the exercise of bargaining power by the multinational enterprise in the first instance and the installation of periodic relationship review mechanisms in the initial agreement will forestall abrupt redresses of power imbalance as the project matures. The model thus suggests that if the exploitive multinational enterprise is not too greedy at first, it will be rewarded later on. The flaw in this suggestion is, of course, that the total return to the multinational enterprise may ultimately be no greater in the aggregate through forbearance and long-term "reasonable" profits than it would be if it pulled out as much as it could initially, although the enterprise might obtain some marginal public relations benefit from being the "reasonable partner." Moreover, the host country might see the initial forbearance as weakness. The negotiator will immediately see the classic question: Shall a reasonable "final" solution be proposed initially in the hopes of obtaining ready approval or shall demand be made for substantially more than what is desired with the expectation that the mutual give-and-take during the negotiating process will result in a negotiated conclusion close to minimum expectations?

However, Moran's suggestion of a mechanism for periodic review, or even a mutual "buy-sell" clause, is well taken. Such clauses have proven useful in many domestic and international joint venture situations. Moreover, they tend to recognize, at least implicitly, the lawyer's reverence for contract. Experience has also shown that, psychologically, if each contracting party has a pre-established right to obtain adjustment or to "buy out" the other, the relationship is more successful.

Unfortunately, for the underdeveloped countries, the consequence of economic nationalism and the repeated expropriation of multinational enterprise properties is that those companies which are most capable of aiding in development have shifted their investment and expertise to more secure areas. Additionally, companies involved in the exploitation of natural resources where the geography of the resource placement prevents complete site choice, have emphasized the cultivation and preservation of non-price responsive commercial ties to enhance or maintain market power vis-à-vis the host.

Copper in Chile does the underdeveloped world a great service. It suggests that a long-term relationship between a multinational enterprise and the host country can be predictable, and any relationship that is predictable can be captured effectively in a legal framework. American businessmen are more comfortable if they can operate within an established legal framework. Thus, they may be induced to move into "insecure" investments.

Moran's study is recommended reading for legal negotiators, policy planners and corporate directors of multinational operations.