

Edited by

Robert Grosse

International Business and Government Relations

in the 21st Century

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International Business and Government Relations in the 21st Century

This book offers an outlook on relations between national governments and multinational companies that provides broad coverage of the key issues likely to determine that relationship in the new century. From the perspective of the company decision maker concerned with national regulation and incentive policies, to the host government policymaker in an emerging market, to the home government policymaker in a Triad country, each dimension is considered and analyzed in light of the others. As well, additional stakeholders such as labor groups, shareholders, non-governmental organizations, local governments, and regional organizations are discussed and their impacts on the relationship are evaluated.

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Acknowledgments

This book was written in honor of Jack N. Behrman, long-time Professor of International Business at the University of North Carolina and pioneer in the field of international business. His writings on international business–government relations began in the 1950s, and he focused more on this issue than any of the other leaders of the field at that time. His insights into problems such as international licensing of technology, multinational firms and the balance of payments, multilateral regulation of multinational firms, multinationals and US interests, and the large theme of the legitimacy of the multinational enterprise have identified central problems and possible solutions in government–business relations that remain valuable in the debates today.

The book was an attempt to bring together many of the leaders in thinking about international business–government relations from the past forty years, and to explore the direction of these relations in the new century. Authors were asked to prepare papers that would look conceptually at what they considered to be major issues today, and to analyze them in a forward-looking manner such that their conclusions might provide guidance to managers and policymakers in the new century. The papers were presented in a conference at Thunderbird in Arizona on January 5, 2004. Although two of the authors were unable to attend, the rest spent a day of debate and reflection on issues ranging from the obsolescing bargain to the problems of firms dealing with multiple jurisdictions and pressure groups with different agendas. What emerged was a consensus that the subject is alive and well in the academic arena – and a hope that new decision makers might be able to learn from and avoid some of the mistakes of their predecessors, about whom we have written in the past.

We would like to thank Jack N. Behrman for his contributions to the field of international business, and especially his contributions to the understanding of international business–government relations. His participation in the conference at which these papers were presented

added a very valuable dimension to the discussions, and it was a wonderful opportunity for colleagues to share our appreciation with him. To illustrate the scope of his contributions, a separate listing of selected publications of Jack N. Behrman on government–business relations is included in the reference section of this book.

The editor would also like to thank several people at Thunderbird who helped in making the conference and the book a success. Tania Marcinkowski and Marie Gant, CIBER Assistant Directors, both made great efforts in putting together the conference, interacting with the authors, tracking down both logistical details as well as bibliographic ones, and adding their suggestions to improve the whole process. Graduate assistants Tamara Bennett, Eric Grimmer, Yanfang Lei, and Santiago Martello provided excellent research assistance. And Thunderbird, The Garvin School of International Management, provided major financial support for the whole project.

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Introduction

ROBERT GROSSE

THIS book takes some initial steps into the twenty-first-century discussion of relations between national governments and multinational firms. This is the issue that defines international business (IB), since business that crosses national boundaries must necessarily deal with at least two national governments. As a result of the necessary interactions, there may be conflict or congruence between two governments' policies or between governments and multinational firms. Differences in policies or interests can often require mediation of some sort, resulting in the establishment of new rules on the relations of companies with home and host governments. Even if policies are mutually supportive between home and host governments, disagreements may arise over the distribution of benefits from company activities such as foreign direct investment (FDI), and thus produce conflicts that must be resolved.

Much of the recent literature on *international* business-government relations has emphasized the more cooperative, accommodative relationship that has arisen between governments that want to pursue economic growth and development, and companies that want access to markets or to production inputs. This is quite a shift from the situation during the 1960s through the 1980s, when many governments were reluctant to permit entry of foreign firms or imposed major constraints on their operations. Even so, this new more welcoming attitude is not the only feature of the relationship that matters today. For example, the issue of environmental protection is one increasingly important element in present and future relations that has potential for very serious conflict between companies and governments. Also, national governments are increasingly facing regulatory competition from local governments and from transnational organizations such as the European Union and the Free Trade Area of the Americas (FTAA). This fact means that national governments have

to deal with these additional regulatory stakeholders at the same time as they deal directly with the companies.

The range of cooperative and conflictive relations between governments and multinational enterprises (MNEs) covers quite a wide scope. Some of the more conflictive issues in recent years include situations where national governments want:

- to achieve economic growth, but they are not as positive about foreign (firms') ownership of parts of the local economy;
- development of technology and skills, but not necessarily dependence on foreign provision of these key underpinnings of competitiveness;
- economic development, but without the environmental damage or social conflict that foreign (and local) firms might cause;
- the opportunity for local citizens to enjoy products and services from around the world, but still to maintain a national or local culture and values;
- their sovereignty to pursue national interests, when the increasingly global economy often forces supra-national goals on them.

These are not simple problems to resolve, and they will remain as part of the constellation of concerns between governments and international firms in the years ahead. Our interest is to illuminate the main facets of government-international business relations in the early twenty-first century, and to help government policymakers and company managers improve their ability to make decisions in this context.

Conceptual bases

A number of writers in recent years have offered conceptual tools to help understand the relationships between companies and governments. The authors in this volume have been the leaders in exploring the relations between *international* firms and national governments. In addition, very useful insights have been developed by authors in a variety of social science disciplines. For example, the literature broadly called Institutional Theory has developed in political science, sociology, anthropology, and economics. Each discipline shines a somewhat different light on relations between firms and governments, again mainly with a focus on domestic firms and governments.

One line of institutional theory has its roots in sociology, emphasizing the behavior of the firm as mirroring societal norms and traditions. This view of the firm as part of a broader institutional context (Oliver, 1991;