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International business–government relations research 1945–2015: Concepts, typologies, theories and methodologies

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ABSTRACT

Seventy years after its postwar inception, the field of international business–government relations (IBGR) is rich in new concepts, typologies, theories and methodologies that have broadly reflected the three post-WWII periods of Confrontation, Accommodation and Competition. This analysis discusses the correspondence between these "new terms" and IBGR practice during each one of these periods which have continuously brought up new actors, issues and ideologies whose study keeps growing in quantity if not always in quality. It concludes with what can be anticipated regarding the international relations between business and governments in a future marked by much greater political disorder and less economic multilateralism as well as by nonmarket strategies that may remain localized.

1. Introduction

Seventy years have passed since an old but renamed business species – the multinational enterprise (MNE) – faced post-WWII sovereign states (Wilkins, 1974). According to Fayerweather (1973) and Grosse (2005, p. 10), there ensued at first a period of *confrontation* after 1945 between these two institutions because foreign direct investors were growing in number, size and importance in both primary-resources extraction and manufacturing while postwar governments could not make sense of this advent. This span was then succeeded by a period of *accommodation* when governments came to understand that foreign direct investments (FDI) brought novel technologies as well as jobs and export revenues to host countries. It is more difficult to categorize the current relations between governments and MNEs. However, I will argue that they have been significantly marked by new and growing *competitions* from non-governmental organizations (NGOs), emerging-market MNEs and the huge "developmental state" of China.

Meanwhile, each one of these three periods has witnessed new terms in the forms of concepts, typologies, theories and methodologies that have reflected emerging issues between MNEs and governments as well as shaped their resolution. Therefore, this article purports to justify the categorization of these three periods as confrontational, accommodating and competitive, and to show how these new terms have reflected the key developments in international business–government relations (IBGR) from 1945 to 2015. During these 70 years, governments have confronted economic entities whose ultimate ownership and control often did lie beyond their borders, while MNEs have faced a growing number of jurisdictions rooted in different political systems and ideologies (Jones, 2005, p. 201).

The concepts, typologies, theories and methodologies discussed here are mainly those that have come to my mind as I developed the three main themes of confrontation, accommodation and competition, plus those suggested by my ongoing readings, but I did no systematic search for them. Similarly, my labeling some of these entries as "most influential" has been mostly a matter of personal choice based on what I learned through my own post-1964 research.

2. The first era of confrontational relations: 1945–1979

Moran (2009) has pointed out that the immediate post-WWII period witnessed a strange and large beast – the MNE – together with the foreign direct investment it generated. Its impact had significantly grown after the war but international economists, business executives and government officials could not quite make sense of the postwar MNE even though such firms as Esso, Shell, Singer, Ford, Siemens and I.G. Farben had been abroad for decades already. They asked: what did the MNE do? How did it function? Who owned and controlled it? Was it good or bad for host countries during the "economic reconstruction and development" of the immediate postwar world?

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2.1. Emerging confrontation

Particularly perplexed were the governments of the numerous new nation-states that emerged from former colonies, starting with India in 1947. For a variety of reasons including an anti-colonialist reaction against the economic and political ideologies and practices of their former European masters and of the dominant United States, these new countries favored autarky, government ownership and control of key industries as well as import substitution – all policies also promoted by the powerful Soviet Union. For that matter, many developed countries were flirting with "economic planning" in the new Keynesian post-war environment and were also threatening MNEs with regulation.

Many states felt that their sovereignty was being challenged by the fast growing and spreading MNEs or was even "at bay" – a situation defined as of "a hunted creature compelled to turn on its pursuers" (Webster's Dictionary). Government responses came fast and furious, leaving no doubts about the confrontational nature of this period. Thus, in the early 1970s, U.S. business had to mobilize against the widely supported but ultimately defeated Hartke-Burke bill that would have frozen imports, limited technology exports and increased taxes on overseas earnings. Then, a series of widely publicized international bribery and political scandals in the mid-1970s (e.g., with ITT in Chile) tarnished the image of U.S. MNEs which were labeled as stateless entities able to shift profits from high-tax jurisdictions to low ones, as plunderers of developing countries' natural resources and as enablers of easily bribed authoritarian ruling elites (e.g., Bucheli & Salvaj, 2013).

The 1977 U.S. Foreign Corrupt Practices Act ensued from these complaints, and it was followed by anti-boycott laws and pressures in the developed world to divest from apartheid-era South Africa. Besides, U.S. antitrust laws were applied to international-business firms so that prewar cartels largely disappeared and certain types of joint ventures were abandoned (Wilkins, 1974, p. 299). Later on, controls over the acquisition of U.S. firms by foreign ones were imposed on account of the perceived "Japan Threat" of buying many foreign assets in the 1980s. These early decades also witnessed strong calls for a "New International Economic Order" through United Nations (U.N.) codes of conduct (see below).

Meanwhile, foreign investors often faced full or "creeping" expropriation, political instability, labor resistance, dollar shortages, restraints on trade and payments, investment controls, laws excluding or reducing their ownership, and foreign-government interventions in their business. Inward FDI proposals frequently had to be screened to check whether they had a favorable impact on the balance of payments, brought in modern technology and were located in areas of high unemployment. Yet, these deterrents did not prevent FDI growth in Western Europe and Japan which were recovering from the war's damages as well as in Australia and other countries where oil and other crucial raw materials (e.g., copper) were to be found (Wilkins, 1974, p. 314–315).

Treaties of Friendship, Commerce and Navigation were signed by the U.S. government with both developed and less-developed countries, which provided guarantees against all lawful losses due to war, insurrection, expropriation and currency inconvertibility. These treaties also required just and prompt compensation by foreign governments when expropriating U.S. investments (Wilkins, 1974, p. 332–333). Still, U.S. and other multinationals had to bow to the power of national sovereigns when the latter chose to exercise it – a problem made worse when the managers of MNE subsidiaries lacked experience in government relations upon their appointment abroad (Encarnation & Vachani, 1995).

Older developing countries in Latin America where FDI had long existed did espouse the *dependencia* philosophy of economist Prebisch (1968) who promoted import substitution while government requirements were fairly drastic in India where the forbidding of majority ownership by foreigners and the mandatory reduction of foreign holdings over a specified period of time were common constraints. However, exemptions could be obtained if the foreign MNE exported a lot, spent much on R&D locally, saved on foreign exchange and brought in high technology (Encarnation & Vachani, 1995). Canada, France, South Korea and Mexico imposed similar restraints on inward FDI on account of "The American challenge" popularized by Servan-Schreiber (1968). Worldwide, the number of FDI expropriations rose rapidly in the 1970s – particularly, in large-scale mining and oil extraction (Jones, 2005, p. 213).

Two permanent regulatory issues surfaced during this first period: what rules should govern the behavior of MNEs in host countries, and how should these firms be treated by host governments? In response, besides the 1961 *Code of Liberalization of Capital Movements* agreed upon by developed countries, three specific instruments were successfully negotiated: (1) the tripartite [governments, firms and unions] *Declaration of Principles Concerning Multinational Enterprises and Social Policy*, agreed upon through the International Labor Organization; (2) the *Declaration of International Investment and Multinational Enterprises*, made in the Organization for Economic Co-operation and Development, and (3) the *Set of Multinationally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices*, generated in the U.N. Conference on Trade and Development (Sauvant, 2015a). There were also restrictive codes of conduct on breast-milk substitutes, consumer protection, technology transfer and illicit payments but the International Center for the Settlement of Investment Disputes (ICSID) offered arbitration, starting in 1966 (Sauvant, 2015a). All of these agreements were voluntary rather than obligatory as far as MNEs were concerned.

Meanwhile, a mandatory multilateral *United Nations Code of Conduct on Transnational Corporations* was unsuccessfully negotiated among developed, developing and socialist countries between 1972 and 1992 in the context of a proposed "New International Economic Order." Socialist ones (e.g., the USSR and China) by and large did not permit FDI while developing countries were keen to minimize the negative economic, social and political effects of FDI on their young nation-states. Developed countries led by the United States and major European states were mainly concerned about protecting the investments of their firms abroad in terms of fair and equitable treatment, of prompt, adequate and effective compensation upon expropriation, and of the right to repatriate convertible profits. Since "Western" countries were already obtaining such property protection through the ILO and OECD voluntary agreements, they were not disposed to yield to the developing countries' demands which included the obligatory transfer of technologies to local firms (Sauvant, 2015a) – hence, the developed countries' strong opposition to the proposed code (Jones, 2005, p. 222).

In addition, as the negotiations for a U.N. code stretched out over the 1970s and 1980s, developing countries became more interested in attracting FDI after 1980 when many bilateral investment treaties (BITs) were signed so that the improved international economic environment no longer justified a complementary U.N. agreement. While oil-producing nations managed to create the OPEC cartel in the early 1970s, this approach did not work across other natural resources. Instead, the growing privatization of state enterprises and the liberalization of economic activities almost everywhere reflected the increasing importance of private entrepreneurship in a world economy that now linked national markets and international value chains, with most disputes settled through the arbitration process prescribed in the bilateral investment treaties (Sauvant, 2015a) so that the same governments that recently nationalized MNEs now welcomed their technology, exports and managerial expertise. Altogether,