CHAPTER IV
CHAPTER IV

POLITICAL IMPACT OF MULTINATIONAL CORPORATIONS

International Relations

The size and width of the operations of the transnational corporations across national boundaries would in itself imply impact of these corporations on international relations and on the political and the economic systems of the various national jurisdictions where these giant corporations operate through their affiliates. According to figures compiled by the Commission on Transnational Corporations, each one of 369 transnational corporations is operating in 20 or more host countries through their affiliates. The IBM, for example, has affiliates in more than 100 countries of the world. To the international community as a whole, the emergence of these giant corporations has set a serious problem, viz. whether the international operations of these firms would have such an effect on world politics as to erode the very concept of national identity and national status of the nation-states, and equate contests between

1 UN Doc. E/C.10/38; "Transnational Corporations in World Development: A Re-examination", Table III-8, p. 211.
a little below 40 per cent, leaving a scope for further foreign equity to make up the short-fall.

A research study shows that Wimco Ltd., Muller and Philips, Duphar Interfram Ltd., Reckitt & Colman of India Ltd., Hindustan Dow-Oliver Ltd., Hindustan Lever, India Foils, Britannia Biscuits Co., Asea Ltd., Cadbury India Ltd., have all enlarged their capital base, thereby ensuring increased dividends after the application of the dilution provision. The British American Tobacco reduced the foreign equity in Vazir Sultan Tobacco, an Indian subsidiary from 65.1 per cent to 34.81 per cent, by issuing 1.77 million shares at Rs. 10 each with a premium of Rs. 6/-. The general public bought 87 per cent and subsidiary's Indian directors and employees took 3 per cent. The remainder were sold as bonus to equity share-holders. This brought down existing foreign equity to 34.81 per cent on the enlarged capital base leaving a margin for further foreign investment. Union Carbide reduced its 60 per cent stake in Union Carbide India to 50.9 per cent by rights issuing 3,294,500 shares at Rs. 10/- each plus Rs. 6/- as premium.

That the Government of India is having a pragmatic approach is most eloquently expressed by Mr. Orville L. Freeman, President Business International Corporation, when

58 Financial Express (New Delhi), 2 April 1978.
nation-states to inter-state corporate competition. Accordingly, it is stated in some quarters that the nation-state, which is only 400 years old, may become outdated and new political institutions may be required. It is even suggested that some new world order may be the new framework in which the transnational corporations as a modern institution would operate effectively, involving a transformation of the very nation-state concept. Without going to such extremes one could still not ignore the significant role in the world economy played by the multinational corporations as one of the main non-governmental participants in international relations. This impact on international relations may take several forms. They may place countries in an inter-dependent or dependent positions from which Governments may find it difficult to extricate themselves. This dependence arises, inter alia, from (i) monopolistic or oligopolistic control over the production of goods vital to the economy of the country, e.g. life saving drugs; (ii) possession of knowledge of secret processes in technology protected by patents; and (iii) the operations of the transnational corporations dispersed over several host countries' jurisdictions and the co-ordinating operations and policies being controlled away from these positions.

---


jurisdictions and on considerations which transcend those of the host as well as of the home countries. Because of this dependence the host and the home countries may not like or may be unable to take strong and firm steps to curb certain undesirable activities of the corporations which may injure national interests. Secondly, by forming linkages in several countries with high officials or political personalities in position to formulate policies on national and international issues, these corporations exert influence in shaping these policies to suit their interests. It may not be incorrect to presume that the slow pace shown by the UN and its agencies in the matter of formulation of the Code of Conduct for Transnational Corporations and for transfer of technology may be due to pressures exerted by groups interested in promoting the interests of transnational corporations.

Recently, there has been a spate of literature from experts urging a realistic approach towards the transnational corporations. The theory that "roasted goose is worth less than the goose laying golden eggs" has been slowly and perceptably absorbed by the top officials in several states. In a seminar held in New Delhi on 2 December 1976, on "International Investment and Technology Transfer" under the

auspices of Indo-US Chamber of Commerce, a former Secretary of the Ministry of Finance of the Government of India, who also headed for some years the NCAER and whose opinions are sought by Government on economic matters, advised the critics of transnational corporation to realise the advantages of having foreign investment and pointed out the risks to the country and to the economy of India of driving out foreign technology and capital. In the Philippines, where Transnational Corporations dominate key industries, is in foreign hands, an official spokesman of Ministry of Finance put out a statement in the same lines. A look at the note submitted by the delegations of France, Federal Republic of Germany, Italy, the UK, and the United States, giving the selection of areas of concern deserving of particular consideration by the UN Commission of multinational corporations, would show the success of this concerted attempts to elicit favourable response to the activities of the transnational corporations.

6 He is now the head of a Indianised TNC drug firm (Glaxo) and his son is the head of a division of ITC, another transnational corporation.


The problems experienced by the transnational corporations in the countries where they operate may have a world-wide repercussion, as has recently been demonstrated in the case of embargo placed by the Arab countries on the oil majors from supplying oil to specified countries. Following a meeting held in Kuwait on 17 October 1973, the Arab oil countries imposed an embargo on all petrol shipments to the United States and the Netherlands during the following two weeks. The embargo on the United States and the Netherlands was accompanied by production cut-backs designed to exert pressure over major consuming nations to provide a satisfactory Arab-Israel settlement. The Arab nations classified the consuming countries into preferred, neutral, embargoed and most-favourable countries and left it to the oil majors to implement this distribution system. If the letter of the Arab embargo were to be followed strictly, both the United States and the Netherlands would have been starved of oil. Both the countries issued directives to the oil majors to supply them the full quota despite the official embargo. The United States' majors, reaching an understanding with other non-Arab oil companies, helped to blunt the edge of the Arab oil weapon by redistributing the global supplies. In order to accomplish this the majors dramatically increased flows of oil to the United States from Iran, Nigeria and Indonesia and redirected embargoed crude to Europe. Thus the companies were taking volatile political decisions - decisions
beyond the realm of normal business concerns.\(^9\)

Another important aspect of the impact of the activities of the transnational corporations on international relations relates to adherence to the directives issued by the United Nations. One of the significant directives by the UN and emphasized frequently in current human relations is the principle of respect for human rights and fundamental freedoms. Recently, the Charter of Economic Rights and Duties of States called for respect for human rights and fundamental freedom.\(^10\) So also did the declaration of the Conference on Security and Co-operation in Europe, familiarly known as Helsinki Declaration of 1975. The 31st General Assembly adopted a number of resolutions linking the domination of the politics of apartheid, pursued by the Government of South Africa, to the activities of the transnational corporations. The Group of Eminent Persons had themselves specifically recommended that both the home and host countries should ensure through appropriate actions that multinational corporations did not violate sanctions imposed by the United Nations Security Council on countries suppressing human rights.

---


10 General Assembly Resolution 3231(XXIX), Chap I(k).
and following racist policies. It was, therefore, incumbent upon home and host countries to see that UN resolutions, which imposed sanctions against South Africa and Southern Rhodesia and called upon all the members of the United Nations to apply economic sanctions, were duly observed. However, as the recent Bingham Inquiry Report revealed, while the British Government spent millions of pound sterling blockading the port of Beira to prevent oil reaching Rhodesia, a number of international oil companies including BP in which Government itself had a majority share, were supplying oil to the illegal regime of Rhodesia by land. The irony of it was that Shell, which produced a code of ethics for MNCs, was itself involved in this violation. Its subsidiary, the Shell Mozambique, jointly owned with BP, either directly or through swap arrangement with the French Group Total, supplied oil overland to Rhodesia for a decade after 1966. What was surprising in this case was that there were two Government directors on the Board of BP. The whole matter is now before the Government of UK for considering appropriate legal steps to be taken by the Director of Prosecutions. But as the Guardian said, "it is difficult to believe that the Smith regime would have lasted so long if oil sanctions had been effective from the

It is not, therefore, without significance that the United Nations Economic and Social Council Resolution No. 1721 (L. III) of 22 August 1972, made a specific reference to the implications for international relations, while asking the Group of Eminent Persons to report on the activities of multinational corporations.

**Other Political Effects - Intervention**

Regarding other political effects it has been reported in a number of cases that the transnational corporations have actively promoted political intervention in the domestic affairs of the host, particularly, developing countries. Such interventions obviously impinged upon national sovereignty. It may be direct, as had happened in Chile, where Allende was overthrown by the International Telegraph and Telephones Corporation, or the political involvement by United Fruits in Guatemala in the 1950s, or Union Mineier in Katanga in the 1960s. Writing in *Economic Times* (Bombay), B. Chattopadhyay, an expert on transnational corporations linked the Badak revolt of Sumatra in Indonesia to the nationalisation

---


13 Nye and Rubin, n. 5, p. 128.

of Royal Dutch Shell's holdings in Indonesia including those in Sumatra.

Political intervention need not assume the form of a direct subversive activity to overthrow the host country Government or foster internal or international situation that stimulate conditions for such actions. They can be indirect and subtle to bring pressure - a kind of coercion by using their strength, power and influence - on the host governments to fall in line. The Hickenlooper Amendment to the US Foreign Assistance Act, requiring the President of the United States to stop aid to countries expropriating US property without prompt and effective compensation was introduced in the United States Senate on the initiative of Harold Geneen, President of the International Telephone and Telegraph, whose utility subsidiaries were being threatened in Brazil and Argentina. After the amendment was passed in 1962, Nicaragua was told that the amendment would be applied against it if the land reform legislation that would have affected the United States fruit plantations were proceeded with. In 1963, Senator Hickenlooper rewrote the amendment so that it could be directed specifically against Argentina's decision to change the contracts of US oil companies. US oil was also cut off in 1963, for three years to Páru, without even formally invoking the amendment, to force Fernando Belaunde Terry to settle with the International Petroleum Corporation - an affiliate of Exxon. In 1963,
in Sri Lanka, when the Bandaranaike's Government proceeded to take over the operations of Caltex, and Stamac and the compensation was found inadequate, the Hickenlooper Amendment was invoked to cut off aid to Sri Lanka. The aid was resumed only after the Bandaranaike's Government was defeated and Dudley Senanayake took over in 1965. 15

In 1972, the US Ambassador to Jamaica, Vincent De Roulet, threatened financial reprisals if nationalization in the bauxite industry was put up as an issue in the Jamaican Presidential campaign. In this, he was aided by Gonzalez Amendments to Foreign Assistance Act which inter alia stipulated the nomination of an American representative in the inter-American Development Bank to vote against loans to countries that expropriated American property. 16

The foregoing emphasis how, by the very nature of operating in more than one jurisdiction, political conflicts and tensions are generated by the transnational corporations. When a TNC operates in several jurisdictions with different political systems and different levels of development, each of which holds on to a limb of the TNC octopus, such conflicts are likely or even bound to arise between (a) the home country

15 Ibid.

which serves as headquarters of a transnational corporation and the host country or countries; (b) one or more host countries where the affiliates of the transnational corporations are operating; (c) the transnational corporation and the host country itself; and (d) the transnational corporation and the home country. The conflicting situations in categories (a) and (b) above arise mostly on account of the jurisdictional reach of one country and the resistance to it by the other, or the directions issued to transnational corporations or its affiliates by the several national countries where they operate and the laws and regulations to which they are subject to. The laws and regulations of one country may conflict with those of other Governments. Complying with one set of duties as against the others would bring in conflicts, and the transnational corporation's decision for choice of obedience will depend on (a) the effectiveness of the enforcement of the regulatory controls of the countries concerned, and (b) the overall cost-benefit analysis made by the corporation.\footnote{Note: The conflicting directions issued to oil Majors by the Arab states and the US Government referred to earlier is a case in point.} Normally, if the conflict involves the home and a host country the corporation would prefer to obey the home country regulations for the simple reason that most of the shareholders, creditors, liquid assets and the top management are located in that country,
and the damage to the corporation apparatus would be greater if disobedience is shown there. On the other hand, if the host country threatens to expropriate, nationalize or penalize the transnational corporations' affiliate for disobedience of its regulations, the corporation can always use its resources to obtain remedies at the highest level through influence, political or economic, or through legal processes serviced by the most competent legal experts available. If redress is not forthcoming, it can always fall back upon the home country to come to its protection either through the recognized methods of diplomatic protection, or taking the matter before appropriate international agencies, including, if possible, to international arbitration or adjudication. In-so-far as the confrontations between the transnational corporations and the home country or host countries are concerned, these arise by virtue of the differing goals of the transnational corporations and the countries where they operate. A global strategy, an international division of labour entailing dispersal of production activity over a wide range of countries aimed at minimizing cost, maximizing production and profit, can certainly not coincide with national objectives and priorities of the different countries where they operate. To aggravate this situation, the location of the decision-making centre outside the jurisdiction where the affiliates
operate (imposing extra-territorial control over the seemingly independent affiliates), the high degree of mobility enjoyed by the corporations in moving factors of production from one jurisdiction to another, the immense fund of finance under their control, and the speed with which currency and capital flows, can be manipulated to the detriment of the countries. All these factors give transnational corporations a clear edge over the countries which, in spite of the political power they possess, feel a sense of helplessness to deal effectively with these powerful corporations. Indeed, no single national jurisdiction can cope adequately with this global phenomenon of the transnational corporations, nor is there an international authority or machinery adequately equipped to alleviate conditions that stem from the relationship between transnational corporations and nation-states. It may not be an over-statement by Kaiser when he said that transnational corporation organizations, particularly the multinational

18 n. 4, pp. 43-44.

Note: Where the interests of the transnational corporations are threatened or even if the host countries attempt to change long established rules of the game of governing foreign economic activities the transnational corporations interfere in the internal affairs of the host country to have its equilibrium restored. (See M.S. Wionczek, "Rules For Multinational Corporations", World Review, vol. 18, October 1965.)
corporations often conduct their own foreign policy and are a second force that encroaches upon the foreign military's role as sole regulators of external affairs. 19

**Home Country vs. T.N.C.**

Taking first the home country jurisdiction, a powerful multinational corporation can so act as to influence national policies and objectives through powerful lobby backed by financial donations, overt or covert. A leading instance of a multinational corporation bending the administration to its knees and abandoning anti-trust prosecution proceedings was provided by the evidence given before the Sub-committee on Multinational Corporations, by Haberman and Mrs. Svedberge. 20 Deposing before the Sub-committee, the two witnesses brought out how in the famous "oil cartel" case, a Federal Trade Commission indicted the seven-company cartel which was alleged to have violated the anti-trust laws. However, the prosecution


proceedings were withdrawn and superseded by a civil action which finally resulted in a consent decree after a period of fifteen years. The following extract from the evidence will bear ample testimony to the power and influence of these multinational oil companies. Heberman told to the Sub-committee:

Seen from the vantage point of the Cartel Case, I think it will become abundantly clear as this investigation proceeds that the current international oil crisis did not just suddenly spring full blown when a few Middle East governments decided to impose their oil embargoes on the consuming nations of the world.... You will find that the Middle East government actions and the oil crisis which they precipitated, represented but a logical extension, indeed the inevitable culmination, of a long, well defined historical process that was set in motion by these very oil companies at least 40 or 50 years ago. That process saw the evolution and exploitation of a most complex and extraordinary symbiotic relationship between these seven major international oil companies on the one hand, and the several governments of the United States, Western Europe, and the Middle East, on the other.

He asked the Sub-committee to closely analyse the conduct of these companies and said:

I suggest that what will be seen upon closer analysis is a kind of private supranational government, an intricate system which has grown up through close to a half century of closely coordinated and cooperating joint ventures and arrangements around the world among these seven international companies.
Elaborating his evidence, he added:

I have likened this system to a kind of supranational government, a private United Nations, if you will, because its members severally and collectively possess massive wealth and resources, including an exchequer, shipping fleets, production facilities, pipelines, refineries, etc., which exceed by far the resources available to many nations of the world. Furthermore, these companies have shared for many years a broad community of interest and a functional unity of policies and actions in the disposition of such wealth and resources. This has been facilitated by the highly developed technical and diplomatic capabilities with which these companies have frequently and effectively exercised in sophisticated high-level dealings with the governments of the world. (21)

It will be interesting to note that the famous columnist, Jack Anderson, who appeared on 28 January 1974, before the Sub-committee pointed out in his evidence that the source of the present oil crises in the world really emanated from the desire of the Aramco Co. to have a price increase from the US Government in order to justify the cost of working the US oil fields. For this purpose they thought that the best way to accomplish this would be to get the overseas price raised. He said:

....there is evidence in the memos that I have seen that early in 1973, meetings were held with Ahmed Zaki Yamani, the Saudi Arabian Oil Minister, and with other figures in Saudi

21 Ibid., p. 42.
Arabia and they were encouraged to increase prices. The figure 6 6 is mentioned. They were looking for a figure of 6 6 barrel.... (22)

Several other instances of interferences of home country political affairs have been revealed. 23 It is pointed out that a depressingly large number of leading corporations have pleaded guilty to violating US election laws, and many of these have also confessed to shady acts abroad.

Another instance of the power and influence exerted by the multinational corporation to the detriment of the national interest of the home country is provided by the abandonment by the US Government of its resolution to abolish what was known as the American selling price on a range of chemical products. This American selling price was devised as a protectionist method to protect the American industry against rising level of imports from Japan and Hong Kong. Under this system, the import duties were levied not on the basis of the import price but on the much higher price that it would cost to manufacture it in the US. It may be recalled that as a step to lower the tariff barriers, negotiations were held under what was known as the 'Kennedy Round of Talks'. It

22 Ibid., p. 3.
was then decided to abolish the American selling price but the US Government did not take steps in this direction and the reason was "the suddenly expressed hostility of the major American Chemical Corporations including the Du Pont". 24

During 1970, the DuPont and other chemical corporations were prepared to do a political deal with the Nixon Administration in order to get a still greater degree of domestic protection. They indicated that they would be willing to drop their lobbying in favour of retaining the American Selling Price system for benzenoid chemicals, provided the man-made fibre part of their business was given proper protection from foreign imports either through voluntary agreements or through direct American legislation. 25

It may be argued that lobbying with the home government is not a special prerogative of multinational corporations alone, and that even domestic concerns do them. However, the significant difference between a MNC lobbying and a purely domestic concern lobbying lies in that the power and influence and the money at the disposal


25 Ibid.
of the multinational corporation is so vast and gigantic that it can get itself entwined in the administrative process and in the framing of legislative policy to an extent which a domestic corporation cannot hope to attain.

The multinational corporations' involvement in the political affairs of the home country, particularly in the foreign policy field, has also been quite significant, particularly in the case of US. The report of the Subcommittee on Multinational Corporation and US Foreign Policy bears ample testimony to the fact that the present oil crises in the international arena was the result of the collapse of the system of oil allocation administered by the multinational oil corporations - a system which was erected with the assistance of the US Government premised upon two basic assumptions: "that the companies were instruments of U.S. foreign policy and that the interest of the companies were basically identical with the U.S. national interest." (emphasis supplied)

As disclosed in this report, these oil companies were used by the US Government in 1950 to provide financial resources to the Arab Sheikdoms in the Persian Gulf at no

---

additional cost to themselves by means of the foreign tax credit provision of the US Internal Revenue Code. In 1954 the five major US companies were induced by the Department of State to participate in the Iranian Consortium so as to place the Iranian Oil Co. in world market, undermining the international oil price structure. Both the Persian Gulf Sheikhdoms and Iran were thus to be provided with the necessary financial resources to keep them out of the Soviet orbit. Use of the companies in this way also obviated the need for congressionally appropriated direct foreign aid funds, and as an indirect consequence in congressional oversight of this foreign policy decision. 27

To the extent that these corporations had been utilized as agents of the foreign policy of the home country, they commanded a position equal to what may be attributed in commercial parlance as "Joint Ventures in Administration". The interference of the home country in the affairs of the countries in which the multinationals operate through affiliates, has led to widespread resentment and there appears to be ample justification for R. Thatcher to say about Canada that -

...they do not so much fear the political or economic domination by the US Government

27 Ibid., p. 15.
but what is feared as more likely is a gradual intrusion of American law and U.S. government control through the activities of the multinational enterprises.... (23)

Jack N. Behrman has listed at least sixteen instances in his book, *National Interest and Multinational Enterprises* (Chapter 7), where the US Government interfered in the internal affairs of countries in which US multinational corporations had operated under cover of the Trading with Enemy Act of 1917 and Export Control Act of 1949. Two of such instances are worth mentioning. In an attempt to induce the French Government to join in restraints on production of atomic weapons, the US Government prohibited export of sophisticated equipment to it that might be used in atomic or space programmes. It also prohibited, in 1964, a French subsidiary of IBM from selling computers to the French Government. For two years, the governments argued over the case with the United States stressing that France should join the Nuclear Test Ban Treaty, which the French considered too constraining. The dispute was finally resolved with the French agreeing not to use the computers for their nuclear weapons programme, and the United States approving their sale for use in

---

peaceful nuclear programmes. This case caused considerable friction between the governments across their whole range of diplomatic relations and reportedly effected France's attitude toward letting Britain in the Common Market.29

In 1968, the US treasury refused to grant a license to an American-owned Belgian Company to export farm equipment to Cuba. This was one of the first acts of denial involving a Belgian Company. The press and government official reacted rather sharply. They considered that companies incorporated in Belgium and operating on Belgian soil should act in accordance with the Belgian national interest. This national interest was considered harmful by the loss of $1.2 million order at a time when employment and incomes were sustaining a slow-down. These officials saw their interests impaired by a quarrel between the United States and Cuba, which was not their affair. One observer commented that "a few more instances of this kind could give rise to xenophobia with which Belgium has so far been less afflicted than several other industrial nations".30

Host Countries: Political Effects

The part played by one of the biggest multinational

29 Ibid., p. 105.
30 Ibid., p. 106.
corporations viz., the ITT, has already been referred to (in Chapter I) and has been brilliantly brought out by Anthony Sampson in his book *The Sovereign State - The Secret History of ITT*, 31 which details the activities of ITT not only in Chile, but in other countries of Latin America as well. In December 1972, when Allende came to address the UN General Assembly in New York, he stated that "the ITT had driven its tentacles deep into my country and proposed to manage our political life. I accuse the ITT of attempts to bring about civil war." He attacked not only the ITT but other big corporations which, he said, "had been cunningly and terrifyingly effective in preventing us from exercising our rights as a sovereign state". 32

The ITT was not a solitary exception. The multinationals' political interference in the internal affairs of sovereign states could be traced to the United Fruit Company in Latin America, the direct political influence of Firestone since 1926 in Liberia, the detailed involvement of Belgian Union Minere in Congolese politics, Shell's participation in the operations of the


32 Ibid., p. 235.
Nigerian Government during the closing stages of Civil War with Biafra and others. 33 The British Petroleum's interference in Abu Dhabi, for instance, was summed up in the following words by Hugh Stephenson:

One of the neatest examples of combined commercial and political involvement, culled from the marginalia of declining British imperialism, concerned Abu Dhabi, the oil Sheikdom where British Petroleum and the Compagnie Francaise des Petroles have substantial interests. In 1960, Abu Dhabi did not feature on most maps. By 1970 it had the highest per capita income in the world. This economic revolution, understandably created some social strains in a tribal oasis and fishing village; not least for Sheikh Shakhbut, who had ruled since 1928.

Explaining how this economic resurgence has created tension in the area particularly affecting the position of Sheikh Shakhbut who was the ruler since 1966, he adds:

In 1966, therefore, he was removed in a palace revolution that had the active prior connivance of the British Government, who were anxious to help discard this individual block to progress and to the increased material well-being of the local people. (34)

The Fortune of August 1975, gives many instances where multinational firms bribed their way into political

33 Stephenson, n. 24, p. 59.
34 Ibid., pp. 59-60.
favours of their host countries. For instance, Exxon contributed $27 million for Italian election fund and allowed the Italian subsidiary to give away $19 million more in dubious ways and condoned falsification of its record. The United Brand bribed a Honduras' Cabinet Minister to cut a crushing Banana Tax to half. Gulf made a pay off of $350,000 in Bohemia and also gave a helicopter worth $110,000 to the President of Bohemia who was ironically killed when the helicopter crashed. The Gulf, which was the biggest investor in South Korea, having put in $350 million into fertilizer and petrochemical partnership with the South Korean Government, contributed $1 million to President P. Cheng Hee's political party. In 1970, the party's fund raiser, Kim, demanded $10 million more. Bob R. Dorsey, the chief executive of Gulf, haggled Kim down to $3 million which, according to Dorsey's calculation, was adequate to run the 1971 election in that small country.

India

In India, allegations have been made about how foreign firms were functioning. Vidya Prakash Dutt, MP, made the following statement on 14 May 1975 in the Rajya Sabha:
I should like to draw the attention of the Government...to a series of disquieting articles that have appeared in the "New York Times" about the functioning of the U.S. firms abroad. And I am not concerned with all other countries except my own. I should like to read what a very responsible journal has said about how they function in India. "Forty American companies - widely believed that many of them are liaison offices, who in turn probably deal with Indian officials - made donations to political parties, spend money to maintain lobbies inside the Government and in the Parliament and provide other inducements such as liquor supplies, entertainment in luxury hotels and hospitality outside India when official travel abroad." Sir, this is a serious newspaper and obviously the information has come from the companies themselves because, in the case of other countries, even names have been mentioned of contacts, agents and so on and so forth. Sir, this has to be read along with another article that appeared on the 11th May in the "New York Times" about the wide CIA use of USA firms overseas. The list reads like who's who of business and includes such diverse fields as petroleum, rubber products, travel, advertising, publishing, public relations and the import and export trade....I think it is a serious matter and the Government should institute an inquiry into it and find out which political parties are receiving funds from the foreign companies, what are those lobbies that they have mentioned in Parliament and in Government offices, and what machinery is the Government going to establish to keep a tract of the hospitality the officials and others who go abroad receive....I am also worried about what they have said about the political financing and the lobbies in Parliament....So, I do not know how much truth is there....

It is significant that this allegation made by an honourable member was not contradicted in the Rajya Sabha.
That there might be some truth in the allegation is borne out by the report of the Parliamentary Joint Committee on the Foreign Contribution (Regulation) Bill, 1973. The committee specifically brought in the multinational corporations in the bill whose activities in the political arena were examined in greater detail at the time the evidences were taken by the committee. Kalyanrai Chandrappan and J. Rai, members of the committee, observed in this connection:

The closest ally of the CIA is multinational companies which use various means to corrupt and subvert the independence and territorial integrity and economy of the countries where they operate. With tremendous financial power at their command and their firm grip over raw materials and minerals and other resources of the Third World countries, they are continuously trying to maintain their hold through massive financial support to anti-democratic elements and have become states within States. Under cover of trade and business, they attempt to infiltrate into every layer of society and resort to every possible means including financial assistance to influence the politics of the countries where they operate. They are the biggest single menace to independence and democratic forms of government which are trying to delink themselves from the stranglehold of colonial economy. (35)

35 Joint Committee, Rajya Sabha Committee (1-15), The Foreign Contribution (Regulation) Bill 1973, p. 17.
A general fear exists that CIA agents are working through the multinational corporations covertly under what are known as commercial cover agreements.36

Recently, two important cases came to the notice of the Government of India of transnational corporations operating in India trying to influence the Government policies and implementation of such policies by officials by indulging in corrupt practices. It came to be known that M/s. Phillips Petroleum Company of USA and Good Year Tyre (India) Ltd. were dealing with Government officials and indulging in illegal payments to them, and were making political contributions. In the case of Good Year Tyre (India) Ltd., the Securities and Exchange Commission of the United States filed before the District Court in Columbia a case against the company for such offences.37 From the statement filed by the Good Year Tyre Co. (India) Ltd. itself agreeing to make a full disclosure, it is confessed that:

(1) The Indian subsidiary of the Company had been maintaining funds which had not been recorded in the books of the company;

36 *Times of India* (New Delhi), 15 May 1975.

(ii) These funds were derived largely from rebates from suppliers of raw material, reflecting the difference between the minimum price fixed by the Government and the lower market price.

(iii) Estimates of the total amount in the fund during its existence over a period of 5 years from 1971 to 1975, varied from $500,000 to $800,000. The precise amount at any particular point of time was not ascertainable.

(iv) The fund was utilised for a variety of purposes including payment of minor foreign Government officials to assure an adequate supply of raw materials, police protection and to secure Government business...payment to labour officials to settle labour problems, for political contributions and for the financing of, among other things, employees' travel, school, and moving expenses.

The Disclosure Statement further revealed that, out of the Secret Fund about $100,000 was paid during the period 1972-75 to the office of a low-level Government official in order to facilitate the supply of electric power (provided through a Government agency) to the subsidiary's manufacturing facility. The fund was also used in 1974 and 1975, for payments amounting to $51,000 to a trade association and others in connection with desired price increase, under circumstances from which it could be inferred that the funds might be used to secure the goodwill of government officials so that the ultimate use was presumed to be contributions to a political party.

As regards Phillips Petroleum, revelations

5 dt. 5 July 1977/ US Distt Court for the Northern Distt
of Oklahoma.
before a grand jury in the United States in September 1976 and earlier disclosures pressed for the US Securities Exchange Commission brought to light the possibility of one million dollar pay-offs to Indian nationals in connection with the negotiation and construction of the Cochin Refinery in the sixties. Giving details of the judgement of the grand jury at Tulsa, Oklahoma State, relating to tax evasion by Phillips Petroleum Co., the report said that $440,000 were paid by Cochin Refinery Limited each year for the three years, 1969 to 1971, and Phillips Petroleum put this money in numbered Swiss accounts. This money, the Tulsa Grand Jury said, was then transmitted to a Panama subsidiary of Phillips Petroleum for disbursement "to certain foreign associates of the Company and not properly recorded on the company's books of financial accounts". The indictments said that the money was withdrawn for this purpose in March 1969, December 1970, and January 1973.

These are again not isolated instances. Imperial Chemical Industries, which has affiliate in India and which dominates the chemical industries, in a statement filed before the Securities and Exchange Commission admitted having made "some payments directly or indirectly to government officials in other areas of the world (other than U.K., Europe, North America, Australia and
These payments averaged £300,000 a year.

Maurie Corina, writing in the Statement dated 22 September 1976 said:

While I.C.I. is declining to indicate specifically where and to whom payments were made there is bound to be speculation that the questionable sums were paid out in Southern Europe, Africa, South America, India and the Middle East. (40)

It may not be irrelevant in this connection to mention that Alcholic & Chemical Corporation of India, a subsidiary of ICI, was a recipient of duty concession of ₹240 crores on its import of Ethyl Alcohol and its case for duty concession was actively sponsored by the West Bengal Government and by the then Minister for Petroleum and Chemicals in the Government of India. (40a)

The foregoing paragraphs would indicate that though the extent of direct political intervention may be smaller, as compared to the indirect political intervention by indulging in corrupt practices or building up pressures, nevertheless, such political intervention in the internal affairs of the countries, where the transnational corporations operate, is seen by the various

40 Ibid.
countries as a threat to their national sovereignty. The Group of Eminent Persons in their report unequivocally condemned the "subversive political intervention on the part of the multinationals directed towards the overthrow and substitution of host country Governments or to fostering an internal or international situation that stimulate conditions for such actions". They recommended that in such an eventuality, host countries should impose strict sanctions in accordance with the due processes of law of the host country concerned. The non-aligned nations also were concerned with this political interference. At the Fourth Conference of the Heads of State of Non-Aligned countries the following declaration was issued:

The Heads of State or Governments denounced before the world public opinion the unacceptable practices of transnational corporations which infringe the sovereignty of developing countries and violate the principles of non-interference and the right of peoples to self-determination, which are basic prerequisites for their political, economic and social progress. (42)

The Charter of Economic Rights and Duties of States issued a clear directive that the TNCs must not interfere

---

41 n. 11, p. 45.
42 Fourth Non-Aligned Conference, p. 102.
43 General Assembly Resolution no. 3231 (XXIX).
in the internal affairs of the host State. The programme of action on the establishment of a new international economic order referred to efforts to formulate, adopt and implement an international code of conduct for transnational corporations to prevent interference in the internal affairs of the countries where they operated. 44

In the areas of concerns submitted by the Group of 77 and the Latin American Group to the Commission of Transnational Corporations, the need was stressed to direct these transnational corporations to desist from all interference in the internal affairs of all states where they operated. The issue of political contributions is closely allied to the corrupt practices. The Group of Eminent Persons dealing with the issue of political contribution stated that the financial contribution of MNCs as well as of others to interested groups should be regulated and disclosed. 45 The Organisation for Economic Co-operation and Development (OECD) guidelines also suggested that unless legally permissible enterprises should not make contributions to candidates for public office or to political position or to other political organizations.

44 General Assembly Resolution no. 3202.
45 n. 11, p. 46.
As already pointed out, the Indian Parliament was exercised over this and one of the reasons for enacting the Foreign Monies Contributions Act, 1973, was the suspected activities of TNCs in making secret contributions to individuals, groups and political parties.

With all these disclosures and such an array of recommendations by international bodies, there should be no doubt whatsoever that covert or overt political activities by TNCs should be unequivocally condemned. However, the Group of Eminent Persons referred to "permissible public activities" of these corporations. They said: "The host countries should clearly define the permissible public activities of the affiliates of the MNCs and also prescribe sanctions against infringements". The OECD guidelines, similarly, called upon these corporations to abstain from any improper involvement in local political activities. These observations seem to indicate a kind of reservation in the matter of unequivocal condemnation of political interference. Permissible public activity, or improper involvement, would mean that there is scope for a proper involvement in local political activity which should be

46 Ibid.
47 Ibid.
48 OECD, Guidelines for Multinational Enterprises (Paris, 1976), Para 'General Policies'.

permitted. Whether involvement in political affairs would not itself per se violate the principle of domestic jurisdiction and internal sovereignty of states is a question which does not appear to have bothered either the Group of Eminent Persons or the OECD.

On 15 December 1975, the General Assembly also adopted a Resolution (Resolution No. 3514 (XXX)), in which it condemned all corrupt practices, including bribery, by transnational and other corporations, their intermediaries and others involved, in violation of the laws and regulations of the host countries, and reaffirmed the right of any State to adopt legislation and to investigate and take appropriate legal action, in accordance with its national laws and regulations, against incidents of such corrupt practices. The Economic and Social Council adopted a resolution in August 1976, entitled "Corrupt practice, particularly illicit payments, in international commercial transactions" and decided to establish an Ad Hoc Intergovernmental Working Group to conduct an examination of the problem from all angles. The OECD Guidelines, the Parliamentary Assembly of the Council of Europe and Permanent

49 General Assembly Resolution regarding "Measures against corrupt practices of transnational and other corporations, their intermediaries and others involved".

50 UN Economic and Social Council Resolution No. 2041 (LXI).
Council of the OAS have similarly condemned in most emphatic terms "any act of bribery, illegal payment or offer of payment by any transnational enterprise".

These Resolutions of the various bodies are adequate reflection of the concern of the International Community regarding the activities of the transnational corporation in influencing indirectly the political and administrative machinery to subserve their interests. It may be added that the General Assembly resolutions expressing the political and juridical conscience of all nations, are much more than recommendatory. They are in the twilight zone of law and refer to the direction in which international law is progressing, or at least ought to progress however long it may take.

........