Multinationals and the State: The Chilean Case

by

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Declaration

This work has not been previously submitted in whole, or in part, for the award of any degree. It is my own work. Each significant contribution to, and quotation in, this dissertation from the work, or works, of other people has been attributed, and has been cited and referenced.

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I would like to extend my deepest gratitude to Professor Robert Schrire of the University at Cape Town and Professor Rolf Luders of the Pontificia Universidad Catolica de Chile, quite possibly the two most brilliant men on their respective continents. I am honored to know you both.

Abstract

On September 11, 1973, Salvador Allende, the world's first democratically elected Marxist president, died in a bloody coup in Santiago, Chile. Since then, political scholars have scrutinized this phenomenon, searching for whom to hold responsible.

During the Cold War, the US government's preoccupation with its global position provoked the suppression of revolutionary movements around the world. Chile, a small and unusually shaped country in the 'back yard' of the United States, was greatly inspired by the Cuban Revolution that blatantly challenged the regional hegemon. The 1970 presidential election marked a turning point in Chilean history when it appeared that democratic and anti-imperialist forces had converged to set in place a revolutionary program and reclaim control of their country. Salvador Allende came to power calling for the next Marxist revolution in Chile and making his first order of business to gain economic sovereignty through the complete nationalization of the country's primary industry: copper.

At the time of US intervention, hundreds of millions of dollars had been invested into the Chilean copper industry by two very powerful US multinational corporations: Anaconda and Kennecott. Shortly after nationalization, Allende refused to compensate the corporations for their massive investments, claiming his decision was in the national interests of the state and its sovereign power to do so. In defense of their interests, the MNCs turned to their home government, the United States, whose plans were already in motion to undermine Allende. Hence, the role of the US copper multinationals in Allende's overthrow remains unclear and highly susceptible to multiple interpretations.

The interaction between the multinational corporation and the developing state has been at the center of the debates regarding the international political economy. As the developing world often relies on the large economic resource base of the multinational as a means for development, the interests of the state and the MNC are likely to conflict. From this conflict, a paradigm known as the dependency theory formed. Dependency

theory accuses the MNC of being exploitative and the cause of under-development for the third world. Under this view, the state is defenseless against the power of the MNC.

This study seeks to examine the validity of dependency theory for the Chilean case. It juxtaposes a second theory that purports an opposing hypothesis. This paradigm, known as the obsolescing bargaining theory, views the state as a capable actor that can defend itself against the MNC.

This paper will assert that contrary to popular beliefs, the US copper multinationals were insignificant players in the overthrow of Allende. It engages in the case study by analyzing the bargaining process that took place between the multinationals and the Chilean state during 1950 and 1973. By showing that the copper MNCs were unable to defend their interests against the state, this study concludes that the dependency theory does not apply to the Chilean case and therefore the obsolescing bargaining theory is the more useful framework.

The objectives of this study are two-fold. Firstly, it seeks to clarify the copper MNCs' involvement in the overthrow of Allende. And secondly, it aims to contribute to the ongoing debates surrounding the multinational corporation and the developing state. In so doing, it will disprove the validity of the dependency theory for the Chilean copper case and highlight the flaws of using such a rigid paradigm.

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Chapter 1: Introduction

Among the many dimensions of the international political economy, arguably the most important, is the proliferation of the multinational corporation (MNC). Transcending national boundaries, MNCs have restructured the political economy by intertwining assets, capital and production with such force that they alter the inherent structure of the political economy.[1] In the early 1990's, the 200 largest MNCs had accumulated sales equal to one third of the entire world's gross domestic product.[2] The earnings of large MNCs far outweigh the Gross Domestic Products of many developing countries. Given their economic strength and resource power, multinational corporations can threaten the sovereign power of a nation-state.[3] If Karl Marx is correct in claiming that "economics determines politics and political structure,"[4] then the role of the MNC as a major economic stimulus will inevitably conflate with the political processes of the host country. This poses a particularly delicate predicament for the developing world.

Often developing countries are in the process of nation-building, and the outside influence of such strong economic powers hinders a country's struggle for sovereignty.[5] The traditional role of the state as the sole authority over the domestic economy is threatened by the penetration of the MNC. Hence, the economic advantages that MNCs offer must be weighed against the political costs that potentially detract from the power of the state.

The dilemma is that many developing states have become dependent on MNCs to meet the rising economic needs of their populace.[6] A government that chooses to discourage multinationals from investing in its country potentially risks the welfare of its people. Likewise, a government that pushes too hard for the MNC to comply with its demands also risks that the MNC will relocate to another developing country. When the capacity for

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[1] Raymond Vernon. *Sovereignty at Bay: The Multinational Spread of US Enterprises* (USA: Penguin Books, 1971), 15.
[2] Richard Crum and Stephen Davies. *Multinationals* (Oxford: Heinemann Educational Books Ltd, 1991), 1.
[3] Vernon, 15.
[4] Karl Marx cited in Robert Gilpin. *US Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, Inc., 1975), 12.
[5] Werner J. Feld. *Multinational Corporations and U.N. Politics: The Quest for Codes of Conduct* (New York: Pergamon Press Inc., 1980), 3.
[6] Robert Gilpin. *War and Change in World Politics* (Cambridge, Cambridge University Press, 1981) 290.

development without foreign assistance is difficult or unlikely, sovereignty may take a backseat in a country's national priorities.

For this reason, the debate over the multinational corporation in the international political economy and its power over the traditional domain of the state has become an increasingly popular and controversial topic in international relations. The following study also engages in this debate, by broadly exploring the role of the state and the role of the multinational corporation and how the two operate in the international political economy. In order to narrow the analysis, the study uses the case study of US based MNCs and the Chilean state. More specifically, this paper will examine the influence of US multinationals in the copper industry on the political domain of the Chilean state and how both players create defense mechanisms to protect their respective economic and political interests.

Chile is an interesting case study for several reasons. Recognized as one of the most politically and economically stable countries in South America, for decades Chile's strong democratic culture was the paragon among its Latin American neighbors. Chile is also characterized by a large working class, with 70% of its population living in industrial centers.[7] One author points out that if Marxist revolutions are to begin with the working class, then Chile would logically be the place for the Latin American revolution to begin.[8]

Another unique attribute of Chile, and an especially important component for this study, is its economic history. Since its emergence as a nation-state and up until 1971, Chile's economy had been dependent on and defined by external forces particularly the US and Europe.[9] This is largely due to its substantial reliance on one single commodity: copper. For decades, while not having state control over its copper industry, Chile was extremely vulnerable to foreign influence.

Yet in the realm of international relations, Chile's dramatic political history is especially fascinating. Chile's political past is unlikely to be a new topic of study for any political scholar, for the overthrow of the world's first democratically elected Marxist leader,

[7] Ian Roxborough, Philip O'Brien, and Jackie Roddick. *Chile: The State and Revolution* (New York: Holmes & Meier Publishers, 1977), 1.
[8] Ibid.
[9] Ibid., 2.

Salvador Allende, captivated audiences worldwide. What makes Chile's political history particularly interesting is the alleged involvement of the United States government and US multinational corporations.

Moments before his death on September 11, 1973, Allende gave his final speech over government radio. In this address, Allende makes reference to US involvement:

"This is the last chance I shall have to speak to you, to explain to you what has happened. Foreign capital and imperialism have allied with the forces of reaction to produce a climate in which the armed forces have broken with tradition." [12]

Was Allende correct in accusing the US government for his downfall? By including 'foreign capital' is Allende referring to US corporate interests? Is there any truth to these claims?

Despite rumors and more radical interpretations of the actual events that took place in Chile, the majority of evidence now demonstrates that the US did not play a direct role in the 1973 coup, although it made significant efforts to undermine Allende's political power through a number of indirect tactics.[10] Understanding the specific role the US government played in the overthrow of Allende is not a central objective of this study although it will be included in brief to provide a backdrop for the political climate that developed in Chile leading up to the 1973 military coup. The focus of the paper is, however, on the US-based multinational corporations in one particular industry: copper.

At the time of US intervention in 1970, $748 million had been invested into the Chilean economy by US multinationals, the vast majority to the copper industry.[11] Historically, in countries where the US government has decided to intervene, this amount is second only to Cuba in 1959.[12] During that time, Chilean copper was the largest US investment in the hemisphere, second only to oil in Venezuela.[13]

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[10] Paul E. Sigmund. *The United States and Democracy in Chile* (Maryland: The John Hopkins University Press, 1993), 4.
[11] U.S. Department of Commerce. *Survey of Current Business* 51, No. 10 (October 1971), 32.
[12] Ibid.
[13] Stephen Krasner. *Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy* (Princeton: Princeton University Press, 1978), 137.

For the US-based copper multinationals, Allende's Marxist ideology threatened their investments, and indeed, when Allende came to power in 1970, his first political agenda was advanced: the complete nationalization of the copper industry. The history of copper in Chile and the process of nationalization highlight the power dynamics between foreign corporations and the host state and how both actors attempted to defend their respective interests against the other. Hence, the central question is: *How did US-based copper multinational corporations and the Chilean state try to protect their individual interests in the bargaining process over the copper industry during 1950-1973?*

This study will first describe the power dynamics between the Chilean state and the MNCs and proceed to highlight the bargaining process that eventually gave way for the Chilean state to dominate the MNCs. The central discussion will revolve around the defense mechanisms employed by the MNCs and the state in order to enhance their relative bargaining positions. The selected timeframe, 1950 and 1973, corresponds with the most significant transformation of the Chilean copper industry, while the greatest developments towards nationalization occurred under Presidents Eduardo Frei and Salvador Allende between 1964 and 1973. When their interests were threatened, the MNCs devised certain strategies to exert power over the Chilean state. The two theoretical frameworks used in this study purport two opposing hypotheses related to the defense strategies taken by the MNC and the Chilean state. The analysis will assess which theory is most appropriate based on the empirical evidence presented in the case study.

This thesis is essentially a study of power between the MNC and the Chilean state, and their interaction will be the crux of the analysis. This is a descriptive study. The specific objectives are to (i) understand the power dynamics that prevailed between the Chilean state and the copper MNCs (ii) use the Chilean case to analyze how MNCs and the state, specifically in raw material industries, attempt to defend their respective interests (iii) assess two popular theories that are commonly applied to the Chilean copper case.

The Chilean case is particularly interesting because of three primary actors involved: the multinational corporation, specifically two US-based copper multinationals; the Chilean host government; and the US government. Although not central to this paper, recognizing the actions of the US government and the US-based MNCs is vital to thoroughly comprehend the political situation which unfolded in Chile during the 1960's and 70's. To isolate the influence of one would depict an incomplete picture of what actually took place. It is, however, important to understand the two actors as individual entities with different motives. For the sake of making a distinction, it would be safe to understand MNCs as economic units that primarily seek to maximize profit, and the US government, foremost as a political actor, concerned with its power and position in the international political economy.

This study is presented in four parts. The first part is concerned with the concept of the multinational corporation and its interaction with the developing state. It will present the backdrop for the second and most critical section: the case study. The Chilean case study between 1950 and 1973 is organized by presidential terms. The primary areas of focus are the copper programs of Eduardo Frei from 1964-1969 and Salvador Allende from 1970-1973. The third section traces the bargaining dynamics between the Chilean state and the US copper MNCs and analyzes the relevant factors that enabled the state to overpower the MNCs. The final section refers back to conceptual models to demonstrate an overall understanding and appreciation for the greater theoretical implications of the case study.

Although the focus of the analysis is largely theory based, bear in mind that the Chilean copper case study is of relevance and interest in and of itself. While the broader theoretical implications are worthy of academic attention, this study uses a theoretical context to further advance an overall understanding of the case itself and not specifically to relate, prove, or develop broader conceptual issues. The larger ambitions of this study are to contribute to the debate on the multinational corporation and the developing state, and to further elucidate a critical decade of Chile's political history - a case that has captivated the interest of political scholars for over three decades.

Chapter 2: Theoretical Approaches

The following chapter is an amalgamation of various elements that present the backdrop for analyzing Chile's copper nationalization process. While there is an enormous literature about the multinational corporation and the state, this will not be explored in this study. For the purposes of this paper, the MNC and the state should be understood as unitary actors with self-interest based objectives. This chapter will only briefly touch on the behaviors of the actors, but will more thoroughly explore the interaction of the developing state and the MNC. This interaction will be assessed using two particular theoretical paradigms: dependency and the obsolescing bargain. A particular focus on dependency theory is provided as it was a particularly powerful ideological force in Chile and inspired the movement towards nationalization in Chile. Other relevant dimensions to the case study are the Cold War environment, which shaped Chile's policies against the multinationals and US policies towards Chile, and the nature of the copper industry. All of these factors shaped the political outcomes in Chile between 1950 and 1973 and are therefore necessary to expound upon in detail.

2.1. The Multinational Corporation

Often referred to as a multinational or transnational corporation in academic works, for the purposes of this paper, a multinational corporation will be defined as a firm with production capacities located in multiple countries. Ownership, management, production, and marketing can simultaneously occur across a number of national borders.[14] Typically, there is a parent firm which coordinates its subsidiaries in other parts of the world under one production strategy. MNCs seek a comparative advantage and market power. MNCs, like all corporations, can be characterized as profit-maximizing entities, who try to manipulate market conditions to work in their favor.

Advocates of the multinational corporation and a free market economy argue that the multinational has the capacity to spur economic development, particularly in countries where the need is imperative.[15] As one author correctly notes, the multinational has the

[14] Gilpin, *US Power and the Multinational Corporation*, 10.
[15] Gilpin, *War and Change in World Politics*, 291.

capacity to not only 'think big', but indeed, to 'act big'.[16] Indeed, the capacity to 'act' is a common shortcoming of the developing state. For this reason, traditional theory lends to the notion that foreign direct investment is positive for development.[17] Many theorists contend that the nation-state concedes power to the MNC because the MNC is better equipped to meet the economic needs of the state's population.[18] Robert Gilpin writes that "[the nation-state] cannot retain its traditional independence and sovereignty and simultaneously meet the expanding economic needs and desires of its populace".[19] Therefore, the MNC enables nation-states to provide for the welfare of its population. Particularly for economically unstable countries, the hefty resource base of the MNC may be its only means of provision. Because of its ability to accrue wealth and spur economic development, the multinational becomes an instrument of power.[20] Yet because MNCs are flexible and mobile by nature, they have the option to move their production wherever they choose - a constant fear to a state in need of financial support.[21] Therefore, the financial muscle and international clout of the MNC, makes it a powerful political tool that can potentially alter or even overturn the politics of a country.[22]

As a profit-maximizing entity, the multinational corporation will seek out ways to enhance its position and defend its interests if threatened, including political intervention if possible. Yet, the political consequences of this behavior for the third world are far more threatening than those for the first world.[23] The MNC's ability to intervene in domestic politics and influence the decision making process of the host government proves problematic as corporate policies are much more likely to reflect the corporation's own interests and the interests of their home state over those of the host state. In general, foreign MNCs prefer a low visibility in host governments and will hesitate to participate in political activities in

[16] Sidney Dell. *A Latin American Common Market?* (London: Oxford University Press, 1966), 175.
[17] C. Fred Bergsten, Thomas Horst, and Theodore H. Moran. *American Multinationals and American Interests* (Washington, D.C.: The Brookings Institution, 1978), 354.
[18] Gilpin, *War and Change in World Politics*, 288.
[19] Ibid., 290.
[20] Ibid, 4.
[21] Gilpin, *War and Change in World Politics*, 289.
[22] Ibid, 273.
[23] Joan E. Spero and Jeffrey A. Hart. *The Politics of International Economic Relations, Sixth Edition*, (California: Wadsworth/Thompson Learning, 2003), 273.

the host environment because it increases their visibility.[24] Often, the sheer size of these institutions increases the probability of public attention and political activity.[25] Moreover, as foreign owned entities, MNCs are not considered legitimate forces in national politics.[26]

It is imperative to understand that although MNCs share several universal traits and behave akin, the type of industry largely determines the bargaining leverage that a MNC holds against the state. Particularly natural resource industries are characterized by specific traits that affect its bargaining power. In this example, copper is an immobile investment; the opportunity for capital flight is limited if not nonexistent. Aside from requiring enormous initial investments, rich copper deposits are also relatively difficult to find in the world. The traits of the copper industry will be a recurring theme in the analysis of the bargaining process that took place between the MNC and the Chilean state.

2.2. The MNC and the State

This study follows Robert Dahl's definition of Power: Actor A has power over actor B to the extent that A can get B to do something B would not otherwise do.[27] For the Chilean copper case, the bargaining process between the MNC and the state is the channel through which the two actors attempt to exert their relative power over the other. Both actors will seek to alter the behavior of the other in order to increase their bargaining power. Throughout the bargaining process, an actor will continuously seek to tip the balance of power to alter the behavior of the other actor to gain an advantage over the other actor.[28]

For the purposes of this paper and the analysis of power, it can be assumed that the state, as a unitary and rational actor, will seek to maximize its power.[29] Power for the state is enforced by its ability to control its own destiny, or its sovereignty.[30] Hedley Bull writes

[24] Wendy L. Hansen and Neil J. Mitchell, "Disaggregating and Explaining Corporate Political Activity: Domestic and Foreign Corporations in National Politics", *American Political Science Review* (Vol. 94, No. 4, December 2000), 893.
[25] Ibid., 899.
[26] Spero and Hart, 273.
[27] Robert A. Dahl. "The Concept of Power", *Behavioral Science*, Vol. 2 (1957): 202.
[28] Douglas C. Bennett and Kenneth E. Sharpe. *Transnational Corporations Versus the State: The Political Economy of the Mexican Auto Industry* (Princeton: Princeton University Press, 1985), 84.
[29] Stephen D. Krasner. *Structural Conflict: The Third World Against Global Liberalism* (Berkeley: University of California Press, 1985), 12.
[30] Ibid.

that sovereignty is the constitutive principal of the international system.[31] The current international system is compromised of sovereign nation-states that sit at the hierarchy of authority as the only legitimate political organization in the system.[32] Sovereignty grants the state the power to exercise full control over the populations residing in their national territories and delineates that no other state, government, or political entity can intervene or compete with this jurisdiction. [33] Robert Gilpin evaluates the role of the nation-state and says the accumulation of power and wealth aim to satisfy the interests of states.[34] Under this theoretical framework, a country's national capacity to provide for the welfare of its populace does not interfere in the sovereign control of the nation. All states formally recognize that states have the right to choose the economic behavior that takes place within their territories.[35] However, the introduction of the multinational corporation in the global system has challenged the sovereign control of the nation-state, a peril that poses a far greater threat to developing countries than their wealthier counterparts.

One interpretation in international politics is that the behavior of states is determined by their relative power capabilities. States are more complex by nature, by demands, by responsibilities and goals than MNCs.[36] It is difficult to identify one single behavior of the state that classifies it as a rational actor, such as profit maximizing for the MNC.[37] It is also difficult to identify the multitude of dimensions and responsibilities of the state. For this paper, there are two particular dimensions of the state that need to be identified: the political leadership, and the domestic populace - or the social foundation - that it serves.

Political leadership is foremost concerned with its own political agenda, most typically to remain in power. For democratic societies particularly, the interests of political leadership are primarily shaped by its social foundation.[38] As the demands of the social foundation

[31] Hedley Bull, *The Anarchical Society: A Study of Order in World Politics* (New York: Columbia University Press, 1977), 17.
[32] Krasner, *Structural Conflict*, 73-74.
[33] Steven Krasner, "Compromising Westphalia", *International Security*, Vol. 20. No. 3 (Winter, 1995-1996): 115 [Electronic]. Available from JSTOR at: http://links.jstor.org/sici?sici=0162-2889%28199524%2F199624%2920%3A3%3C115%3ACW%3E2.0.co%3B2-YMIT [2005, Dec 9].
[34] For the purposes of this paper, "power" should be understood as the ability to achieve a specific goal; "wealth" should be understood as anything that produces future income.
[35] Krasner, *Structural Conflict*, 177.
[36] Bennett and Sharpe, 83.
[37] Ibid.
[38] Ibid.

change, the interests of the leadership must follow.[39] This aligns with the primary objective of the leadership to build and maintain power, which is most legitimately accomplished through the satisfaction and support of its social foundation. The social foundation is primarily concerned with its welfare. In democratic societies, such as Chile, one of the principal manners through which the state remains in office is by increasing the welfare of its social foundation. Hence, it becomes a primary responsibility of the political leadership to improve, or at least attempt to improve, the welfare of its populace. Therefore, the notion that the government can act "just as it pleases" and enforce whichever policies it desires is contingent on the state's ability to support the welfare of its populace autonomously. The state seeks to effectively and efficiently regulate its economy and direct the economic welfare of the country in order to build the capacity to support the welfare of its populace.[40]

The frustration of foreign corporate activity for the host state lies in the fact that the major corporate decisions are made by executives outside of the host country, isolating the host state from the decision making process in the corporation's decisions. As these MNCs exercise some control over the production capacity of the country, they also influence the economic performance of the country and hence its development path. MNCs can either enhance or hurt the functional capacity of the state in achieving its economic goals, but they will inevitably have some influence over the state's sovereign control over the economy.[41] Therefore, the most profound consequence of foreign investment is the lack of decision making power, or essentially the loss of full control over the economic control of the state.[42] When such massive economic instruments enter the domain of the state, the state can attempt to moderate MNC actions by imposing formal regulations through public policies that alter its behavior to comply with the needs of the country. Essentially, it is the state's sovereign right to act as it pleases, but its sovereignty, particularly in a democratic society, is constrained by its economic competency.

[39] Ibid.
[40] Ibid., 10.
[41] Krasner, *Structural Conflict*, 180.
[42] Paul E. Sigmund. *Multinationals in Latin America: The Politics of Nationalization* (Wisconsin: The University of Wisconsin Press, 1980), 276.

Nevertheless, sovereignty is the state's first and foremost most important leverage tool. The ability to grant the corporation access to its territory is derived from the state's power and leverage to do so.[43] The state's greatest strength is its sovereign control over all activities within its borders. This, in turn, is the inherent disadvantage of the multinational; the state ultimately maintains sovereign decision making control, or the 'final say', over its territory.

Yet to restrict the actions of the MNC depends on the state's own capacity to assume those responsibilities, such as to produce capital, technical expertise, and market access.[44] Democratic governments incapable of providing its populace with these services become reliant on external forces or other private agents to do so and consequently must relinquish some of the state's autonomy.[45] The more reliant the state is, the more autonomy it will have to acquiesce. For dependency theorists, this is a principal fear for the developing world and the multinational corporation.

2.3. The U.S. Multinational Corporation

For Robert Gilpin, who sees the multinational corporation as the principal actor in the global political economic system, the MNC represents an interplay of dynamics that are dictated by the political relations between countries who use the MNC to pursue their own foreign policy objectives.[46] Many scholars find this perspective controversial as the MNC is often perceived as an independent entity of the liberal global system, free from the control of nation-states. Aligned with this mind frame, the MNC, by its very nature, will assert its independence from all government control, focusing its efforts on the expansion and accumulation of profits.

As the prime advocate and essentially the symbol for an open international economy, the MNC generally prefers minimal government involvement, including from its home country, until its interests are threatened. When its power is limited by the host state's policies, the MNC will naturally try to protect itself.[47] This includes conferring with other agents of

[43] Krasner, *Structural Conflict*, 177.
[44] Krasner, *Structural Conflict*, 177.
[45] Ibid.
[46] Gilpin, *War and Change in World Politics,* 7.
[47] Hansen and Mitchell, 892.

power that can induce the host state's compliance, such as the home government, international organizations, and other global players. The debate over the independence of the multinational from its home country is of particular interest for the developing world.

The notion of independence for the US multinational corporation is an essential component to the Chilean copper case. As the world's super power, the US has defined and shaped the rules of the global system to maintain power. In her analysis of the structure of the political economy, Susan Strange argues that power determines the relationship between the state and market. Strange seeks to understand the 'authority' of power, claiming that it is not enough to ask who has it, but why.[48] According to Strange, power in the political economy is derived from three sources: force, wealth, and ideas. If Gilpin is correct in his claim that MNCs are extensions of their home states who gain power through the MNC's accumulation of wealth, then the MNC buttresses the global hegemonic position of the US.

The case study for this paper looks specifically at natural resource multinationals. In this sector, the US has successfully managed to control the world's access to raw materials through foreign investment, thus advancing its dominant position in the international political economy.[49] This position has also ensured a consistent American supply during times of scarcity and negated price increases.[50] By creating policies that encourage corporate expansion abroad and foster friendly relations with host governments, the US has used the MNC to broaden its sphere of influence. Gilpin precisely reinforces this idea when he argues that "[t]he multinational corporation has prospered because it has been dependent on the power of, and consistent with the political interests of, the United States."[51]

Natural resource industries, often referred to as strategic industries, are one area of foreign investment directly connected to US national interests.[52] Percy Bidwell, in reference to US dependence on raw materials, alludes to the relationship that exists between core and periphery countries, and states: "Our dependence on foreign countries for supplies is

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[48] Susan Strange, *States and Markets, 2nd edition* (London: Pinter, 1994), 23-24.
[49] Gilpin, *US Power and the Multinational Corporation*, 148.
[50] Ibid.
[51] Ibid., 41.
[52] Sigmund, *Multinationals in Latin America,* 307.

matched only by their dependence on our markets."[53] Because of the core's dependence on raw materials for its industrial advancement, direct government intervention may be justified to secure cheap sources of the mineral.[54] The need to assure this access also warrants the US government's support of US corporate investment.

Although not a principal objective of this paper, the shared and divergent interests of the US government and the US MNCs regarding Chilean politics and the copper industry will be analyzed through a similar position as Gilpin. More central to this study is the relationship between the MNC and the Chilean state, particularly how the Chilean state perceived foreign corporate influences within its territory. As this next section will explain, the theoretical influences of the time largely inspired Chile's drive to nationalize its copper industry.

2.4 The Rise of Dependencia in Chile and Latin America

The *dependencia* model is most popularly used by scholars to describe the Chilean case. The purpose of the theory for this study is two-fold: first, to understand the mindset of the Chilean state during the bargaining process that took place between 1950-1973; and second, to use the model to theoretically contextualize the role the US copper MNCs played in Chile.

Between 1950 and 1973, a revolutionary movement of *independencia* swept through Chile. *Independencia*, or a break away from *dependencia*, impelled Chile to reclaim its foreign dominated copper industry. The preeminent scholar Theodore Moran conducts a historical study of the Chilean copper industry and analyzes the role the Chilean state played in recapturing its copper industry from US multinational corporations and breaking free from dependency.[55] The context for the dependency theory sets the backdrop to understand the nationalist fervor that underpinned the copper nationalization process in Chile.

The influx of dependency theory in Chile in the early 1960's corresponded with the greater Latin American response to the economic and political role that the US played throughout

[53] Percy W. Bidwell. *Raw Materials: A Study of American Policy* (New York: Harper & Brothers, 1958), 9.
[54] Sigmund, *Multinationals in Latin America,* 307.
[55] Theodore H. Moran. *Multinational Corporations and the Politics of Dependence* (Princeton: Princeton University Press, 1974).

the continent. Dependency theorists of the time argued that multinational corporations assist in developing the first world by further under-developing the third world. The *dependencia* framework relies on the global system as the unit of analysis and focuses on how this system engages with nation-states.[56] *Dependencia* argues that production in developing countries is aimed at capital accumulation for developed countries, and thus breeds 'imperialism.'[57] Anti-imperialist sentiments surged through the continent calling for an end to dependency.

Dependency is a blend of Marxism and nationalism,[58] both of which have deep roots in Latin America. One of the first third world regions to gain its independence from colonialism, the desire to maintain its continental sovereignty has been shared throughout Latin America.[59] The first economic theoretical application of the continent was the law of comparative advantage based on an export-oriented strategy.[60] Chile and most of Latin America's greatest comparative advantage lies in its supply of raw materials.[61] It was only in the 1930's that the pro-industrialization movement called for greater state involvement in order to regain control over their respective economies. Chile led the way in its efforts to create a larger state role in the economy.[62] The economy oriented towards traditional protection-oriented policies, namely import-substitution, which was accompanied by the formation of new public enterprises, such as the Chilean Development Corporation[63] geared at state-led industrial development.[64] The institution symbolized a direct involvement of the state in economic affairs, the very antithesis of liberal economic doctrine.

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[56] J. Samuel Valenzuela and Arturo Valenzuela, "Modernization and Dependency: Alternative Perspectives in the Study of Latin American Underdevelopment" in *Development and Underdevelopment: The Political Economy of Global Inequality*, eds. Seligson, M. A. and Passe-Smith, J.T. (Colorado: Lynne Reinner Publishers, 1998), 271.
[57] Peter Evans. *Dependent Development: The Alliance of Multinational, State, and Local Capital in Brazil* (Princeton: Princeton University Press, 1979), 50.
[58] Robert A. Packenham. *The Dependency Movement: Scholarship and Politics in Development Studies*, (Cambridge: Harvard University Press, 1992), v.
[59] Thomas E. Skidmore and Peter H. Smith. *Modern Latin America, Third Edition* (New York: Oxford University Press, 1992), 362.
[60] Ibid., 362.
[61] Markos Mamalakis and Clark Winston Reynolds. *Essays on the Chilean Economy* (Yale University: The Economic Growth Center, Yale University: 1965), 265.
[62] Ibid., 362.
[63] In Spanish, Corporación de Fomento de la Producción (CORFO).
[64] Manuel Lasaga. *The Copper Industry in the Chilean Economy: An Econometric Analysis* (Massachusetts: Lexington Books, 1981), 12. Paul E. Sigmund. "Chile" in *Latin American Politics and Development, Fourth Edition*, eds. H.L. Wiarda and H.F. Kline (Colorado: Westview Press, 1985), 150.

In the 1960's Raul Prebish claimed that Latin American development was stifled by "structural" problems. Prebish was the first to divide the world into the core (the developed world) and the periphery (the developing world) and argued that the position for the periphery is continually declining relative to the core because of the structure of global production.[65] A few years later, in the heat of the Cold War, a more radical theory known as dependency theory, emerged in Latin America, most forcefully in Cuba and Chile where the Marxist movement was the strongest. As the Cold War proceeded, the world found itself divided by opposing ideologies and doctrines.

The Cuban Revolution captured the world's attention and made Latin America, the backyard of the United States, a battle ground for ideological warfare.[66] Marxists attacked capitalism as a system of exploitation and dependency, and cited Chilean copper as a prime example. Anti-dependency sentiments gained popularity in Latin America as governments and the general public began to associate the 'condition' with national dependency and exploitation, and blamed the grave inequality between the core and periphery on the North American capitalist system.[67] One author notes that the allure of the Marxist-Leninist theory was simple: it provided an easy explanation for Latin American underdevelopment, one that the masses could understand and participate in easily.[68] Under this view, interests of foreign investors and those of the host state were directly opposed. Dependency theory became intensely politically charged. This was particularly evident in Chile, a country whose economy since the country's independence had been directed by foreigners. Dependency theorists argued that Latin American economies in particular were held captive by the US who exploited the continent for its raw materials.[69] Inspired by the Marxist movement, Chile used the tools laid out by Marx to break out of this system. It identified capitalist countries, especially the US, as the enemy, and foreign economic

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[65] Skidmore and Smith, 363.
[66] Josue de Castro, "Introduction: Not One Latin America" in *Latin American Radicalism: A Documentary Report on Left and Nationalist Movements*, eds. I.I. Horowitz, J. Castro and J. Gerassi (New York: Random House, 1969), 235.
[67] Elizabeth A. Cobbs. *The Rich Neighbor Policy: Rockefeller and Kaiser in Brazil* (New Haven: Yale University Press, 1992), 252-253.
[68] Sigmund, *Multinationals in Latin America,* 30.
[69] Raul Prebish, "The System and Social Structure of Latin America" in *Latin American Radicalism: A Documentary Report on Left and Nationalist Movements*, eds. I.I. Horowitz, J. Castro and J. Gerassi (New York: Random House, 1969), 40.

activity, particularly US multinationals, as the primary hindrance to Chile's economic development.[70]

This sets the stage for understanding Chile's mindset leading up to complete nationalization in 1972. Ideology, this study will assert, was a driving force behind the Chilean state to nationalize the US MNCs. Of less importance, but still of relevance, this paper also insinuates that the Cold War ideology was the determining factor that made the US government deny MNC requests for support during the nationalization process. The various ideological developments at the time reveal the very essence of what defined and inspired Chile's copper nationalization.

Aside from its strong ideological influence in Chile, dependency theory is also the most popular paradigm used to describe the Chilean case. This study examines the merit of two paradigms to describe the Chilean copper case: dependency and the obsolescing bargain.

2.5. Dependency Theory

The dependency perspective is concerned with how MNC interactions with a periphery state impede the state's development, arguing that external forces determine the pace and direction of state development.[71] Rooted in Marxism, the paradigm is concerned with the integration of periphery countries in the capitalist world system which puts them at a disadvantageous position relative to that of core countries.[72] As dependency theory is multi-faceted, it will not be explicitly defined in this paper, but rather utilized in a more abstract form for the Chilean case.

Dependency theory is a theoretical framework that subsumes various interpretations centered on the structure of the international system. In relation to the multinational corporation and the developing world, this theory purports that the penetration of the MNC, which is generally based in the world's most powerful countries, into periphery economies will pervert economic growth and extract valuable resources that would otherwise reinforce

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70 Sigmund, *Multinationals in Latin America,* 32.
71 Bennett and Sharpe, 7.
72 Ibid., 5.

national development.[73] As the periphery state's development is dependent on the MNCs economic resource base, the state must relinquish its sovereignty to external forces whose interests contradict with its development goals. Implicit in the dependency theory is that the state is a weaker actor than the MNC and cannot defend its interests against those of the MNC.

Those of the *dependentista* school argue that dependence and underdevelopment limit a state's internal market, its technical and cultural capacity to produce, as well as the physical and moral well being of its populace.[74] In reference to third world countries who are well-endowed with natural resources, the MNC's corporate strategy of vertical integration – the control of all steps of mineral production, from extracting and refining to the sale and distribution of the finished goods - suffocates economic growth and breeds dependency, and therefore independence would require either a major transformation of the system or complete destruction of it.[75] For this reason, Marxists advocate large scale revolutionary movements.[76]

For scholars who align with this view, the very existence of the MNC in the developing world impedes the development paths of developing countries. Such ideologists claim that the MNCs goad international exploitation and call for economic development to come from the hand of the state and not from foreign investors.[77]

2.6. The Obsolescing Bargain

The obsolescing bargain purports the contrary interpretation of the relationship between the state and the MNC. Implicit in this theory is that foreign direct investment and MNC activities generate positive outcomes for the developing state by stimulating economic development.[78] This paradigm asserts that the MNC can assist in the advancement of the developing world and help to empower the state to attain its development goals. The

[73] Volker Bornschier and Christopher Chase-Dunn. *Transnational Corporations and Underdevelopment*, (New York: Praeger Publishers, 1985), xi.
[74] Theotonio dos Santos, "The Structure of Dependence" in Development and Underdevelopment: The Political Economy of Global Inequality, ed. M.A. Seligson and J.T. Passe-Smith (Colorado: Lynne Reinner Publishers, 1998), 253.
[75] Bennett and Sharpe, 12.
[76] dos Santos, 253.
[77] Bennett and Sharpe, 1.
[78] Ibid.

obsolescing bargaining theory sees the state as a powerful actor in the world system with the ability to direct its own development and shape the MNC influences to assist in its development goals.

The theory focuses on the shifting relationship between the host country and MNC. This process involves two steps: make attractive concessions to bring in foreign investment and then renegotiate the initial agreements to harness the MNC to the goals of the host state. The theory asserts that developing countries are initially very welcoming and open to foreign investment because of the benefits that MNCs bring to the country. This places the bargaining chips in the hands of the foreign MNC. Once having committed large investments and developed industries in the host country, the MNCs are able to reap the fruits of their investments through huge profits. As the host government observes these profits leaving the country, they become critical of the firms and seek a greater share of the profits. Then begins a series of renegotiations as the host country realizes it was too generous in the initial agreements.[79] The government continues to try to raise the bar of holding the MNC more accountable to the state, consistently attempting to mold the MNC to serve the interests of the state, whether it be through elevating the tax rate, encouraging the expansion of production, or demanding more capital investment. In each negotiation, the state seeks to advance its bargaining position, and establishes new terms that previously would never have been accepted by the MNC.[80] Eventually, the only solution available to the "obsolescence of the bargain" is the complete government take-over, or nationalization, of the industry.[81]

2.7. The Theoretical Goal

The theoretical aim of this study is to assess the two theoretical paradigms discussed above that are commonly used to describe the Chilean copper case. The bargaining process between the Chilean state and the US copper MNCs will be the focus of the analysis as the means for evaluating the relevance of the two theories. After the delineation of the case study in the next chapter, the theoretical models will be reintroduced in the final analysis of this paper.

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[79] Sigmund, *Multinationals in Latin America,* 260.
[80] Lewis D. Solomon. *Multinational Corporations and the Emerging World Order* (New York: Kennikat Press, 1978), 116.
[81] Sigmund, *Multinationals in Latin America,* 261.

As described above, the dependency and obsolescing theories suggest opposing interpretations of the role of the MNC in the developing world as well as contradictory hypotheses related to the power of each actor. It is in this contradiction of hypotheses that this study applies the empirical case study of Chilean copper.

The rumors surrounding the most famous period in Chile's political history insinuate that the foreign corporate powers played a significant role in the political and economic crises in Chile, specifically in the overthrow of Allende. *Dependistas* argue that the developing state cannot defend itself from powerful MNCs who exploit the developing world to make the developed world richer. The power of the MNCs is derived from a number of factors, such as support from its home country and the capitalist structure of the global political economy. In conjunction with this theory, there are various outcomes that could result from the bargaining process between the state and the MNC. These outcomes would either leave the Chilean state completely disempowered in the bargaining process, or as the state gained bargaining leverage, the theory suggests that the MNC would counter state advancements through various tactics, such as manipulating the global economy or pressuring its home country to come to its defense. After all, MNCs are expected to engage in political activities in order to maximize their profits or avoid financial losses.[82]

There are a few critical facts that lie at the crux of this case study: (i) the Chilean copper industry was nationalized in 1972 by President Salvador Allende (ii) an economic and political crisis occurred in Chile during Allende's three years in power (iii) Allende died in a military coup in 1973.

According to the dependency theory, MNCs will engage in defending their interests when these interests are threatened and will succeed because of their position in the global political economy relative to the periphery country. The obsolescing bargaining theory suggests a different outcome: the state can succeed in overtaking its industry and prevent the MNC from successfully defending its interests. In order to determine the more relevant theoretical framework, the following question must be answered: To what extent did the US-based copper MNCs influence the crisis and overthrow of Allende?

[82] Hansen and Mitchell, 892.

It is imperative to bear in mind that no theory exists in a vacuum and one case study cannot confirm or refute a theory. The theoretical analysis is incorporated in this study to demonstrate awareness to larger implications of relevant theories and to better understand the outcomes of the case. Most significant, however, is the empirical case study, which is of interest in and of itself and thus the central focus of this paper.

Chapter 3: The Case Study

This chapter is dedicated to explaining the dynamics that unraveled between the Chilean state, the US-based copper MNCs, and the US government. It begins by outlining the history of the MNCs in Chile, and describing the various approaches taken by different presidents beginning in 1950. As will be shown, the policies towards the MNCs implemented by Frei and Allende, represent the periods when the process of nationalization were most definitively pushed forward and are therefore the most critical analytical points.

One noteworthy dimension to this particular study of multinational corporate behavior relative to the host state is the specific approach towards analyzing the impact the MNCs had on the state. MNCs are known for trying to *enhance* their position through altering host country policies for a myriad of reasons, such as to avoid required tax payments, repatriate higher profits, or have less environmental regulation. To do this, they may to try influence policy making through various venues, such as supporting certain local political candidates who represent their interests, form lobbying groups, rely on their home governments to strengthen their bargaining position, and create networks among local corporate elites that will support their interests politically. In this way, the MNC assumes a unique political role in the host country.

While the copper MNCs over their six decades of history in Chile may have behaved similarly, the focus of this paper is geared towards the economic predominance of these MNCs. Indeed, it was the economic prowess of these MNCs that enraged the Chilean populace rather than the direct political actions on the part of the MNCs. Yet, the political role assumed by the MNCs is critical for understanding how the US-based copper MNCs acted in *defense* of their interests. Hence, this study is not primarily concerned with the direct political interference of the copper MNCs on the Chilean state prior to the point when they needed to defend their interests, most blatantly under Frei and Allende between 1964 and 1973. Therefore, when trying to contextualize the role the copper giants played in Chile, it is imperative to understand them as extremely powerful economic forces that were seen as a political threat to the autonomy of the Chilean state and populace.

3.1 Brief History of Copper in Chile

For decades prior to the discovery of copper, Chile's prime export and economic pillar was nitrates. These mines were foreign owned, mostly by the British, and taxes from the industry accounted for 97% of state revenues; the beginning of a legacy of state dependency on foreign investment that would continue for nearly a century.[83] As one author writes, "the era of nitrates in Chile was an era of liberalism run rampant."[84] As the economy was completely dependent on a single commodity, the entire fabric of Chilean society and politics also relied on the fate of this industry. Therefore, a single loose thread in this fabric would lead to a complete collapse in the country's welfare and stability.[85]

Copper was actually first discovered in Chile in the 1880's, but at that time, nitrates consumed the majority of foreign interest and investment. Yet, with the market of nitrates virtually nonexistent, new investors came into Chile for this new natural resource. There were two multinational corporations that dominated the Chilean copper industry: Anaconda and Kennecott. The large mining sector that the US-MNCs comprised were collectively called the "Gran Mineria".

These firms were large oligopolies that were US owned and vertically integrated.[86] They primarily exported crude copper to be processed, refined, and distributed outside of Chile. The copper industry accounted for the second largest US foreign investment for raw materials, after petroleum.[87]

Both Anaconda and Kennecott had an extensive history of copper mining in Chile. Kennecott opened copper production first in 1915, by gaining control of its largest copper mine, El Teniente, from the Guggenheims. El Teniente, under Kennecott management, would become the largest copper mine in the world.[88]

The invention of synthetic nitrates during the First World War left the Chilean economy in a severe crisis. Around this time, the US government provided Chile with a series of new

[83] Roxborough et al., 8.
[84] Ibid.
[85] Ibid.
[86] Moran, *Multinational Corporations and the Politics of Dependence*, 6.
[87] Vernon, 44.
[88] Ibid., 32.

loans and the Chilean government in turn handed over the copper deposits to US multinational corporations.[89] As the Chilean government lacked the resources, knowledge and experience to consider managing the mines themselves they granted foreign multinational corporations relatively uncontested power by placing minimal taxation and regulations on the industry. The copper boom of the 1920's allowed these two firms to accrue large profits, and the Chilean government imposed very few restrictions.

Because of their powerful economic influence, domestic politics often fell subject to the actions of these foreign entities. No decision or policies could be made without calculating the affect on and response of these MNCs, leaving the Chilean government vulnerable to foreign demands. This vulnerability frustrated the Chilean government who on the one hand sought to accommodate the MNCs and reap the benefits of the local activities, yet, on the other hand, wanted them to be more responsive to this country in which they monopolized so much power.[90]

When it first opened for operation in 1915, Kennecott was reported to have paid only 0.8% of its total gross sales to tax.[91] In 1922, after seven years of investment in the copper mines, sufficient time to begin making marginal profits off the investment, the state changed its tax scheme from gross sales to profits. At this point, a more hefty tax rate was imposed on total profits, at 6%.[92] Yet, the state made the decision under great anxiety that Anaconda and Kennecott would leave.[93] The initial actions of the state towards the foreign owned copper industry represent the beginning of the power battle between the state and the foreign MNCs that would define the political history of the Chilean copper industry. In 1925, this rate increased an additional 6%. In 1934, the tax percentage rose an additional 6%, and by 1939, the copper tax rose to 33%. In summation, over a 15 year period, the tax rate on copper profits increased from 6% to 33%, representing a 450% increase in the tax rate, or 4.5 times the original rate.

[89] Roxborough et al., 10.
[90] Moran, *Multinational Corporations and the Politics of Dependence*, 5-9.
[91] Ibid., 22.
[92] Roxborough et al., 24.
[93] Bergsten et al., 132.

Another economic instrument that the Chilean state used to curb MNC power was the exchange rate. The Great Depression severely hurt the Chilean economy, with its value of exports dropping 87%.[94] Consequently the Chilean state imposed an exchange rate purposefully kept low for all dollars the MNCs brought into the country as it was desperate for foreign currency. Between 1932 and 1955, Chile enforced a multiple exchange rate system (MERS) based on export rates that discriminated against all expenditures associated with the production of copper by the Gran Mineria.[95] The intention behind using the MERS was to allow the state to discriminate against specific exports and thereby acquire more foreign exchange that would increase the power of the state over the balance of payments and minimize external influences.[96] Clearly, the government felt it was capable of enforcing harsh policies against the MNCs and deserving of an increased share of the profits.

Chile's economy would have been completely devastated by the Great Depression if not for the sudden demand of copper on the world market. Western multinational corporations permeated into every copper endowed country around the globe. Copper deposits are located in several regions around the world, including the US, however, high-grade copper deposits are only found in few locations.[97] These copper rich deposits are mainly found in Third world countries, such as Chile, Peru, Zaire, and Zambia.[98] One author contends that these countries are so desperate for foreign exchange that they are very willing to succumb to the demands of foreign investors and will continue to produce at a loss when the price drops drastically.[99] Chile was equally desperate for the economic benefits of the MNC, namely to develop the industry. The largest US copper MNCs selected Chile as the place to expand their investments. (See Appendix 1A) For the development of a single mine, MNCs committed five years of labor and millions of dollars in capital investment.[100] Such

[94] Donald W. Baerresen, *The Multiple Exchange Rate System of Chile: 1931-1955*, Latin American Center Essay Series, Center Essay No.2. (Milwaukee: Board of Regents of The University of Wisconsin, 1969), 2.
[95] Ibid., 2-3.
[96] Ibid., 3.
[97] Vernon, 47.
[98] Sigmund, *Multinationals in Latin America*, 262.
[99] Ibid.
[100] Note: Finding the initial investment costs for particular mines was difficult. However, for an idea of mine development costs, the 1972 development costs were over $300 million to produce 100,000 tons a year in a medium-sized mine. (See Bergsten et al., 146).

enormous investments in time and capital required the MNCs to cautiously select host countries where economic nationalism would not threaten their investments.[101]

With the expansion of the electrical industry in the 1930's, world demand for copper soared.[102] Before World War II, copper was not considered a strategic or even critical material for the US, as it possessed enough copper deposits of its own to sustain the industrial demand in the country and simultaneously serve as one of the largest global producers and exporters of the product.[103] After World War II, fear that copper deposits would exhaust led multinationals to move faster and further into copper rich countries where they could feasibly and cheaply extract and export the raw mineral.[104] There was an enormous demand for copper from the US domestic market for both peacetime (mostly electrical manufacturing and construction) and war-time (mostly production of munitions, tanks, airplanes, and naval ships) usage.[105] By the time the Korean War began, US began stockpiling Chilean copper for fear of market shortages.[106] The US wanted a million tons of copper in the 'strategic stockpile' to protect the country from a potential war emergency—a supply that would allow all domestic US industries to function at full capacity for three full years in war.[107] The US consumed 65% of Chile's copper, virtually all produced and managed by Kennecott and Anaconda.[108] (See Appendix 2A & 2B) Hence, Chilean copper supply became integrated into US foreign policy, and the US MNCs became the essential conductors for US supply. [109]

In Chile, US corporations handled every aspect of operation, from the extraction, innovation, production, and transportation, to the distribution of the final product. Until the 1960s, the Chilean copper mines were completely owned by North American firms, Anaconda and Kennecott being the two giants controlling nearly 80% of copper production.

[101] Ibid.
[102] Mira Wilkins, "Multinational Corporations: A Historical Account" in *Transnational Corporations and the Global Economy*, eds. R. Kozul-Wright and R. Rowthorn (New York: Palgrave, 1998), 109.
[103] Bidwell, 103.
[104] Moran, *Multinational Corporations and the Politics of Dependence,* 115.
[105] Bidwell, 107.
[106] Ibid., 125.
[107] Ibid., 128, 13.
[108] Ibid., 107.
[109] Ibid., 125.

The parent corporations for both firms were in New York, and all of the sales and fabricating subsidiaries were either in the US or Western Europe.

Chile's dependence on its copper industry should not be underestimated. The state was highly dependent on the revenues from this single industry to provide for the welfare of its populace. For Chile, these MNCs' activities generated an enormous percentage of its tax revenues and foreign exchange. Copper comprised 80% of Chile's total exports.[110] Tax revenues from these MNCs covered up to 40% of government expenditures.[111] And copper exports under these two firms produced nearly 80% of Chile's currency earnings.[112]

Foreign exchange is especially important for developing countries to undergo industrialization.[113] When revenues were scarce, the government relied on foreign capital through private and public loans to cover its foreign exchange deficit. In order to fill the shortage of resources at home, the state printed money as inflationary deficit financing. Hence, inflation became a grave problem that exacerbated whenever the price of copper fell on the world markets.[114] This made foreign exchange an even more precious resource, and the copper MNCs, the source of this resource, extremely powerful institutions within the country. The reliance on a sole raw material for export creates a "precarious balance".[115] Any slump produced by internal or external forces will inevitably create a crisis for the entire nation and trigger a sequence of descending trends.

Because of its dependence on solely copper to support its economy, the Chilean government lacked alternatives to cope with large deficits other than raising the rate of inflation and then printing money in response to the high inflation rates. This inflationary cycle generated conflict among laboring classes who strained for livable wages that coincided with the rising rates of inflation.[116] The working class grew aware and resentful towards these foreign MNCs who were remitting huge profits at the state's expense, and as resentment escalated, nationalization became the answer.

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[110] Solomon, 75.
[111] Moran, *Multinational Corporations and the Politics of Dependence,* 6.
[112] Ibid., 6.
[113] Paul E. Sigmund. *The Overthrow of Allende and Politics of Chile, 1964-1976* (Pittsburg: University of Pittsburg Press, 1977), 19.
[114] Roxborough et al., 11.
[115] de Castro, 237.
[116] Roxborough et al., 29.

Thus, the state began to exert its power over the MNCs more forcefully. The state was fully aware of the economic stronghold these corporations held over the country, as well as the immense profits these MNCs had accumulated over the past thirty years. In the early 1950's, when copper demand and profits from the industry were at a high, taxes raised to 70%.[117] The state moved to a pegged exchange rate which, when combined with the increased tax rate, allowed the Chilean state to obtain 86% of gross profits from copper.[118] Because of such stringent profit regulations, increased taxes, and harsh rent extraction policies, the US MNCs hesitated to further invest in the industry. Without new investment, Chilean share of world copper production dropped by 9%.[119] Thus, the foreign MNCs still played a critical role in the Chilean economy.

Over the following two decades the struggle for power over the US copper MNCs dominated Chile's political agenda. It also represents a point in Chilean politics when the population took a more active interest in the country's political and economic matters.

3.2 The Politics of Copper, 1950-1964

Salvador Allende, who would assume presidency in 1970, first began his run for presidency with the socialist party in 1942. Allende called for state control of marketing and price setting, which would be supported by creating new trade relations with the Soviet bloc. During the Cold War, all sales to the Soviet Union or Soviet allies were forbidden by the US government.[120] This infuriated the socialist left as an ideological challenge to Chile's own political values and sovereignty. Four presidential elections later, Allende would come to power, complete the nationalization of the copper industry, and begin trading with communist countries. The political developments surrounding the copper industry greatly influenced Chile's internal political climate. This section outlines those developments beginning with 1950 until 1964, before the most drastic measures towards full nationalization were taken. The three political leaders that assumed power during this given time frame espoused particular ideologies regarding the copper MNCs and implemented certain policies that underpinned the bargaining dynamics between the

[117] Ibid., 24.
[118] Sigmund, *Multinationals in Latin America,* 136.
[119] Ibid.
[120] Moran, *Multinational Corporations and the Politics of Dependence,* 76.

Chilean state and the US MNCs. Bear in mind that the Chilean presidential term lasts for six years without subsequent reelection.

The interesting twist underlying the Chilean copper case is US government involvement. From the onset, copper was seen as a 'strategic resource' for the US. Hence Chile became a strategic country for the US.

The US government had four objectives in Chile: (i) ensure continued supply of large amounts of copper for national stockpile (ii) assure better treatment for US copper MNCs, namely Anaconda and Kennecott, specifically related to tax discrimination and exchange control policies (iii) prevent the USSR from purchasing copper from Chile, and extending its communist influence in the country (iv) aid Chile in abating its precarious inflation level.[121] At the time, there were rumors that the USSR was ready to purchase large amounts of Chilean surplus copper.[122] At the time, Chile's aim was to maximize revenues from the US copper MNCs and obtain as much foreign exchange from copper profits as possible.[123] In June 1950, the US government set the price of copper at 24.5 cents per pound. Outraged, Chile demanded a price increase at the Washington Conference of 1951.[124] To pacify Chilean demands, the US opted to allow 20% of Chilean sales, referred to as "free sales", to be placed on the European market at whatever price Chile desired.[125] Chile was able to market its copper at 55 cents per pound on the European market. The increased revenues further enticed Chile to rid the US from its copper industry and gain full control over all decisions regarding its economic growth. The agreement also stipulated that US MNCs would expand production in Chile to increase US supply, and also forbade Chilean sales to the Soviet bloc.[126]

Before ending his term in 1952, President Gabriel Gonzalez abandoned the consensus reached at the Washington Conference and made the first major attempt towards *independencia* -- a state monopoly over 100%, not 20%, of copper sales. While Gonzalez's approach was well intended and politically popular, his reforms failed because the Chilean

[121] Bidwell, 126.
[122] Ibid.
[123] Ibid.
[124] Moran, *Multinational Corporations and the Politics of Dependence*, 87.
[125] Ibid., 87.
[126] Bidwell, 127.

state lacked experience and expertise in "free market" interaction, such as international marketing, building new commercial and trade partners, and identifying international demand.[127] Unversed in the dealings of the international market, Chile accumulated a massive surplus of copper.[128] Diminishing sales caused the Chilean copper industry to decline rapidly causing its share of world production to drop nearly half from what it was at the end of the war to 14% in 1954.[129] Likewise, absolute returns also fell. Taxation requirements for Anaconda and Kennecott had reached 92% prior to the change, which had secured a substantial amount of revenue for the Chilean government. Now, without this revenue, Chile's economy was in jeopardy.[130]

At the end of 1952, Carlos Ibanez was voted into power on a purely populist platform, predominantly supported by working classes and trade unions. Yet hyper-inflation forced Ibanez to leave his populist position and enforce harsher and more conservative policies.[131] Chilean copper revenues had dropped with the end of the Korean War, and inflation had risen to 71% in 1954 and 84% in 1955.[132]

Despite Gonzalez's revolutionary movement away from dependency only three years prior, Ibanez entirely overturned the ideal. In 1955, Chile returned to the bargaining table and introduced the *Nuevo Trato*, or the "New Deal", for US mining MNCs. The *Nuevo Trato* called for regulated corporate behavior, targeted at attracting new investment and regaining its share of the world copper market. In order to do so, the Chilean government had to lower the tax rate and eliminate the artificially imposed exchange rate which was about one-sixth the free rate.[133] The state was able to attach a surtax of 25% which would gradually lower as production increased.[134] This was intended to encourage the companies to expand their production. Additionally, the deal allowed for an accelerated depreciation rate for all new investments. All of these legislations were created to make an attractive investment climate that would encourage multinationals to expand their current investments, make new investments, and increase production. (See Appendix 3A) However, the Chilean

[127] Moran, *Multinational Corporations and the Politics of Dependence,* 91.
[128] Bidwell, 127-128.
[129] Moran, *Multinational Corporations and the Politics of Dependence,* 92.
[130] Ibid., 93.
[131] Roxborough et al., 35-36.
[132] Ibid, 36.
[133] Sigmund, *Multinationals in Latin America,* 137.
[134] Ibid.

balance of payments was still based on the production of one resource and the decisions involving production were still entirely controlled by foreigners, ensuring that the copper MNCs would move to the political forefront in the near future.[135]

The legislation also accounted for another oversight not previously considered by the state. One of Anaconda's key mine holdings, Potrerillos, exhausted in the early 1950s. Another mine, El Salvador, was to replace Potrerillos, but the state needed Anaconda's investment to make it productive. The new mine was essential to maintaining the level of production that had sustained Chile's economy for decades.[136] This was a key reason underlying the rationale for such liberal legislation. This indicates that the state was still dependent on the MNCs for the financial capital and technical expertise involved in developing a new mine.

With all things in their favor, US MNCs confidently entered negotiations and were granted all requested concessions, including a lower tax rate at 50%.[137] Hence, the first step towards *independencia* resulted in a great leap backward towards *dependencia*. Sentiments of *dependencia* were reinforced and Chilean moral reached a new low.

The 1958 presidential election shocked the Chilean bourgeoisie and the US government and the US multinationals. Jorge Alessandri won the election with 31.6% of the total votes (389,909 votes), followed by a close second by Salvador Allende with 28.5% of the total votes (356,493 votes), and Eduardo Frei, who would win the 1964 election, came in third with 20.5% of the votes (255,769 votes).[138] Although their candidate had won the election, a Marxist had come very close to winning the election. Clearly revolutionary change was lingering in the near future. The election also marked the beginning of a highly polarized political society.

At this point, Chile was the country with the seventh largest American investment in the world, predominantly in copper mines ($483 million out of $736 million total investment in 1958).[139] And American investment comprised 80% of all foreign investment in the

[135] Sigmund, *The Overthrow of Allende*, 20.
[136] Sigmund, *Multinationals in Latin America*, 136-137.
[137] Moran, *Multinational Corporations and the Politics of Dependence*, 97.
[138] Ibid, 37.
[139] Roxborough et al., 37.

country.[140] Prior to the 1958 election, the US had considered Chile to be one of its strongest allies in Latin America, yet the marginal loss of the Socialist party invoked apprehension, both economically and politically. The following year, Fidel Castro came to power in Cuba. The US, in the heat of the Cold War, massively increased its support to the Alessandri regime--politically, technically, financially and culturally.[141]

The election results also concerned investors. As the political fervor behind the copper industry continued to escalate, the US-based copper MNCs grew nervous. The two MNCs assumed two starkly different positions. Anaconda was unwilling to divest or relinquish sole control over its holdings and opted to increase its investments and expand production. In sharp contrast, Kennecott realized the precariousness of the situation and sought out ways to minimize possible risks by divesting itself from Chilean operations.[142] The MNC wanted to reach an agreement with the Chilean state that would minimize the potential risks while providing the financial backing needed to continue with production.[143]

The Alessandri regime continued with the policies of Ibanez, strictly enforcing a free market principle and further opening its borders to foreign capital investment. US investors and politicians were well pleased with Alessandri's "growth and stability" program. Between 1950 and 1959, the earnings of the major American MNCs increased their earnings by 90%.[144] Alessandri saw an increase in foreign investment as a surefire way to prevent inflation rates from rising. In order to attract more foreign investment, Alessandri issued a revamping of Chile's infrastructure which required massive state expenditures. To pay for these extensive renovations, Alessandri requested foreign loans from his American allies. Chile's foreign debt rose from $569 million when Alessandri took office in 1958 to $1896 million when he left office in 1964.[145] American MNCs forged strong linkages to Chilean monopolies creating a surge of private capital.[146] This was encouraged by favorable profit repatriation and a benign tax scheme. Hence, Chile was once again tangled

140 Ibid.
141 Ibid.
142 Krasner, *Defending the National Interest*, 234.
143 Ibid.
144 de Castro, 240.
145 Roxborough et al., 38.
146 Ibid.

in a web of dependency spurred by the various policies involving the US multinationals corporations and the US government.[147]

American assistance allowed Alessandri's growth program to be successful, but only superficially and briefly. Copper production increased considerably, however the low base production figure allowed the MNCs to expand production without having to increase their investments.[148] With lowered tax rates and expanded production, the companies accrued massive profits under the Alessandri regime, while investing minimally back into the Chilean economy. The Alessandri government attempted to pressure US copper companies to increase their investments and involve Chile in the more advanced levels of copper production to make Chile more self-sufficient. Yet as production increased, the major copper companies remained vertically integrated and Chilean nationalists adamantly called for expropriation of the MNCs.[149] Both Anaconda and Kennecott, rather than investing in Chile, opted to invest in new refineries back in the US, which when discovered, further infuriated the Chilean people.[150] Although Chilean tax revenues increased almost 300%, nationalists complained about the doubling of profits the companies enjoyed.[151] Opposition towards MNCs became a popular platform, as well as a politically useful and powerful tool for politicians and nationalists.[152]

The position of the MNCs must also be considered. Even though the MNCs accrued large profits under Alessandri, the election results foreshadowed an uncertain political climate as did the increasing demands among Chilean nationalists for expropriation. The MNCs, particularly Kennecott, grew fearful of possible expropriation. Expanding investments in such a politically volatile climate that directly threatened their investments was not a risk the MNCs were willing to take. The MNCs recognized that their bargaining power against the state was once again diminishing.

[147] Ibid.
[148] Sigmund, *Multinationals in Latin America,* 137.
[149] Skidmore and Smith, 128.
[150] Sigmund, *Multinationals in Latin America,* 138.
[151] Ibid.
[152] Spero and Hart, 279.

3.3. The 1960's: Towards Nationalization

The social backdrop of the 1960s helps to contextualize the events that followed regarding the copper industry and the domestic political climate that prevailed over the following decade. Chile had reached a level of economic development that, although not industrial, placed it farther ahead of most of the developing world. Yet ironically, it was this semi-periphery status that frustrated Chileans, resulting in the constant critique of the country's economy and society and a persistent dissatisfaction with its intermediary position.[153] This dissatisfaction was expressed primarily during its presidential elections. With an overall level of literacy at 84%, the Chilean populace was broadly educated, politically conscious, and aware of the injustices in their society.[154] The population saw economic development as the panacea to its social ills. Hence, copper, the basis of Chile's economy, became a central issue in the upcoming electoral debates and the country united under a banner of nationalism.[155] Chileans called for expanded production, domestic refining, and most importantly, a greater share in the profits which would require greater national control.[156]

On the global political front, the revolution in Cuba was well underway and the nationalistic movement within Chile frightened the US government and US investors who strategically could not afford a communist revolution in Chile. Around this time, the US Congress created the Hickenlooper amendment that stipulated that the US government would immediately halt all bilateral aid to any country that expropriated US investments without providing fair compensation.[157] Yet, this amendment only heightened confrontation from the developing world that attacked the amendment as too economically aggressive, making its implementation ineffective.[158] As frustrations and resentment grew in Chile, the US needed a more liberal alternative to abate the population and disguise its own hidden agenda.[159]

The US found this alternative in Eduardo Frei, of the Christian Democratic Party. The US shifted its support from the conservative Right to the moderate Left. It was not so much

[153] Sigmund, *The Overthrow of Allende*, 20-21.
[154] Ibid., 21.
[155] Ibid., 22.
[156] Sigmund, *Multinationals in Latin America*, 138.
[157] Bergsten et al., 26. Note: The Hickenlooper Amendment was futile in implementation. It was only applied once in its existence.
[158] Ibid., 390.
[159] Roxborough et al., 39.

that the US particularly liked Frei; he simply represented the better of two evils- the worse evil being the ever persistent and present Socialist Party candidate, Salvador Allende. Communists and socialists supported Allende's calls for immediate nationalization, yet Chile was still callow in its technical and management capacity, and such radical measures would ensure a loss in markets, technology, and investment capital that was needed to develop its own refining capacity.[160] The middle-ground man, Eduardo Frei introduced a more moderate anti-multinational policy, known as "Chileanization".

US MNCs also supported Frei, hoping for some form of a compromise with the state under Frei that would undoubtedly be better than the complete expropriation of their investments under an uncompromising Allende. To the great relief of US MNCs, the US government, and the members of the Chilean Right who withdrew their support from their more conservative candidate to prevent a Communist victory (in fact the conservative candidate withdrew from the race to support Frei), Eduardo Frei and the Christian Democratic Party won the 1964 elections by an overwhelming majority of 56%, an absolute majority of support and a huge victory given Chile's multi-party political scheme.[161]

3.4. Frei and Copper, 1964-1970

Frei's 'Chileanization' program sought to accomplish similar objectives of the *Nuevo Trato* through formal negotiations with the MNCs.[162] His primary objectives were to obtain majority state ownership of the mines, increase Chilean production to 1 million tons, and refine all copper in the country.[163]

The US government supported Frei and his reforms. His defeat over Marxist Salvador Allende made him the best hope of abating the communist movement within the country. Frei's Chileanization was more moderate than the initiatives proposed by the socialist and communist parties, who called for immediate nationalization and expropriation.[164] His

160 Sigmund, *Multinationals in Latin America,* 139.
161 Roxborough et al., 39. Sigmund, *Multinationals in Latin America,* 133.
162 Moran, *Multinational Corporations and the Politics of Dependence,* 127.
163 Corporación Nacional del Cobre de Chile (CODELCO), Codelco: Produciendo Futuro, *The Corporation History*. [Online] Accessed on January 10, 2006.
http://www.codelco.com/english/la_corporacion/fr_historia.html
164 Moran, *Multinational Corporations and the Politics of Dependence,* 204.

policies, however, were the harbinger for the nationalization process that was fully undergone by Allende six years later.

Chileanization of copper called for 51% of ownership to be sold to the Chilean state. To encourage the compliance of the MNCs, Frei offered tax reductions and more flexible regulations on profit remittances. Frei's initiatives were quickly pushed forward by the sudden decision of Kennecott to sell the majority share (51%) of its largest Chilean subsidiary, El Teniente, the world's largest underground copper mine. This came as a shock to everyone, including the Frei administration and Anaconda. For the first time in Chile's history, the Chilean state held some ownership of its own copper mine, and unimaginably, it was suddenly majority ownership. In fact, it was the first time any other entity aside from a US-based multinational had held any percentage of ownership of a major Chilean copper mine.

The basic agreements were made only six weeks after Frei took office. Kennecott's willingness to comply with this new reform made Chileanization appear an immediate success. Anaconda could not fathom relinquishing any equities, let alone the majority share and thus sovereign control over its internal affairs, to the Chilean or any government.[165] Kennecott's decision to move into a partnership with the Chilean government was based largely on the political and economic instability within Chile and the unpredictable status of Chile-US relations. Kennecott's reaction to Chileanization was also largely motivated by the foresight that it could not rely on the US government for potentially crucial support in the future.[166]

Essentially, Kennecott relinquished its holdings to the Chilean state because of the uncertainties of its investments and because at the time obtaining a fair compensation seemed likely. Conscious of its declining bargaining position against the state, the MNC opted to compromise for fear that it would otherwise lose completely. Fully aware that the Frei government was the more compromising alternative to a communist or socialist political regime, Kennecott utilized all bargaining leverage it could. The corporation proved extremely prudent in the negotiation process to ensure a just compensation that

[165] Ibid, 129.
[166] Krasner, *Defending the National Interest,* 233.

would cover its investments. For its first order of business, Kennecott negotiated for the 51% purchase price to be calculated after a revaluation of the book value of its investment, which raised the value of its investments from $69 million to $160 million, leaving the state obligated to pay $81.6 million, an amount that would cover the entire cost of its initial investment.[167] Kennecott insured its further investments with the US AID Investment Guarantee Program and tactfully finessed the Chilean state into guaranteeing $110 million dollars for all expansions in production.[168] Additionally, Kennecott received a loan for $45 million for future production from European and Asian copper consumers and banks.[169]

While Kennecott appeared to fully participate in the Chileanization program as a genuine 'partner' of Chile, in reality, Kennecott refrained from personally funding any new investments and making further commitments in Chile, preparing itself for the worst possible scenario--the risk of expropriation. At the same time, by ensuring production through loans from various countries – the US, Europe, and Japan - the risk of expropriation for the Chilean state would be much higher.[170] This proved a critical component to the eventual compensation that ensued under Pinochet. Kennecott also maintained management control of its projects.[171]

While Kennecott pulled out of Chile, Anaconda in contrast, did just the opposite. By the time Frei came to power, Anaconda had become far more involved - 51% of its total production comprised 67% of its total earnings.[172] Anaconda committed to a majority self-financed expansion program, at $131.25 million.[173] The MNC espoused the same strategy — direct equity investment, foreign control, and corporate sovereignty.[174] But circumstances had changed and its strategies had not adjusted accordingly. Ultimately, Anaconda either lacked the foresight of Kennecott to predict the political upheaval that was forming, or believed that the power of the MNC was stronger than that of the state.

[167] Sigmund, *Multinationals in Latin America,* 141.
[168] Ibid.
[169] Ibid.
[170] Solomon, 117.
[171] Ibid.
[172] Krasner, *Defending the National Interests,* 233.
[173] Ibid., 136.
[174] Ibid., 138.

Under Chileanization, Kennecott received a lower tax rate for its profits from production and a larger book value on its remaining 49 percent of shares. It actually generated higher profits, fomenting greater disapproval among the Chilean populace. Chilean disapproval escalated again when the price of copper rose on the international market and the US MNCs retained a lower price for copper sold to the US. The Kennecott-Frei agreement was arranged at 29 cents per pound at the time of the deal, yet three years later, primarily because of the Vietnam War, copper was sold on the London Metals Exchange for 90 cents per pound. However, the price of Chilean copper exported by Kennecott was deliberately kept lower for the US government.[175] This further outraged Chilean nationalists, and in 1967, the Chilean government assumed full control over copper pricing, and based it on the London Exchange price. Yet this increase in price, coupled with the expansion in production and the lower tax rate, only increased profits for the foreign MNCs. Profits doubled from 1965 to 1966, and doubled again in 1967.[176]

Since 1910, when the US MNCs first invested in the Chilean copper industry, billions of dollars had left Chile in profits. Between 1953 and 1968 US copper MNCs made a profit of $1,036 million and only reinvested $71 million back to Chile, including new investments. (See Appendix 4A) Likewise, these MNCs did little to generate employment or spur growth in other sectors of the economy. As the fabrication and the refining were done outside of Chile, the MNCs exported mostly raw copper. Frei also wanted to increase copper production, and as part of the plan, US MNCs agreed to double production between 1966 and 1972 as part of an expansion program. Yet, the primary funding of this expansion program came from the Chilean state. The Chilean government guaranteed all loans that were from the Export-Import banks which covered 75% of expenditures, as well as making 23% of direct contributions. That left the companies with only 2% to finance the expansion program themselves.[177] Under the Frei regime, Anaconda made $426 million in profits and Kennecott made $178 million.[178] Needless to say, the corporations greatly benefited under Chileanization.

[175] Sigmund, *Multinationals in Latin America,* 142.
[176] Ibid.
[177] Roxborough et al., 89.
[178] Ibid., 89.

However, Chileans also benefited immensely. Under Chileanization, Chileans gained the valuable experience, expertise and confidence in the copper industry. By 1966, Chileans began to fill top management positions, learning the inner dealings of marketing, construction, finance, and sales—the very aspects of the production cycle that had caused their downfall in 1952. Kennecott reported having only two Americans of its 10,000 employees working in Chile. Additionally, the copper refining process within Chile had tripled under the program.[179] But the most significant aspect of the production process that Chile seized control of was setting the international price policy.[180] Overall, the Chileans were reclaiming the copper industry as their own and doing so with tremendous success.

Chilean competency nurtured a sentiment throughout the nation that *dependencia* was nearly over. No longer were MNCs needed for economic growth and development. The large US MNCs were perceived as contributing very little to the country's welfare and the advantages of being in full control of the copper industry were more enticing than ever before. Alas, Chile could taste independence, and act as the sovereign power in control of its own destiny.

Production was thriving when the first attack by the Chilean government on Anaconda occurred. The government imposed a new surtax, arguing that the inviolability clause of the past no longer applied. Both the Chilean government and the MNCs realized that the bargaining power of the multinationals was declining quickly. Their investments were sunk and their role in the local economy was no longer needed. Output was an all time high and Chileanization had been successful for all parties, yet Chileans argued they should relish even more fully in the benefits.[181] The nation was ripe for the full take over of the industry—the time for *nacionalizacion* had arrived.[182]

In 1969, 80% of the Anaconda Copper Company's profits from its global investments came from Chile.[183] Frei called Anaconda to the bargaining table and pushed for Chileanization,

179 Sigmund, *The Overthrow of Allende*, 80.
180 Ibid., 142.
181 Ibid., 147.
182 Ibid., 146.
183 Roxborough et al., 44.

using the Kennecott 51% equity partnership as the model. Yet, because of its recent financial commitments, Anaconda refused to concede control over production.

Frei persisted on Anaconda's nationalization till the end of his of term. In 1969, the last year of his term, Frei was able to increase taxes significantly. Frei was motivated to take further measures before the end of his term primarily because of the internal politics within his own party whose members began advocating for full nationalization, but also by the increasing demands from the electorate and the high price of copper, which had stabilized at 62 cents per pound.[184] Hence, Frei during his state-of-the nation address in May of 1969, stated the following: "...I consider it necessary that the copper companies that have not participated in the past in the Chileanization program now enter into it in order that this policy, which was proposed to the country and which it approved in granting me my office, may be applied across the board without exception."[185] This served as a warning to Anaconda that more drastic measures would be taken if it refused to comply with Chileanization.

Shortly after Frei's address, a twenty-four hour student strike was held, demanding the full nationalization of the Anaconda mines.[186] Although Frei had already entered into negotiations with Anaconda, a number of bills from the left and Frei's own party were proposed in Congress calling for nationalization. The political pressure on Frei to nationalize was mounting. Theodore Moran, in reference to this point in Chile's history, writes "This might be the rare historical moment, many argued, when, through an act of national will, the country could end its condition of dependency forever."[187]

Using the threat of nationalization, Frei brought Anaconda back to the bargaining table. Although resistant, Anaconda finally conceded to the joint venture project that Frei proposed, granting 51% of its holdings to the Chilean state. Anaconda's compliance was made based on two factors: the threat of nationalization and the adamant pressure from

184 Sigmund, *The Overthrow of Allende*, 80.
185 Eduardo Frei in the state-of-the-nation address, *Quinto mensaje del presidente de la república* (Santiago: Departmento de Publicaciones de la Presidencia, 1969).
186 Sigmund, *The Overthrow of Allende*, 82.
187 Moran, *Multinational Corporations and the Politics of Dependence*, 144.

American Ambassador Edward Korry.[188] The US government had no intention of assisting Anaconda enhance its bargaining leverage against the Chilean state. US pressure eroded Anaconda's bargaining position by coercing the MNC to meet the demands of the Chilean state, regardless of the best interest of the MNC. Additionally, because Kennecott had agreed to Chileanization, it was virtually impossible for Anaconda alone to obtain the support of the US government against the Chilean state, particularly when US concern foremost revolved around an ideological battle and not a corporate one.[189]

Hoping to ease the political furor in Congress, in his party, and among the public, Frei called the final agreement an "agreed upon nationalization" (in Spanish: *nacionalizacion pactada*).[190] The plan, in reality, was immediate Chileanization with the possibility of nationalization later. It essentially took the form of a fade-out divestment scheme.[191] The plan included the buy out of 51% of Anaconda's holdings of the book value that would be paid from the profits of the mines over the next 12 years, and allowing Anaconda to remain in charge of marketing, sales and overall management.[192] Management control proved a critical point in the bargaining agreements of both Kennecott and Anaconda. For the MNC, control of management assures that the company will not go bankrupt because of mismanagement out of its direct control.[193] In fact, as demonstrated by Anaconda, it may be willing to forgo ownership for managerial control. The logic behind management control is somewhat obscure as the management goals of both the state and the MNC seem to be parallel: to maximize profits, production, and efficiency.[194] For the MNC, with a 49% share of ownership, control over operations is critical to ensuring its remaining investment.

The details of the Anaconda-Frei agreement were as follows: Anaconda's three largest mines would fall under immediate ownership of the state and payment for the mines would begin in June of 1970, one year from the date of the agreement. In 1973, the government could purchase the remaining shares after the initial payment for the 51% had been completed. The tax rate would be calculated on a sliding scale depending on the

188 Sigmund, *Multinationals in Latin America,* 143.
189 Krasner, *Defending the National Interest*, 234.
190 Sigmund, *The Overthrow of Allende*, 82.
191 Solomon, 112.
192 Sigmund, *Multinationals in Latin America,* 143.
193 Ibid., 293.
194 Sigmund, *Multinationals in Latin America,* 294.

international market price of copper, but would be limited to 70% when the price was over 50 cents per pound.[195] Anaconda, in exchange for its cooperation, was granted a management contract for a fee of one percent of total sales. This was enough to calm the general populace, allowing the furious debate over the copper MNCs to subside briefly.

Indeed, for Chile, the nationalization of Anaconda meant that the Chilean state for the first time in its history had control of its primary industry. In his final year of his presidency, Eduardo Frei declared Anaconda's nationalization a "second independence."[196] Weeping in public, Chilean Minister of Mines Alejandro Hales claimed he had "fulfilled a lifelong dream."[197]

This agreement was the symbolic departure from dependence. The majority ownership had been achieved in the most important and symbolic deposits: Chuquicamata, El Teniente and Salvador.[198] Likewise, the success of the agreement was demonstrated tangibly through the massive economic gains of the state, which leapt from $200 million in 1968 to $353 million in 1969 after negotiations.[199]

Anaconda's displeasure with the settlement caused it to retaliate, but the MNC had very limited bargaining power. It did, however, after agreeing to Chileanization in 1969, extract only the most easily available and high-quality ore and did little to preserve the maintenance of the mines.[200] Later, Allende would try to hold Anaconda accountable for its apathetic practices when determining the final compensation figures.

Economically, Frei's term and Chileanization were a huge success. The balance of payments, by the support of US AID and the high global market price for copper which at one point reached an exceptional 98 cents per pound, submerged from its prior debt. This also helped reduce and more or less stabilize the rate of inflation.[201] Nevertheless, a more radical leader from a more radical party was gaining political popularity, and indication that the majority of Chileans was dissatisfied with Frei's performance and wanted more from its

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195 Sigmund, *The Overthrow of Allende*, 82.
196 Moran, *Multinational Corporations and the Politics of Dependence,* 146.
197 Ibid.
198 Corporación Nacional del Cobre de Chile (CODELCO), [Online]. Accessed on January 10, 2006.
199 Sigmund, *Multinationals in Latin America,* 143.
200 Ibid., 145.
201 Sigmund, *The Overthrow of Allende*, 50.

political leadership. Frei became a controversial figure, and both the left and right found fault with his programs. The left argued that his policies espoused neo-capitalism by being excessively generous with compensation had further empowered US multinationals and reinforced Chile's dependence.[202] The right argued that Frei's policies raised the expectations of the left that only an expanded role of the state could fulfill, thus opening the door for a Marxist leader to assume power.[203]

3.5. The US and Frei, 1964-1970

The US government still had vital strategic interests in Chile's copper industry and pursued arrangements that would allow them to satisfy domestic needs. In 1966, President Lyndon Johnson offered a loan for $10 million over 40 years at less than 1% interest from the Agency for International Development (AID) in exchange for allowing Anaconda to sell 100,000 tons of copper to the US at the domestic producer's price, 36 cents per pound, when the price was over double on the London Metal Exchange (LME).[204] President Frei agreed, however, soon after the transaction went through, he pushed the MNCs to sell at the LME price in order to garner higher profits. The companies assented, based on the rationale that they would be taxed the same regardless.[205] Yet official US interests moved beyond strategic interests in the industry during Frei's term as the threat of communism became a closer reality.

Starting with Frei's campaign and lasting through his term in power, US involvement in Chilean internal affairs heightened. Official reports taken after the 1973 coup by the US government indicate the extent of US involvement. Over 50% of Frei's campaign funds, approximately $2.6 million, during the 1964 election came directly from the CIA. Additionally, the US resources influenced the 1965 and 1969 congressional election outcomes. The US also created and supported a propaganda campaign using non-communist papers, such as *El Mercurio* Chile's most widespread daily paper.[206] During

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202 Ibid., 23 and 124.
203 Ibid., 23.
204 Bergsten et al., 139.
205 Ibid.
206 US State Department, Church Report on "Covert Action in Chile 1963-1973" to United States Senate. *Staff Report of the Select Committee to Study Governmental Operations With Respect to Intelligence Activities*, December 18, 1975. [Online] Accessed on October 30, 2005. http://foia.state.gov/Reports/ChurchReport.asp#E.%20Covert%20Action%20During%20the%20Allende%20Years,%201970-1973

Frei's term the US is cited to have interfered extensively using various techniques, such as the media, private sector organizations, local political parties, local elections, local institutions, and eventually through the support of a military coup.[207]

The US government also helped to make Chileanization a success. The US allowed for a \$200 million loan to be granted from the Export-Import Bank for copper expansion programs. The US Treasury, although not recorded to having pressured Kennecott to relinquish ownership as adamantly with Anaconda, did allow for the corporation to use losses from South African gold-mining operations during the 1950's to lessen the capital gains tax liabilities from the sales of its holdings.[208] Yet the most significant US aid came from both the government and private investors under a development aid program known as the Alliance for Progress.

Shortly after John F. Kennedy began his presidency, he created the Alliance for Progress which was created to assist in social and economic development throughout the continent so as to prevent communist movements or alliances with the Soviet Union.[209] The specific intention was to demonstrate that democratic governments and open economies could achieve the same social reform that Marxists claimed could only be realized under communism. The grant was set at \$20 billion over ten years to assist in mostly social reforms, specifically housing, education, and land tenure. Half the amount was guaranteed by the US government, and the other half from private sources within the US. In order to encourage US multinationals to invest more in the region, the US government extended its Agency for International Development (AID) Investment Guarantee Program to Latin America, with a guarantee of US financial backing in case of expropriation.[210] Thus, the Alliance for Progress had dual purposes: to protect its investments in Latin America (the economic component) and to quell the threat of communism that was in full force in Cuba (the political component). The US government believed that furthering economic alliances would generate the political loyalty of Latin American countries, and reinforce the ideals of an open, free market economy.

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[207] US State Department [Online].
[208] Krasner, *Defending the National Interest,* 232.
[209] Sigmund, *Multinationals in Latin America,* 132.
[210] Ibid.

Because of its long standing commitment to constitutional democracy, and for fear of a radical political change in the near future, Chile, under Frei, became the testing ground for the Alliance.[211] The platform of the Christian Democratic Party seemingly paralleled the tenets of the Alliance, calling for social reform within a democratic context. Yet Sigmund addresses the conflicts that arise for the US government between supporting a reformist democratic government and defending US investments, namely protecting the interests of the copper companies and supporting the partial nationalization process initiated under Frei through Chileanization.[212]

Frei openly welcomed the Alliance for Progress, re-emphasizing Kennedy's words: "Those who make peaceful revolution impossible will make violent revolution inevitable."[213] For Frei, the Alliance coincided with his primary objectives for economic development, redistribution of income, and utilizing foreign capital for the growth of the national economy.[214] In order to uphold the principles of its electoral platform, the Christian Democratic Party needed to integrate groups that felt marginalized in the political process, and by doing so, suppress revolutionary sentiments and expand their political support base.[215] For both Frei and the US government, this was a critical objective of the Alliance. As Alessandri's excessive spending had left the country highly desperate for foreign exchange, Chile gladly accepted the financial support of the US, becoming the principal recipient of aid under the Alliance.[216]

Coinciding with the Alliance for Progress' social reform goals, land redistribution and agrarian reform were central components to Frei's social agenda. However, the US government's support of social reform in Chile, particularly land reform, hurt MNC position with conservative business groups who were the major land-owning members of society. Previously, these groups had been aligned with US interests, and Anaconda and Kennecott had been able to rely on the political backing of these groups. However, when

[211] Ibid., 133.
[212] Paul E. Sigmund. *The United States and Democracy in Chile* (Maryland: The John Hopkins University Press, 1993), 3.
[213] John F. Kennedy as cited in Eduardo Frei Montalva, "The Alliance that Lost its Way" in *Latin American Radicalism: A Documentary Report on Left and Nationalist Movements*, ed. Horowitz, Irving I., Castro, Josue and Gerassi, John. (New York: Random House, 1969), 458.
[214] Frei "The Alliance that Lost its Way", 458.
[215] Roxborough et al., 59.
[216] Sigmund, *The Overthrow of Allende*, 26.

the US government threw its support behind Frei's reform process, the conservatives retaliated against the US-based copper MNCs, politically tying guarantees for the MNC rights with the ending of the land reform process. Yet the land reform program persisted, and in 1969, the conservative National Party declared it would not support Anaconda against the government's majority control takeover.[217] The once ardent domestic allies of the MNCs turned against them, and traditional upper classes took the lead in the movement to restrict MNC activities.[218] The conservative resentment towards US policy was most blatantly realized when Allende's nationalization process was unanimously passed in the Congress, despite the fact that the majority seats were held by Christian Democrats and conservatives.[219] US government support for land reform essentially cost the MNCs the political backing they had in the country.[220]

Financial aid was also provided through official US foreign aid programs. Between 1962 and 1969, Chile received more than one billion US dollars in direct assistance, the highest per capita financial aid in Latin America. In 1968, food donations from both the public and private sectors of the US fed 25% of the Chilean population. In 1966, the Johnson administration negotiated the sale of 100,000 tons of copper to American-based fabricators. Additionally, Chile received a $10 million US loan and Anaconda agreed to pay additional taxes of $3.5 million.[221]

The consequences of supporting the various reform programs, although not intentional on behalf of the US government, severely weakened the bargaining leverage of the MNCs. US government actions attest that MNC interests were not a priority on its agenda. For Frei and the Chilean people, the MNCs represented a dominant foreign force that obstructed in the social reform goals of the state, economically, politically, and psychologically. The US government also supported Frei's social reform program, a stance that was inherently incompatible with the position of the MNCs.[222] Therefore, the US government had to choose which greater evil to fight and based its decision on the greater political concern, that being the spread of communism and not on the private interests of the MNCs. As one

[217] Krasner, *Defending the National Interest,* 233.
[218] Solomon, 94-95.
[219] Krasner, *Defending the National Interest,* 233.
[220] Ibid.,272.
[221] Ibid. Moran, *Multinational Corporations and the Politics of Dependence,* 142.
[222] Krasner, *Defending the National Interest,* 233.

seeks to interpret the reasons behind the US anti-communist furor, the long term economic concerns that underpin communism and challenge the doctrine of capitalism and an open economic system may have been the pith of US concerns. The more important point, however, is that the immediate economic concerns of particular US-based corporations was not a priority, nor were the benefits that come with having national corporations abroad, such as a lower copper price.

3.6. The 1970 Elections

By the time the 1970 elections began, Chile was on the precipice of nationalization and moving full-speed toward this fate, a phenomenon some scholars call the "ratchet effect."[223] Even the right supported nationalization. Radomiro Tomic, the Christian Democratic candidate, voiced dissatisfaction with the Chileanization Program, calling for nationalization of the copper industry with equitable compensation for the creation of a "New Economy".[224] And Jorge Alessandri, the most conservative candidate and long time ally of Anaconda, even vowed to proceed forward with nationalization.[225] As the industry had been largely nationalized by Frei, it was clear that no political party, regardless of its political position, would continue to accept any foreign ownership over the mines.[226] Clearly, the MNCs had lost all bargaining power.

The fundamental difference between Allende's policy and that of Tomic was over compensation; the extreme left called for little to none, while Tomic supported fair compensation.[227] This ideological difference caused the critical centrist party, the Radical party, to join into an alliance with the socialist and communist parties forming the Unidad Popular.

In the 1970 Presidential election, there were three major candidates: former President Jorge Allessandri on the right, the moderate Tomic of the Christian Democrat Party, and the Marxist Allende, the fourth time representative of the Unidad Popular coalition of the left. No candidate won an absolute majority; Allende won 36.1 percent of the votes followed

[223] Sigmund, *Multinationals in Latin America,* 147.
[224] Ibid.
[225] Bergsten et al., 134.
[226] Krasner, *Defending the National Interest,* 277.
[227] Sigmund, *Multinationals in Latin America,* 145.

closely by Alessandri with 34.9 percent. Congress was left with the final decision, and it was ultimately the centrist Christian Democrats who threw their support behind Allende which decided the election.[228]

3.7 Allende and Copper, 1970-1973

In 1970, Salvador Allende became the first democratically elected Marxist President in history. Chilean economist Alberto Baltra has estimated that over the last thirty years prior to Allende's nationalization, the copper MNCs had derived over $2 billion in net profits, tantamount to 40 percent of the total value of copper exports over that time and three times the total amount reinvested in Chile.[229] Upon entering office on November 3, 1970, Allende immediately began to implement the copper nationalization program that Unidad Popular had promised during the electoral campaign.

The amendment included a number of provisions, including compensation over a thirty year period with at least three percent interest on the book value. However, the various costs borne from "amortization, depreciation, fines, exhaustion of mines, and reduced value due to obsolescence" were to be deducted from the due compensation, in addition to "all or part of the excess profits which those enterprises may have obtained."[230] Any revaluations of the book value after 1964 were to be excluded in order to reduce the generous increase in book value Kennecott had been granted under the Chileanization of El Teniente.[231] The amendment also limited the number of appeals the MNCs could make regarding the decided compensation. Furthermore, Allende was permitted to call a plebiscite if the bill was not passed by Congress.[232]

The most controversial aspect of the amendment was the excess profits clause.[233] Congress granted Allende full power to calculate the excess on profits as well as conduct the negotiations with the MNCs in whatever manner he deemed appropriate. Allende's calculations began in 1955 when accurate records were maintained by the state and based

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[228] Ibid., 147.
[229] Alberto Baltra cited in de Castro, 240.
[230] Sigmund, *Multinationals in Latin America,* 150.
[231] Ibid.
[232] Ibid.
[233] Ibid., 151.

average profits on the world market prices. MNCs were denied the right to appeal the president's final decision on excess profits.[234]

During this time, a number of state decisions regarding copper sales and production took place. In February 1971, Chile decided to sell copper directly to China.[235] In April 1971, the Chilean Copper Corporation (Codelco), the newly formed state copper corporation, took over the sale and distribution of Anaconda's copper mines. Near the time of the amendment vote, all distribution of El Tienente, the largest copper mine controlled by Kennecott, came under control of the state.[236] These actions demonstrated that the newly empowered state could choose to act completely autonomously.

Allende made copper nationalization a constitutional amendment in order to avoid any controversy about earlier agreements made under Chileanization.[237] On July 16, 1971, Allende's copper nationalization legislation was unanimously passed in the name of "national sovereignty".[238] To Article 10 of the Chilean Constitution the following was added: "Being demanded by national interest and in exercise of the sovereign and inalienable right of the State to freely use its wealth and natural resources, the foreign companies forming the great mining are nationalized and incorporated to the full and exclusive dominion of the Nation..."[239] Allende's copper nationalization project was established as Law 17,540.[240]

At the point of their departure from Chile, Anaconda and Kennecott book value holdings totaled over $500 million, the largest investors in Chile, with Anaconda's holdings more significant than those of Kennecott.[241] The compensation factor was the harshest manner through which the Allende regime exerted its power over the MNCs. Firstly, in September

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234 Ibid., 150.
235 Roxborough et al., 90.
236 Ibid., 93.
237 Sigmund, *Multinationals in Latin America,* 150.
238 Theodore H. Moran, "Transnational Strategies of Protection and Defense by Multinational Corporations: Spreading the Risk and Raising the Cost for Nationalization in Natural Resources." *International Organization*, Vol. 27, No.2. (Spring, 1973): 280 [Electronic]. Available from JSTOR at: http://links.jstor.org/sici?sici=0020-8183%28197321%2927%3A2%3C273%3ATSOPAD%3E2.0.CO%3B2-V
239 Corporación Nacional del Cobre de Chile (CODELCO), [Online]. Accessed on January 10, 2006. Note: This statement was a transitory disposition in the Constitution.
240 Ibid., [Online]. Accessed on January 10, 2006.
241 Krasner, *Defending the National Interest,* 300.

of 1971, the government increased the excess profits tax to $774 million, exceeding the book value of the companies' total investments by $200 million. In October of 1971, the state announced that no compensation would be granted to the corporations. By the end of 1971, Chile defaulted on a number of its payments abroad, amongst which included those to Anaconda under the 1969 agreement.[242]

3.8. US Action, 1970-1973

For clarification purposes, the central focus of this study is the bargaining process that took place between the copper multinationals and the Chilean state. Although the impact of the US government in Chile is not the primary emphasis of this study, understanding the influence of the US government on MNC power is critical. It is important to distinguish the interests and tactics of the US government and those of the US corporations, although divorcing the motives of one institution from the other may be difficult as both shared vested interests in the political and economic welfare of the country. Often the actions of the MNCs dovetailed nicely with the policies of the US government; however, how their individual motives diverged sheds valuable insight to understanding the weakening bargaining position of the MNCs relative to the Chilean state. For this paper, the "US" should be interpreted as both the US government and US multinationals as one unit, but when specified apart should be understood as separate entities with distinct motives.

The political history of Chile has become world famous mostly for its Marxist roots and the US government's intervention to destroy it. Yet what occurred between the US MNCs and the US government in Chile also illuminates US foreign policy decisions and how it defends US foreign investment, as well as the extent to which MNCs can rely on the support of their home government to defend private interests.

It is widely accepted that the US was involved in the overthrow of Allende, although the extent of this intervention is contentious. The US government had dual interests in the region: to protect its investments and to prevent a communist domino effect throughout Latin America. As US-based MNCs held massive investments throughout the region, the firms were equally concerned about the political influence of the spread of communism that would most likely manifest into the expropriation of all investments.

[242] Ibid., 300-301.

Allende's plurality victory infuriated Washington. On September 8 and again on September 14 the "40 Committee", the interagency committee that selects US foreign covert activities, met to discuss what government action would be taken prior to the October 24 congressional decision. After failed attempts to devise political stratagems, the Committee turned to the CIA and the notion of forming a military coup.[243] US President Nixon informed Central Intelligence Agency Director Richard Helms that the United States would not accept an Allende regime in power and instructed him to coordinate a military coup d'etat in Chile.[244] 6.5 million dollars was spent during 1970 and 1973 as part of the US government's covert actions in Chile.[245] The coup was designed to overthrow Allende prior to the Congressional election. Yet the plot collapsed, and Allende assumed his rightful office as president of Chile.[246]

The US government could have intervened directly through a military invasion; however, the financial costs would have been immense and could have generated widespread dissent towards the US that would produce the reverse effect. Thus, the US government approached the situation under a second strategy geared to undermine the structure of the Chilean economy, fully aware that Chile's dependence on the US would enable them to succeed.[247] This tactic, however, was not supported by the MNCs for fear that exacerbating the domestic economy would only impair their chances to receive a fair settlement.[248] For this study, the extent of US involvement is critical insofar as corporate interests are concerned. US actions, or lack thereof, towards the MNCs greatly affected the bargaining leverage of the US MNCs.

The US and the Chilean economies were connected on a number of levels. The US was the largest purchaser of Chilean copper, and also held substantial investments in several key industries. The US was also the primary source of the majority of imports, including raw materials and machinery that churned the industrial production of the country. Additionally, the US was a key player in various international institutions that determined the refinancing

243 US State Department, [Online].
244 Ibid., [Online].
245 Ibid., [Online].
246 Ibid., [Online].
247 Roxborough et al., 99.
248 Krasner, *Defending the National Interest,* 311.

of Chile's massive debts. As private investment was predominantly in copper, the MNCs were also a critical link between the two countries.

Allende took a very harsh and confrontational stance against the copper MNCs. He argued that excess profits had been taken from Chile and therefore would not concede compensation. Therefore, it was Allende's parsimonious compensatory policies that enraged the US MNCs, rather than nationalization itself.[249] When Allende announced the terms of compensation for the expropriated copper companies, Anaconda and Kennecott pressured the US government to push for immediate and full compensation. Consequently, the US government stated that it needed to be more rigorous with its stance towards the Allende government.[250] Prior to this, the US government had responded to MNC requests for intervention by following a "wait and see" policy as the copper MNCs had been guaranteed compensation under Frei. The response taken by the US government was to make the rolling over of Chilean debt conditional on immediate and full compensation.[251] The US government's response conveniently dovetailed with the larger economic plans already put into motion in order to destabilize the Chilean economy. However, the fundamental decisions and strategies to combat Allende were made by the US government prior to Allende's announcement that it would not compensate the copper companies.[252] This indicates that the US government had committed to a hard line policy towards Chile prior to the point when the MNCs approached the US government most forcefully. Stephen Krasner furthermore argues that the US government, in order to avoid the pressure and demands of the MNCs, purposefully kept the MNCs in the dark about government's covert activities.[253] It is reported that the US Ambassador to Chile met with Anaconda and projected a positive outlook for Allende's cooperation and full compensation for a nationalized industry.[254]

As aforementioned, the MNCs did not support the economic destabilization program that the US government enforced for fear that overturning the domestic economy would reduce

[249] Roxborough et al., 113.
[250] Ibid., 112.
[251] Sigmund, *Multinationals in Latin America,* 148.
[252] Krasner, *Defending the National Interest,* 309.
[253] Ibid., 309.
[254] Krasner, *Defending the National Interest,*309.

the likelihood of compensation.[255] Yet, the US government reacted by suspending all financial assistance and loans to Chile in order to debilitate the Chilean economy.[256] In November of 1970, the highest branches of American government initiated an economic program detailed in the National Security Decision Memorandum 93 (NSDM 93).[257] The program called for sanctions and an end to all forms of bilateral assistance, credits, and loans. The US government manipulated its leadership position in major international organizations to produce an economic crisis in Chile. Aid grants dropped from $35 million in 1969 to $1.5 million in 1971; Export-Import credits fell from $234 million in 1967 to nothing in 1971; Inter-American Development Bank credits declined from $46 million in 1970 to $3 million in 1971; and the World Bank refrained from providing any loans to Chile under Allende.[258] US private sources also withdrew funding from Chile and commercial credits fell from $300 million under Frei to $30 million under Allende. The US cut the supply of capital stock and spare parts, for which Chile was completely dependent, particularly for copper production.[259] The US government also began to sell copper from its own copper reserves, which lowered prices on the global market and decreased Chile's foreign exchange earnings.[260]

The interests of the US government as discussed in Stephen Krasner's final analysis indicate that the US government had no vital national interests in the country despite being fully conscious of the economic losses that would be sacrificed.[261] An Allende government did not pose a military threat to the US nor threaten peace to the region, although it would inevitably disrupt hemispheric cohesion.[262] However, Allende's government would have severe political and psychological costs, namely the psychological advancement of Marxism in the Latin America and the world. This was clearly the basis for all action taken by the US government. Although it is widely accepted that internal forces were the primary causes of the 1973 coup and the overthrow of Allende, it cannot be denied that the US made a significant effort to influence the political outcomes in Chile.[263]

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[255] Ibid., 311.
[256] Roxborough et al., 113.
[257] Krasner, *Defending the National Interest,* 307.
[258] Ibid.
[259] Ibid.
[260] Ibid.
[261] Ibid.
[262] Ibid., 312.
[263] Krasner, *Defending the National Interest,* 308.

3.9. The MNCs in Defense of Their Interests

Anaconda and Kennecott took different approaches to defend their investments. Kennecott's defense or safety strategy was thoroughly calculated in anticipation that nationalization was inevitable. Anaconda's failure to envisage the seemingly inescapable nationalization program or at least accurately gauge their waning bargaining power against the state, left it in a far worse position than their copper counterpart. The defense strategies applied by Kennecott highlight the capacity of the MNC to access the various spheres that had an affect, or potentially could affect, its bargaining position against the Chilean state, namely its home government, the host government directly, and the global political economy. By trying to defend through various means, Kennecott evinces that a MNC can elevate its bargaining position against the host state through venues that the host government may not have access to, most potently in the global system. Although not successful in all of its efforts, Kennecott demonstrates that if properly planned and executed, MNCs can be successful in defending their interests in scenarios that would otherwise have resulted in indeterminable losses, as was the case for Anaconda.

Both Anaconda and Kennecott joined other MNCs from various threatened industries, most infamously International Telephone and Telegraph (ITT), in trying to gain the support of the US government. Kennecott, unlike Anaconda, quickly recognized that the US government would not provide the support needed to protect its investments and immediately devised a separate strategy independent of US assistance.[264] First it appealed locally against Chile's tax judgment, but to no avail. Kennecott also took legal action on the basis that without full compensation it was legally entitled to part ownership of the mines. When local legal action proved unfruitful, Kennecott went abroad, utilizing every international alliance it had.[265] Kennecott's goal was to leave Chile with no place to sell its nationalized copper.[266] The MNC filed lawsuits against Chilean copper consignments in France, West Germany, Sweden and Italy. Consequently, Chile's exports declined 7%.[267] The MNC later went to a French court to block payments for a major copper sale to France.

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[264] Ibid., 299, 301.
[265] Solomon, 117.
[266] Bergsten et al, 393.
[267] Krasner, *Defending the National Interest,* 301.

Copper sales in France and Sweden were completely suspended by 1973.[268] These efforts were intended to pressure Chile to pay compensation and by January 1973, copper sales were declining dramatically.[269] Using its transnational alliances, Kennecott wisely tied the interests of its major copper purchasers to financial institutions in Europe, Japan, and the US, to a successful compensation from Chile.[270] This resulted in increased pressure from vital third parties for fair compensation to Kennecott. Because of wise planning under Frei's Chileanization and coupled with its tactics in the global arena that indirectly challenged the economic competency of the state, Kennecott received more in compensation than the total net worth of its holdings.[271]

While Kennecott was devising maneuvers through a number of means, Anaconda relied solely on the US government for its backing, a strategy that produced limited results. Anaconda focused specifically on a new constitutional amendment that denied access to local Chilean courts, for which the MNC hoped the US government would protest on its behalf.[272] Anaconda executives also requested that US policy-makers grant a government loan to compensate the MNC for all nationalized property which would be repaid through raw materials.[273] Both were rejected under the premise of potential legal complications.

In 1969, the Investment Guarantee Program under the Agency for International Development (AID) became a separate government institution known as the Overseas Private Investment Corporation (OPIC). When Allende nationalized the industries in 1971, the agency was immediately hit with the claims of reimbursements by Anaconda and Kennecott, as well as ITT.[274] This legally held the US government liable for the payments, rather than the MNCs. Yet, OPIC only issued notes to cover the losses of Kennecott, who had wisely anticipated and legally planned for the possibility of nationalization, while it denied coverage to Anaconda, and other major MNCs such as ITT, who had not properly foreseen nor prepared in advance for the political revolution in Chile.

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268 Ibid., 300.
269 Roxborough et al, 114.
270 Krasner, *Defending the National Interest,* 301.
271 Ibid.
272 Ibid., 302.
273 Ibid.
274 Sigmund, *Multinationals in Latin America,* 315.

Kennecott's political and economic tactics were geared towards coercing cooperation from the Chilean government; the MNC was not concerned with Allende's political agenda except in relation to its investments, namely fair compensation. While its strategies disrupted the Chilean economy, its plans were contingent on compensation and not aimed at overturning the Chilean economy as was on the agenda of the US government. Kennecott's actions demonstrate that MNCs, as principally economic actors, will manipulate political circumstances to enhance their individual economic positions.

Because of its prudent planning, Kennecott managed to secure itself fair compensation despite the harsh stance taken by the Chilean state against the MNCs and the lack of support from the US government. Anaconda, who had not foreseen nor prepared for the worst, consequently suffered the worst. The MNC lost its holdings and the capital it had invested under the Frei administration without the possibility of compensation. Allende also refused to compensate Anaconda for its property.[275]

Kennecott shows that MNCs possess the power to protect their investments and the strategies they use to strengthen their bargaining position against the state. Most obviously, the greatest advantage Kennecott held over the state was in the greater global environment. Anaconda, on the other hand, who had failed to anticipate the situation that would unfold in Chile had no other option after losing political support in the host state but to rely on the US government as its buttress. For its lack of worthy foresight, Anaconda fared far worse than Kennecott in the final compensation.

3.10. Chilean Politics, 1970-1973

The end of *dependencia* is a definitive point in the history of Chile. For Chileans, after a long and weary struggle, they were free from the cycle of exploitation, inequity, and injustice that had oppressed the country for decades. They had achieved *independencia.*

But the story did not end there, and the victory for Chile was neither simple nor complete. The political turmoil that unraveled under Allende is not an integral component to this

[275] Ibid., 151.

study, yet necessary to assess the extent of influence the copper MNCs had in Allende's downfall.

Allende's party, Unidad Popular (UP),[276] blamed the country's under-development on two factors: Chile's dependence on foreign economic assistance and the control of all means of production in private hands.[277] The most revolutionary action taken by the UP was to transition Chile away from a capitalist system to a socialist system. The nationalization of copper and other critical industries was a pivotal step of that process.[278] The UP viewed the country's dependency on foreign relations as draining of the country's resources and debilitating the country's political sovereignty. Copper revenues in particular were central to funding UP objectives, particularly the second revolutionary plan of the UP -- to create a worker's state through a major redistribution of income. For Allende, expropriation with little or no compensation was a way to achieve a transfer of wealth from the rich to the poor – the crux of his economic, political, and social reform.[279] If lower classes consumed more, he argued, Chilean society would be more egalitarian. Allende's Marxist ideological beliefs were to be manifested through his economic reforms.

Nationalization, and his adamancy to a no compensation policy, bore consequences for the copper industry and Allende's broader economic program. The state had to fight various legal actions taken by Kennecott from various countries. Chile had to find other sources of spare parts that the US had provided since the industry developed.[280] Allende's Chile managed to maintain access to the European marketing channels that were established by the MNCs, but lost its largest consumer of the mineral, the US.[281] Chile suffered severely from the loss of direct investment capital and the availability of this resource. The UP envisioned that newly gained profits from copper exports would cover the costs of necessary imports. At this point, copper comprised 70% of the country's total exports. Between 1970 and 1971, the price of copper fell from \$0.61 USD per pound to \$0.40 USD per pound, resulting in a loss of \$200 million in foreign exchange.[282] (See Appendix 5A)

[276] Unidad Popular from Spanish to English translates to People United.
[277] Roxborough et al., 78-79.
[278] Ibid., 72.
[279] Sigmund, *Multinationals in Latin America,* 336.
[280] Ibid., 261.
[281] Ibid., 264.
[282] Roxborough et al., 100.

For a decline of one cent in price on the interantional market, Chile took a loss of $7 million.[283] Chile's nationalized copper was now entirely based on the London Market Exchange (LME) and it immediately felt the effects. This drop in price is primarily attributed to a leveling off of global demand,[284] but was partly affected by the decision of the US to open some of its own copper reserves for sale on the world market which increased the copper supply and pushed down the price.[285] The sudden drop in price proved disastrous to Allende's economic program.[286] Furthermore, there was a worldwide increase in food prices, most of which was imported. This led to even greater economic losses as the government used its limited funds to cover the food imports thereby increasing the debt on the balance of payments. Allende searched for other international recourses to provide loans that could finance necessary imports, but to no avail. World Bank loans and credit from other financial institutions were allegedly "delayed". Allende attempted to denounce the US economic blockade in the United Nations in December of 1972, yet the US government's official response was that such decisions were made independent of the US as the Allende government lacked credit-worthiness.[287] Indeed, Allende's harsh position towards the MNCs had created a perception internationally that the investment climate in Chile was hostile.[288]

Yet, after the first two years of his term, Allende began to make some progress in acquiring funds from abroad. Thus, the economic blockade did not pose as serious of an obstacle for the Allende government as it initially appeared.[289] By the beginning of 1973, Allende obtained a series of short-term loans, and increased trade from Europe, Japan, and its Latin American neighbors.[290] Around the same time, the price of copper began to rise allowing Chile to regain valuable foreign currency and improve its balance of payments difficulties.[291]

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[283] James Petras. "Political and Social Change in Chile" in *Latin America; From Dependence to Revolution*, ed. J. Petras (New York: John Wiley & Sons, 1973), 27.
[284] Lasaga, 142-143.
[285] Petras, 27.
[286] Ibid.
[287] Carlos Fortin. "Law and Economic Coercion as Instruments of International Control: The Nationalisation of Chilean Copper" in *The Nationalisation of Multinationals in Peripheral Economies*, eds. J. Faundez and S. Picciotto (London: Macmillan Press, 1978), 146-147.
[288] Sigmund, *Multinationals in Latin America,* 285.
[289] Fortin, 149.
[290] Ibid., 150.
[291] Ibid.

Yet a number of Allende's reform policies backfired. The redistribution of income led to a greater demand for goods that the working class could not afford prior to Allende. The increased demand for luxury goods created a severe imbalance in the balance of payments as the UP needed to retain middle and working class support. As the economic situation worsened, the market could no longer satisfy the middle class demands for luxury goods.[292] In 1972, inflation rose to 160% over the cost of living levels in 1971.[293] In 1972 and 1973, Chile held the world record for the severity of its inflation.[294] The explosive rate of inflation proved a critical motivational factor for the coup that overthrew Allende's government.[295] The government could not afford to raise wages and the standard of living declined.[296] The middle class was incensed.

The Conservative Right was confident that the Congressional March elections in 1973 would swing parliamentary power to its side. They anticipated a severe decline in UP support and hoped that the combined votes from opposition parties would allow for a two-thirds opposition majority that could legally impeach Allende. Yet Unidad Popular's support unexpectedly increased from 36.2% in the presidential elections of September 1970 to 43.4% in March 1973, a major blow to the Conservatives and a huge confidence boost to the Allende regime.[297]

Even for Unidad Popular, the rise in support came as a surprise. The UP party saw the electoral victory as a clear indication that it was satisfying the demands of the working class. Yet the election results splintered the party as various factions formed based on different interpretations of the results. The more revolutionary members, approximately one third of the coalition, interpreted increased support as a desire to expedite the proposed socialist reforms.[298] Three days after the election, the far Left began calling for more radical reforms than those of Allende. The collapse of Unidad Popular left Allende trapped in political static, unable to advance any of his economic, political, or social reforms. As the economy further deteriorated, the country moved on the verge of civil war. On

[292] Roxborough et al., 164.
[293] Ibid.
[294] Sigmund, *The Overthrow of Allende,* 19.
[295] Sigmund, *Multinationals in Latin America,* 270.
[296] Roxborough et al., 164.
[297] Roxborough et al., 205.
[298] Roxborough et al., 206.

September 11, 1973 the infamous day of the military coup and Allende's death, the final consequences of Allende's idealist political objectives and short-sighted planning materialized.

Although the US government and US MNCs contributed to the economic chaos that prevailed in 1972 as well as induced internal groups to react against the Allende regime, ultimately the internal politics of the Chilean state were the driving force that overthrew Allende.[299] More relevantly, as obvious in the outline of events above, the copper MNCs played a very minimal role in affecting the final outcomes of the Allende regime. Without the presence of the MNCs, and now widely agreed upon, and also noteworthy is that without the presence of the US government, the Chilean coup would have occurred.[300] As previously noted, once nationalized the MNCs primary demand was for immediate and fair compensation and not the renunciation of nationalization. In other words, the MNCs accepted nationalization. The economic disorder that ensued under Allende contradicted with the actual objectives of the MNCs who feared a weak economy would lower their chances at compensation.

There are many ways to interpret the Allende regime. Some scholars attribute its failure to poor leadership while others laud the strong state rule and blame the political and economic crises on external forces. This study does not attempt to make an interpretation of Allende's regime; however, it does attempt to analyze the power dynamics between the Chilean state and the US multinationals over the control of Chile's primary industry. This interaction is the crux of the analysis and the focus of the next chapter.

[299] Sigmund, "Chile", 153.
[300] This opinion is shared by various experts, including Paul Sigmund, Carlos Fortin, and the US State Department.

Chapter 4: The Bargaining Process

The case study described above has been geared towards explaining how the Chilean state and the foreign MNCs defended their respective interests in the copper industry during 1950 and 1973. The power dynamics between the two actors shed light onto greater theoretical implications underlying the bargaining process that took place. Understanding this bargaining process is essential to contextualizing the competing conceptual models that scholars commonly apply to the Chilean copper case.

Understanding the power dynamics that unfolded in Chile between the state and the multinational giants requires a clarification of the instances in the bargaining process when the interests of each actor coincided and diverged. Tracing the political dynamics of the bargaining process will elucidate what ultimately favored the Chilean state over the multinational. However, beforehand, a theoretical assessment of the relationship between the host state and the foreign MNC, as well as the relative general bargaining positions between the actors must be outlined.

There are some general deductions that can be made explicit about the actors involved in the case study: (i) each actor has individual and unique interests and powers; (ii) a state's ability to pursue its national interests is to a large extent dependent on its position in the international political economy; (iii) the copper MNCs are rational, profit-maximizing entities that engage in the political activities of the host country solely to enhance their economic welfare; (iv) the power of the copper MNCs is economic and determined by its large resource base and access to capital; (v) the Chilean state seeks sovereign control over its country and also the highest possible contribution of the country's resources to be dedicated to the wellbeing of its citizen; (vi) the bargaining position of one actor relies on the relative power of the other.

Between 1950 and 1973, a wide range of policies were implemented toward the US multinationals in the copper industry, culminating with nationalization. The power dynamics involved between the Chilean state and the US copper MNC provides valuable insight in understanding the state's drive for autonomy and the MNC's efforts to defend its interests against the state. Clarifying the power balance between the two actors will also explain the two theoretical frameworks that are most commonly discussed in the literature regarding the Chilean copper debate: *dependencia* theory and obsolescing theory. A review of the bargaining process that occurred between the state and the MNCs between 1950 and 1973 will be useful in assessing the relevance of these two theories, and is the focus of this chapter.

4.1 Copper Bargaining

Understanding the bargaining process between the foreign multinationals and the Chilean state requires a review and an assessment of the interests and the relative power of each actor over the given time frame. The review of each episode will identify the interests and actions taken by each actor and examine the bargaining position of each actor relative to the other.

This study identifies five critical episodes that occurred in the state-MNC bargaining process in Chile that elucidate the shift in power over time: (i) 1915, MNCs enter Chilean copper mines (ii) 1950, Videla abandons the Washington Consensus (iii) 1952, Ibanez's *Nuevo Trato* (iv) 1964, Frei's Chileanization and (v) 1970, Allende's nationalization.

The scene for the first episode is the arrival of the MNCs to the Chile. At that point, the Chilean state's principal export, nitrates, had plummeted on the world market and an economic crisis was looming. The Chilean state lacked the capacity to develop the new industry which required massive industrial and capital investments, as well as the necessary technical expertise. The MNCs were financially capable of making such large investments and had the technical abilities to develop the industry. The host country, on the other hand, lacked the knowledge and financial capacity to develop the industry itself and therefore had little choice but to accept the investors on their terms.[301] The interests of the US MNCs were to develop an industry that would earn sufficient revenues to rapidly compensate them for the large initial investments, make a high profitable return, as well as ensure the longevity of their investment through contracts with the Chilean state. The Chilean state was attracted to a potential boost in its economy and having a new primary export, as well the free development of an industry that it could not undertake independently. Therefore, the state welcomed the US MNCs using lucrative incentives, such as low tax rates and high

[301] Bergsten et al., 131.

remittance percentages. Because of the minimum regulation demanded by the Chilean state, the MNCs were able to remit massive profits, aided greatly by war-time production industries and US demand. The MNCs clearly had the higher bargaining hand.

The second episode in the bargaining process, led by President Gonzalez, was intended to be a great leap forward for the state. Tax rates were increasing exponentially compromising a significant percentage of state revenues. Gonzalez's frustration against the MNCs was largely a consequence of the price ceiling implemented by the US government over Chilean copper to ensure a consistent supply of copper for strategic purposes, as well as the prohibition for Chilean copper to be sold to the USSR or any affiliate countries. Under the Washington Consensus, the US government granted 20% of sales control to the Chilean state as a compromise to their demands, which only enticed Chileans for greater control over the pricing scheme to accrue greater profits. Gonzalez exerted the state's sovereignty over the MNC investment to obtain 100% control over the sales. The MNCs hoped to maintain the bargaining leverage they possessed at the time of their initial investment, although it was rapidly declining. The US government, driven by its own strategic interests in the industry, provided support to protect MNC interests and enhance their bargaining position against the Chilean state. Nevertheless, the state was still able to exert power over the MNCs. Yet, Chile's adolescence in copper production, particularly on the international market, resulted in a drastic drop of Chile's share in the international copper market. Chile was left desperate for foreign intervention to re-stabilize its economy and regain its share of copper production in the international market. After having made significant progress, one callow move by the state allowed the MNC to regain significant bargaining leverage.

The third bargaining episode was the consequence of Gonzalez's miscalculation, and resulted in a great leap backwards for the state in the bargaining process. Ibanez came to power and recognized the need for MNCs in the state's development goals. Trapped by grave economic circumstances, Ibanez conceded to the demands of the MNCs in the *Nuevo Trato*, who confidently advanced their goals on the bargaining agenda at the cost of the state. MNCs confidently demanded minimum regulation from the host state, low tax rates, and high profit remittances. The interests of the MNCs remained consistent: defend the longevity of its investments and maximize profits. Yet, the popular fervor against foreign influence in the sovereign domain of the state had not waned and further escalated under Alessandri. To the state's favor, it succeeded in coaxing the MNCs to expand production, and progressively was able to increase tax regulations to gain a larger share of MNC profits. During this time period, popular anti-MNC sentiments became the center of the electoral debate, making copper ownership a highly politicized issue, and driving the country towards nationalization. The ideological influence of dependency theory greatly encumbered the MNC's bargaining position.

The fourth bargaining episode, under Frei, represents the major thrust forward for the state in the bargaining process. Frei demanded and succeeded in attaining 51% state ownership of the copper mines from the US copper giants. Kennecott prudently complied; recognizing that its bargaining position had deteriorated significantly yet saw a window of opportunity for possible compensation under Frei's joint venture program. Anaconda, on the contrary, initially refused to relinquish any of its assets but later acquiesced because of US pressure. Frei's program is an integral component to the full nationalization that took place once Allende came to power specifically because it allowed the state to acquire the skills needed to independently operate the mines as well as engage in the international market system. In his last state-of the-nation address, Frei stated that Chileanization conformed to Chile's needs by maintaining the benefits that MNCs bring to the host country, namely expertise and capital, which Chile did not possess independently.[302] The program acquired funds from various financial institutions that allowed Chile to double its production and triple its refining.[303] Chile was also able to develop the capacity to run the copper mines independently and take full control of the pricing scheme for the international market, while still benefiting from the market access and the technical know-how of the MNCs. It also downplayed the traumas that ensued from the process of nationalization, such as retaliation from US copper MNCs.[304] Chileanization prudently avoided a number of consequences that complete nationalization created, namely, employment, the flow of technological expertise and innovations, import of spare parts and necessary machinery, and access to export markets.[305] As government or national investors become majority

[302] Frei in state-of-the-nation address, *Quinto mensaje del presidente de la república.*
[303] Sigmund, *Multinationals in Latin America,* 143.
[304] Ibid., 292.
[305] Ibid., 144.

owners, the joint venture appears to limit the risk of expropriation for the MNC.[306] However, in the Chilean case, the joint venture program did precisely the reverse.

What becomes obvious in this episode of the bargaining process is that the threat of nationalization alone, even without actual implementation, greatly elevated the position of the state over the MNC. As the government becomes the majority owner, for the MNC, the joint venture appears to limit the risk of expropriation. However, in the case of Chilean copper, the joint venture program did precisely the reverse.[307] This is ironic because both actors benefited under Chileanization, primarily from expanded production and increased profits. Yet the state was still unsatisfied and pushed forward with full nationalization.

The final bargaining episode was full nationalization under Salvador Allende. For the Chilean state, eventually the consequences of nationalization become more limited and the benefits become more tangible. Before moving towards full nationalization, the state needed to feel capable enough to assume the same role of the MNC. This was the most significant benefit of Chileanization – the program enabled the state to feel capable enough to undertake full responsibilities of the copper production and sales. This was the primary reason why Allende was able to nationalize its industry.

By the time Allende ascended to power, the country was moving full speed towards full state-ownership. This was most obvious in the 1970 presidential campaign in which each candidate along the political spectrum called for nationalization. This was in part because of the political fervor sweeping through Latin America, as well as the Cold War ideology that called for Marxist reforms, specifically a stronger role of the state in the domestic economy. Yet, for the developing state, the added state revenues that come with full ownership make nationalization particularly enticing. The populace believes that its welfare will improve with added state revenues and therefore places demands on the government. While these political influences may have been driving agents in the process of nationalization, Chile was completely ready to assume full ownership over its copper industry. Thus, it can be concluded that the nationalization process itself was a rational state action and an economically sound policy. It can also be deduced that Allende's

[306] Ibid., 293.
[307] Ibid.

copper policies were simply a part of that process and not some arbitrary radical exertion of state power solely impelled by a Marxist ideology and nationalism.

Many political and economic scholars have evaluated the benefits and consequences of Allende's copper nationalization program. As addressed previously, Allende's nationalization program bore significant consequences for Chile's copper industry that debilitated the overall economic welfare of the country. Arguably the most detrimental factor was the fall in the price of copper. Copper is referred to as an 'unstable export' because of its volatility on the international market price.[308] When the welfare of an economy is dependent on a single export commodity, the country is left vulnerable to the international market. Many scholars blame Allende's economic crisis on the international copper market rather than the actual efficiency of the Allende government in copper production.[309] This is supported by the fact that copper output increased 6 percent during Allende's first year, reaching 572,000 tons in 1971.[310] Both Kennecott and the US government influenced the sales and the price of the mineral internationally, but it was the fluctuation of the mineral in the international copper price, an external factor that Chile could not control, that proved the most detrimental. The Allende government not only failed to prepare for the loss of state revenues but simultaneously undertook very costly reform measures that were economically unsustainable, particularly without foreign reserves. Indeed, Allende's confrontational approach towards the MNCs also generated harmful consequences. Specifically his no compensation with no contestation position provoked the loss of financial capital, technology and market access.[311] Allende's unwillingness to negotiate terms of compensation scared private investors from entering and caused both foreign and local investors to leave to flee, exacerbating Chile's debt.[312] Additionally, when a country undergoes nationalization, private as well as international institutions are less inclined to lend capital in the form of investment, loans, or credit.[313]

[308] Richard S. Weinert, "Multinationals in Latin America", Journal of Interamerican Studies and World Affairs, Vol. 18. No. 2 (May 1976): 256 [Electronic]. Available from JSTOR at http://links.jstor.org/sici?sici=0022-1937%28197605%2918%3A2%3C253%3AMILIA%3E2.0.CO%3B2-o [2005, Aug 1].
[309] Petras, 27.
[310] Ibid.
[311] Sigmund, *Multinationals in Latin America,* 285.
[312] Ibid., 265
[313] Ibid., 262-263

4.2 The Determining Factor

The political turmoil that ensued after nationalization raised the question of interference on the part of the US government and the US MNCs in defense of their investments and interests in the industry. As determined through the case study, the involvement of both US actors was relatively minimal, and the internal political dynamic within the country was the primary reason behind the overthrow of Allende. But a critical question remains: What limited the US MNCs from successfully defending their investments?

The greatest limitation of the MNCs' bargaining power was the nature of the copper industry itself, which has been a recurring theme throughout this study. Historically, the state's leverage is at an advantage when dealing with a mineral based industry.[314] In the natural resource sector, MNCs have consistently fared poorly in defending their interests when bargaining with the host state. The sector falls in the area most prone to expropriation.[315] In most industries, the state cannot prevent the exit of the MNC. However, this is the distinction that impairs the MNC in the natural resource sector -- while the MNC can leave, its physical investments cannot. As raw material investments are immobile, if the physical investment is left behind, it becomes the property of the state. This not only enhances the bargaining position of the state, it entices the state to assume full control over the industry.

Copper is considered an "exposed enclave" which places it at the heart of economic nationalism.[316] This is primarily a cause of Chile's unreserved reliance on the mineral. MNC presence becomes especially controversial when it is concentrated in one industry that is the primary source of revenue from exports.[317] The copper industry was also considered a foreign enclave. *Dependistas* criticized the MNCs for isolating the industry from the country, arguing that any foreign investment or technological advancement in Latin America went directly to these industries without permeating to the population or other sectors.[318] Moreover, because the MNCs used a vertically oriented corporate strategy

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[314] Sigmund, *Multinationals in Latin America,* 276.
[315] Ibid., 46. Note: Public utility industries are also among the industries most likely to be expropriated. In Chile's history, ITT (International Telephone and Telegraph) aggressively attempted to defend its investments from Allende's nationalization.
[316] Ibid., 298.
[317] Ibid., 305.
[318] Prebish, 40.

geared towards extraction in Chile and excluded the other steps of the production process, the industry was further isolated from the host country.[319] Copper is also considered an unstable export because of its volatile price fluctuations on the world market. As the major source of foreign exchange, the mineral has a crucial impact on the balance of payments. For these reasons, dependency theorists believe that nationalization of the copper industry is the only way to assure that the country could reap the full benefits of this vital industry.

The reasons why the copper industry was so enticing for the Chilean state to nationalize are precisely why historically raw material industries are the most popularly nationalized sector. Thus, the final determinant for the state to take full control of its industry is therefore dependent on the state's confidence and ability to provide for the capital, technical expertise, and market access.[320] Additionally, in the natural resource sector, technical expertise and market knowledge are much easier to access than other sectors.[321] All of these factors impair the bargaining position of the MNC in this sector.

Not surprisingly, other industries with huge fixed, or "sunk", investments follow a similar fate. There are two other industries that are historically more readily nationalized: public utilities and transportation.[322] Like mineral resources, these industries share similar traits that make attractive industries for the state to control, most notably that they require massive initial investments that cannot be removed easily. In 1962, after the Brazilian telephone and electrical MNCs were nationalized, President Kennedy noted that US investments in such "politically exposed natural monopolies" are likely to be criticized as exploitative.[323] On the contrary, in areas of manufacturing and processing, there are fewer government takeovers.

Possession of valuable resources undermines the structure of power of each actor.[324] For the copper MNCs, their resources came in the form of capital, both financially and technically. Yet both of these types of resources are relatively 'fixed'. Constructing a copper mine requires massive financial and technical investment. These investments are

[319] Solomon, 116.
[320] Krasner, *Structural Conflict*, 178.
[321] Ibid., 185.
[322] Sigmund, *Multinationals in Latin America,* 285.
[323] Ibid.
[324] Bennett and Sharpe, 85.

considered 'sunk' costs. On the technical end, the copper industry utilizes relatively stable technology and is not a highly innovative.[325] For decades, the technological factors and knowledge related to copper refining had been readily available and new innovation is not a defining aspect of the industry.[326] Therefore, once the MNCs had created the industry and shown the state how to use the technology, the state can feasibly replicate the technological process. Furthermore, Chilean copper was mostly sold for global markets in its raw form as it is a mineral used in the manufacturing of a myriad of goods that are produced outside of Chile. This again worked favorably for state ownership because the state could sustain production levels without relying on the MNCs for research and development bases or having to create their own once the industry was nationalized. Therefore, for the state, learning the tricks of the trade was relatively feasible.

Douglas Bennett and Kenneth Sharpe argue that a particular resource in a particular conflict shapes the nature of the conflict and the identities of the actors.[327] This can be observed in the bargaining process, most explicitly through the tacit agreements that were made by both actors in its duration. In the process, there are always tacit agreements involved.[328] This infers that both parties acknowledge their relative positions of power related to the other. The weaker actor may choose not to articulate its interests when it knows that its bargaining leverage is limited relative to the other party. Therefore, actors will only come to the bargaining table with issues that they believe can generate some level of success.[329]

The power of the state can be exemplified through the implicit understanding that took place in the bargaining process. Several tacit agreements were involved in the Chilean copper case. For example, under Ibanez's *Nuevo Treaty*, the MNCs entered negotiations fully aware that the state needed them for political and economic purposes. The state was forced to consent to several MNC demands that it otherwise would have refused. While both parties were concerned about profit maximization, the state's primary objective was profit redistribution, while the MNCs' concern was profit repatriation. The MNCs pushed and easily received extremely favorable profit maximizing regulations. Nearly two decades

[325] Evans, 45.
[326] Vernon, 51.
[327] Bennett and Sharpe, 85.
[328] Ibid., 82.
[329] Ibid.

later, the power positions had completely reversed. By the time Anaconda entered negotiations with Frei, its position was extremely weak relative to the state. Anaconda reluctantly had to accept the terms defined by the state for fear of completely losing its investments. Moreover, under Allende, the MNCs had lost all power, and the President, completely aware of the state's relative position, constitutionally prohibited further negotiations with the MNCs over the matter. By the time full nationalization was underway, defending any ownership over the mines had been completely excluded as a possible option. The MNCs consciously accepted this deterioration of their bargaining power and pushed for compensation instead.

The obsolescing bargain, therefore, accurately describes the process that began decades prior to the actual nationalization of the copper mines in 1973. The shift in power from the MNC to the state is clearly identifiable. The MNC initially holds the power to choose into which country it will invest, and undoubtedly seeks out favorable investment climates. Therefore, a host state who is fully aware that only with the assistance of the MNC will it be able to develop an industry, must present an investment friendly climate. The host government seeks to preside over the direction of flow of foreign investment for its country and therefore begins to exercise certain policies that support its own development agenda. Indeed, of the various devices employed by the state - ranging from taxation and fiscal instruments, to a mixed economy or a joint venture program, to nationalization - nationalization is the most radical and assertive action the Chilean state took to assert its power against the MNC. As made obvious throughout the process of nationalization, the government consistently tried to raise the bar to hold the MNC more accountable to the state and persistently sought to make the MNC serve its interests through various negotiations, such paying higher taxes, expanding production, or investing more capital. Indeed, the only solution available to the "obsolescence of the bargain" was nationalization.[330]

Reviewing the dynamics involved the Chilean copper case allows certain conclusions to be drawn. Initially, the Chilean state was faced with its own inability to develop its most critical industry that could produce the economic resources to meet and sustain the welfare

[330] Sigmund, *Multinationals in Latin America,* 261.

needs of its population. This left it dependent on and vulnerable to larger economic actors, namely the MNCs, for decades. The state was limited by a number of factors, such as the lack of expertise in the global market, knowledge about the industry, lack of capital, its reliance on primarily one export for income, and lack of technical expertise, to name a few. At that point, the Great Depression had nearly devastated Chile's economy. This clearly elevated the bargaining position of the MNC, as the state was desperate for industrial development and economic assistance. According to the obsolescing bargain theory, the MNC's strength is the greatest at the moment of new investment.[331] Indeed, during the Great Depression, the MNC increased their investment and expanded copper production, thus saving the Chilean economy. Yet, after that point, the relative bargaining power of the MNC began to fade as the state observed that the investments were committed and difficult to remove.[332] When Gonzalez prematurely tried to expropriate the MNCs in 1950, the state suffered from its inexperience, consequently boosting the position of the MNCs over the state. Gonzalez's naivety impaired the bargaining position of the state and consequently the state was forced to concede some of its bargaining power to persuade the MNCs. Yet the domestic tension over such strong foreign influence began to build again as profits increased and continued to leave the country. Taxes and exchange rate policies were enforced again in order to capture a larger percentage of the profits. Yet, the populace still disapproved. The thrust towards nationalization was harnessed under Chileanization, allowing the state to develop the skills and technical capacity that would fulfill the same role of the MNCs in the industry. At this point, Chile reversed the bargaining process to work in its favor. For the first time, it was able to satisfy its population independent of the MNC.

By assuming full control, the state turned the obsolescent bargain to work in its favor and allowed the host government to revise the industry's development as it chose, in this case, with the exclusion of the MNC.[333]

The Chilean case, however, is an unusually intriguing theoretical case study because of the possibility that it does not coincide with the obsolescing bargain theory, despite the

[331] Bennett and Sharpe, 89.
[332] Ibid.
[333] Sigmund, *Multinationals in Latin America,* 293.

bargaining process that unequivocally occurred. This is precisely why many scholars associate the dependency theory with the Chilean copper case. If the Chilean case strictly corresponded with the obsolescing theory, theoretically the very nature of the copper industry would have determined the position of the MNCs from the onset. The presumption, therefore, is that the US copper MNCs were destined to be nationalized and should have expected to hand over their assets to the state. However, the influence of the US government in this case study adds a peculiar twist in the final assessment to whether the dependency theory is in fact the more suitable theoretical framework.

4.3 US Interests and the Cold War

It is often argued that US objectives in the international political economy after the Second World War centered specifically around business interests—to create a capitalist world system that would allow US businesses to operate and profit everywhere in the world.[334] MNCs required a world composed of stable capitalist countries that would grant free access to strategic natural resources.[335] For MNCs to thrive, it was necessary to limit the developing world's development and independence to prevent an ideological conflict with American capitalism.[336] Therefore, when conflicts occur, US corporations can turn to their home governments for protection and defense, and the US government will intervene to defend its interests in the host country. Indeed, the US government has repeatedly intervened to protect US private interests through military, economic and political action.[337] If it is true that the US government is concerned only with business interests, then the logical conclusion is that the state will come to the defense of the MNCs.

In his assessment of the US government and US multinationals, Stephen Krasner takes an opposing view to explain the rationale behind official US involvement. He argues that the US government has repeatedly resisted corporate pressure and concludes that the US government is only willing to use overt or covert action when there are greater political goals involved.[338] In particular, during the era following World War II, US foreign policy was specifically designed to prevent the spread of communism and advance its own

[334] Joyce Kolko and Gabriel Kolko. *The Limits of Power: The World and United States Foreign Policy, 1945-1954*. (New York: Harper and Row Publishers, 1972), 2.
[335] Ibid.
[336] Ibid.
[337] Krasner, *Defending the National Interest,* 137.
[338] Krasner, *Defending the National Interest,* 137.

ideologies in host countries.[339] He argues that regarding private interests, the US government exercised extreme caution in confronting issues that were solely economic. In these matters, the US government was only willing to apply diplomatic or economic tactics, even when its supply of the material was threatened.[340]

The Chilean case study supports Krasner's analysis. When examining US official action in Chile, the US government had the military and economic resources needed to buttress the position of the copper MNCs that could have potentially reversed the bargaining outcomes. Yet, it did not do so. On the contrary, it encouraged the US MNCs to deliberately concede their bargaining leverage in order to support its own objectives. Both the US Ambassador's intervention in Anaconda's negotiations with Frei and the US government's overall support for Chileanization indicate that the MNCs were coerced to relinquish their holdings.[341] Krasner calls this "active accommodation" as the MNCs were obliged to accommodate to US government objectives.

It cannot be denied that the US had several strategic interests in Chile – interests that reinforced its hegemonic position. The US MNCs consistently maintained a far lower sales price for the US government for a mineral that was critical to the country's industrialization and its military strength. The firms also ensured that none of Chile's copper was sold to the Soviet Bloc, thereby attempting to limit the Soviets from advancing in its industrialization and military build-up. In this sense, the MNCs reinforced US policy. However, as this paper has shown, the primary objective of the US government was to prevent Allende's ascension to power. For this reason, the US government tried to bolster Frei's popularity by supporting Chilean ownership of the copper industry despite its contradiction with the MNCs' objectives.

This is not to suggest that protecting private investment was not a priority of the US government, but rather the US government perceived other interests to be of higher importance. Recall that Kennedy's Alliance for Progress was fabricated by the US government with the cooperation and financial support of US multinationals for dual

339 Ibid., 137.
340 Ibid., 151.
341 Ibid., 225.

reasons: to protect private interests and prevent the spread of communism. Susan Strange touches on this "euphemistic" notion of foreign aid arguing that it is impossible to divorce the 'economic' kind of welfare from the 'political' kind of welfare and that such altruistic motives usually seek a political and/or economic exchange that will support, reinforce, and help to sustain the position of the authority.[342] The Alliance created an allusion that the two actors were partners in the project. Paul Sigmund correctly notes that this government-business alliance posed the likely possibility of conflict right from the start, as maintaining a sound arena of investment and satisfying the economic and social needs in Latin America may counter the interests of private foreign investors.[343] This conflict became more obvious as the Cold War pushed forward and Allende's popularity intensified. As the threat of Allende materialized, defending the interests of the MNCs became less and less of a priority for the US government.

This aligns well with Robert Gilpin's analysis of the US multinational corporation. Robert Gilpin contends that the success of the US MNC is directly contingent on its reliance on the recognized strength and power of the US.[344] He argues that the US, because of its dominant economic and political strength as well as its superior position in the world system, has been able to manipulate economic and technological forces to serve its own interests. The US has created the 'necessary political framework' for MNCs to succeed and it is under this system that US multinationals have thrived.[345] Gilpin claims that US corporations have buttressed dominant US ideology throughout the world.[346] The US government uses the MNC to pursue its own political agenda, yet when the interests of the US government and the MNCs diverge, the US government will pursue its own interests even if it impairs the position of the MNC. Looking back at the intervention of the US Ambassador in the Anaconda-Frei settlement, despite Anaconda's reluctance to nationalize the US government asserted great pressure to make the MNC comply for its own self-

342 Susan Strange. *States and Markets: An Introduction to International Political Economy* (New York: Basil Blackwell Inc, 1988), 207-209.
343 Sigmund, *Multinationals in Latin America,* 132.
344 Gilpin, *War and Change in World Politics,* 41.
345 Ibid.
346 Solomon, 68.

interests.[347] Ambassador Korry's persistence was largely prompted by pressures from the OPIC insurance because of the potential losses to the OPIC reserves.[348]

In conclusion, it is expected that the MNCs will attempt to counter the state's efforts for national control. However, as demonstrated through the Chilean case, predicting the US government's willingness to come to their aid is not as obvious. Although the Chilean case proved the contrary, it may be presumed that when the interests of the US government and the US MNCs are aligned, ideologically, culturally, militarily, politically, economically, or a combination of all, the government may come to the defense of the MNC, as has occurred in several instances throughout history.[349] If the US government had come to the defense of the US copper MNCs in Chile, potentially the fate of the MNCs would have been reversed, and different theoretical deductions concluded. For this reason, it is essential to remember that a case study cannot prove or refute a theory. However, the Chilean copper case does help advance the theoretical debate concerning two relevant theories. Given that the copper MNCs played a relatively insignificant role in the 1973 political outcomes, the last section of this paper is dedicated to examining the applicability of the dependency model.

4.4. Breaking Free from Dependencia

For the purposes of this paper, dependency theory should be understood as an abstraction to explain underdevelopment for the third world. The theory argues that dependency is a condition that allows core countries to determine the boundaries for the development of periphery countries via the structure of the international system. In the post-War era, the idea of dependency was largely forged by the interaction of the MNC with the developing world.[350] The MNC became a way to reinforce the structures of the international political economy that limit the development of the periphery. In other words, the independent variable is the multinational corporation and the dependent variable is dependency. Thus, the MNC produces dependency.

[347] Sigmund, *Multinationals in Latin America,* 305.
[348] Ibid., 319. Note: OPIC later engaged with the Pinochet regime to recapture some of the losses from the Anaconda settlement . (See Sigmund, *Multinationals in Latin America,* 315).
[349] Ibid., 305.
[350] Bennett and Sharpe, 7.

From the general understanding of dependency theory provided in this paper, a number of implicit inferences can be examined in relation to dependency theory and the Chilean case study. The following inferences from dependency theory can be identified as particularly relevant to the Chilean case: (i) the structure of the capitalist international system, namely the division of the core and the periphery, impairs the development of the periphery country (ii) As profit-maximizing entities, MNCs will defend their interests to avoid financial losses. Such tactics include directly exercising power over the host government, indirectly exercising power via its home government, or using the international system. Because of its elevated status in the global system over the periphery country, either independently or because of the position of its home state in the international system, dependency theory asserts the MNC will succeed (iii) the multinational corporation perpetuates under-development in the periphery country. These three inferences will be used to measure the relevance of the dependency theory to the Chilean case.

There were instances in the Chilean case where certain structural constraints related to the international political economy limited Chile's bargaining leverage. Arguably the greatest influence of the global system on Chile's political outcomes was the international copper market pricing scheme. While actual copper production remained efficient under Allende, the drastic fall in the price of the mineral on the world market proved disastrous. Many scholars attribute this drop in price as the pivotal reason for Allende's economic tribulations. The fall in the copper price was a fatality beyond the control of Allende. It does, however, imply that Chile's level of development and position in the international system contributed to its inability to counter the shock. In general, countries with small and inflexible internal structures are highly vulnerable to shocks and fluctuations in the international system.[351] This can create severe economic and political dislocation for the country, and proves particularly painful for political leaders who become the targets for the economic crisis.[352] This was particularly detrimental for Chile, whose economy was based on one primary export commodity and not diversified in other exports or means of production. Consequently, Allende suffered politically. The conclusion, therefore, can be made that Chile's internal economic structures were not developed enough to withstand the

351 Krasner, *Structural Conflict*, 11.
352 Ibid.

unpredicted volatility of the global economy.[353] Susan Strange lends the following support: "Where states were once the masters of markets, now it is the markets which, on many crucial issues, are the masters over the governments of states."[354] Strange's argument insinuates that the fall of the copper price was not only independent of the Chilean state, but also of the US MNCs and the US government. However, what the Chilean state could control, namely copper production, remained efficient throughout Allende's term.[355] Thus, the global system limited Chile's development path insofar as it was not able to withstand the price shocks. Yet this was independent of US action.

Moving onto the second implication, the case study shows that the MNCs proved ineffective in defending their interests against the state. Stephen Krasner argues that the greatest weapon that the MNC had over the Chilean state is its influence in and access to world markets.[356] Using world markets, the MNC is able to alter global sales that are necessary for the economic and political welfare of the host country.[357] As demonstrated in the Chilean case, Kennecott was able to garner international support by utilizing its customer base and creditors in Japan and Western Europe to pressure their governments to place demands on the Chilean government. The MNC did show that the structure of the global system can also open up opportunities for the MNC to defend its interests independently. Kennecott tried to bolster its bargaining position through transnational alliances, before and after nationalization. Kennecott's efforts hindered Chile's development efforts by impairing the state's capacity to build its own international alliances.[358] Yet, the extent of that influence, although it lowered sales and temporarily stifled various alliances, was relatively minor in comparison to the rest of the economic problems that plagued Allende's term, mostly a cause of his poor economic planning and flawed policy making. Recall that Kennecott did not intend to overturn Allende's regime through an economic blockade, but rather attempted to pressure the host government for fair compensation and its actions. Although effective in attaining compensation, and therefore successful in defending its interests, Kennecott's actions cannot be interpreted as

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[353] Lasaga, 143.

[354] Susan Strange. *The Retreat of the State: The Diffusion of World Power in the World Economy* (Cambridge: Cambridge University Press, 1966), 4.

[355] In fact, total copper production during Allende's term increased each year. From 1969, 495.4 thousand metric tons, to 1972, 593.2 thousand metric tons. (See Fortin, 145)

[356] Krasner, *Defending the National Interest,* 143.

[357] Ibid.

[358] Solomon, 117.

pivotal in overturning the Allende government. Even less significant, Anaconda was virtually powerless in defending its interests and exercised no influence in the political circumstances surrounding Allende's downfall. On the contrary, the state was very assertive in it policies towards the MNCs, with the only regression in the bargaining process occurring between 1952 and 1955. This was most blatantly expressed through the constitutional amendment that made nationalization the legal action of the state to exercise its 'sovereign and inalienable right'. Under this amendment, Allende further enforced the finality of the state's decision by precluding the MNCs from contesting its decision. This essentially prevented the MNCs from exerting any power over the host state directly. The third approach taken by the MNCs to protect their investments was seeking support from their home government. The evidence provided in this study has affirmed that the US government not only failed to support of the MNCs, but moreover impaired their bargaining power. In this respect, dependency theory is clearly not applicable to this case study.

Multinationals are disparaged by dependency theorists for being products of global capitalism that exploit the developing state and perpetuate under-development. The most obvious manner through which MNCs do this, and arguably the most disconcerting for the developing country, is its pattern of distribution, specifically the movement of capital from the developing state to the developed state. Losses of high profits from the national economy to the foreigner are interpreted as imperialism and exploitation.[359] For those who align with this point of view, such as James Petras, the copper industry was a source of Chilean dependency and underdevelopment largely because of the profits remitted abroad.[360] This is a primary reason multinationals are heavily criticized for further embedding dependency relationships and impeding the direction of development.[361]

It cannot be contested that the MNCs fully reaped the benefits of the Chilean copper industry while they could. Between 1945 and 1972, American MNCs made profits totaling \$7.2 billion and reinvested only \$1 billion of that in Chile.[362] Yet the contributions of the foreign copper giants to the Chilean state cannot go unrecognized. Through the initial

359 Sigmund, *Multinationals in Latin America,* 276.
360 Petras, 26.
361 Ibid., 7.
362 Solomon, 75.

investments of the MNCs, their technological expertise, and their access to international markets, Chile's copper industry, the foundation of its economy, developed. Thus, the MNCs were more of a constructive force and than a destructive one as the dependency theory suggests. In the final analysis, it is obvious that both actors profited from their interaction, and ultimately the state reaped the greater of the benefits, particularly in the long run.

Upon analyzing the abstraction of dependency theory as presented in this study in the Chilean copper case, the analytical findings largely tend to contradict the dependency theory. The larger international system and the position of Chile as a developing country did influence the political outcomes of the country, yet this occurred irrespective of any actions taken by the MNCs and the state. Namely the fall in the price of copper was subject to fluctuations of the international system itself, and Chile suffered because of its lower level of development. The Chilean case demonstrates that while certain structures may exist, they do not necessarily determine outcomes. Recall that by 1973, the Chilean state had begun to overcome the economic difficulties that the international system initially created.

The most obvious flaw with the dependency theory in the Chilean case, however, is the interpretation of the capacities of the state and the MNC. Neither the copper MNCs nor the Chilean state fit the molds that the theory suggests. The claim that the multinational is exploitative and a cause of under-development is disproved in the Chilean case as the MNCs actually paved the way for Chile's development. Despite what the theory purports, the MNCs did not possess the power to alter the political outcomes of the country. Likewise, it would be a false presumption to interpret the state as a passive or debilitated actor against the multinational. This is a common critique of dependency studies.[363] In fact, as the Chilean state demonstrated through its successful takeover of its copper industry from foreign control, the state has the power to not only counter the multinational but to overthrow it.

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[363] Bennett and Sharpe, 8.

This paper has not set out to determine whether the global economy is in fact a structure supported by dependency relationships, nor does it attempt to confirm the various intricacies of the theory, such as the notion of a core and periphery. This study does seek to find the relevance and applicability of *dependencia* as it remains the convenient theory to describe the Chilean case. In this respect, the theory remains tenuously applicable to the Chilean case.

While there may be little relevance of the dependency theory as a conceptual framework to describe the Chilean copper case, this study does acknowledge the significance of the dependency theory as a powerful force that impelled the Chilean state to nationalize its industry. The sentiments of dependency embodied fears that foreign strength would overpower the Chilean state and resentment that the MNC captured rents that would otherwise improve state welfare.[364] Robert Gilpin correctly notes that the expansion of national economic capabilities spur national desires for economic self-determination, which naturally will challenge the hegemony that the MNC once enjoyed.[365]

For Theodore Moran, Chile's copper nationalization process serves as an insightful case study about a periphery country that successfully reclaimed its sovereignty and the right to control its own economic life in the face of great opposition. His argument follows that confrontations between the host government and the foreign multinationals creates a natural bargaining process, driven by the desire to break free from the relationship of dependency.[366] For Moran, the ideological force of dependency within the country was the most significant and powerful force of the nationalization process.

This study agrees with Moran and also recognizes the importance of the geo-political climate of the time. James Petras contends that both of these external factors facilitated the political change in Chile, specifically the position of the US as the regional hegemon and the growing political fervor in Latin America, namely regional nationalism.[367] Indeed, the two forces reinforced each other. For the Chileans, US MNCs represented US hegemony within their borders. As US multinationals accumulated and remitted larger profits that

[364] Moran, *Multinational Corporations and the Politics of Dependence,* 19.
[365] Robert Gilpin cited in Sigmund, *Multinationals in Latin America,* 305.
[366] Moran, *Multinational Corporations and the Politics of Dependence,* 7.
[367] Petras, 10.

could otherwise improve the state's welfare, sentiments of dependency reawakened "dormant national sentiments".[368] Both Allende and Frei rose to power on platforms that called for revolutionary change in the "distribution of power".[369] This was directly related to an end of US imperialism. As the US copper multinationals were the most visible symbols of US domination in the country, full ownership of the copper mines became the target for reform measures. Frei's Chileanization greatly empowered the technical capacity of the state against US influences yet left the populace psychologically wanting more. This psychological satisfaction was found in Marxism, the antithesis of US ideology, and in Allende, the strongest opponent of US influence.

Because greater state involvement in the economy directly challenged the capitalist ideology of the US government, and because state takeovers are at the core of the Marxist doctrine, it makes sense that Allende's first order of business upon entering office was full nationalization of the country's most important industry. Yet despite Allende's condemnation against the US MNCs and his commitment to Marxism, copper nationalization was not solely a consequence of political fervor. The obsolescing bargaining process that began decades prior to nationalization had prepared the way for the state to assume full control. Nationalization merely represented the final episode of that bargaining process. And Allende, although politically controversial and not exceptionally tactful in his implementation, was simply a part of that process. Essentially, he completed the final step of a bargaining process that had been in motion for decades. The obsolescing theory recognizes Chile's nationalization as the final sequence of a natural, incremental process. Moran actually refers to Chile's process as "painfully slow".[370]

Therefore it can be concluded that both the ideological struggle against dependency and the Cold War environment that surrounded copper nationalization were critical driving agents in the obsolescing bargaining process that culminated with nationalization. Dependency theory provoked Chile to assert its power over the MNC and break free from the condition. Ironically, dependency theory inspired the state to overtake the MNC and has therefore disproved the relevance of dependency theory for this paper. Moran contends that it was

[368] Ibid.
[369] Sigmund, *The Overthrow of Allende,* 15.
[370] Moran, *Multinational Corporations and the Politics of Dependence,* 4.

this idea of dependency that motivated Chile to acquire the necessary skills that would make them independent of the MNCs.[371] In other words, dependency theory mentally and physically empowered the state in the obsolescing bargain. Therefore, although not an applicable theoretical framework for Chile, dependency theory was pivotal to the struggle; in such a way that it ironically inspired Chile to not fall victim to the very limitations that the theory espouses.

[371] Ibid., 225.

Chapter 5: Conclusion

Many renowned scholars of political economy share parallel perspectives to dependency theory asserting that the MNC is a powerful force in the international system that has not only challenged, but redefined the capacity of the state. Robert Gilpin asserts that MNCs represent the ideal of the liberal economy, where nation-states become insignificant players and national borders lack the capacity to control such powerful forces.[372] Susan Strange contends that multinationals are "more powerful than the states to whom ultimate authority over society and economy belong."[373] Such assertions imply that one would expect a small country like Chile to be unable to defend its interests against the multinational corporation.

This brings to light the larger theme of this study and asks the following question: Which is more powerful, the multinational corporation or the sovereign nation-state? The conclusions from the Chilean case offer some insight.

This paper has juxtaposed two opposing theories in order to better understand the power relationship between the Chilean state and the MNCs that has been so controversial in Chile's history. The two theories, obsolescing bargaining and dependency, provide opposing hypotheses to the outcomes of the 1973 crisis. Given the intensity of the Cold War environment, the US government's fears over Marxist revolutions particularly in Latin America, the huge investments of US multinationals in the country, and Allende's dramatic death, Chile's history has been subject to multiple interpretations. Yet, the empirical evidence provided in this paper clearly disproves the relevance of dependency theory as an appropriate framework to describe the Chilean case. The evidence confirms that the US copper MNCs were defenseless against the Chilean state and played a relatively insignificant role in the political outcomes of 1973.

In contrast, the obsolescing bargaining theory purports the state as a competent and capable actor that can counter the multinational corporation. The case study has clearly shown that the bargaining process between the state and the MNCs shifted over time in favor of the state. This was because of the massive "sunk" investments required for natural resource

[372] Gilpin, *US Power and the Multinational Corporation*, 288.
[373] Strange, *Retreat of the State*, 4.

industries. Ironically, the high fixed costs that initially gave the MNC such immense bargaining leverage thereafter became its greatest liability. In that process, Frei's Chileanization should be largely accredited for Chile's economic independence. By enabling the state to assume the responsibilities of the MNCs, Chileanization essentially reversed the power dynamics of the bargaining process and allowed Chile to break free from its dependence on the external forces.

Yet nationalization was greatly aided by the nationalist sentiments of dependency theory that accompanied the obsolescing bargaining process leading up to nationalization. The political fervor around dependency theory inspired the state to construct the path towards nationalization. Indeed, the country's fixation on the condition of dependency allowed it to practically break free from it. The paradigm, therefore, did play a pivotal role in the struggle against dependency, but ironically as a means of achieving independence.

The geo-political context in which this case study takes place is of critical importance to the bargaining process that took place. Upon entering office, Allende denounced capitalism and all US interference in the country, and exerted this through nationalization of the copper industry. Naturally, the US MNCs created defense strategies using three primary approaches: direct exercise of power in the host government, appealing for support from the US government, and using their positions and contacts in the international system. Only the last approach in the international system proved remotely successful, and even that merely resulted in fair compensation for one MNC. In the host state, Allende exerted sovereign state rule by making nationalization a constitutional amendment in order to prevent the US MNCs from defending their interests within the country. Approaching the home government for support actually further impaired the MNCs' bargaining leverage.

In this respect, the study has indirectly supported Robert Gilpin's framework, which, although not a central theme, merits recognition. Recall Gilpin's assertion that the US government needs the MNC for strategic reasons and thereby supports the MNC in its profit-maximizing endeavors throughout the world. Yet in the Chilean copper case, the US government's concern with the Cold War prevented it from not only protecting the interests of the MNCs, but actually motivated the US government to undermine the MNCs' bargaining position in order to prevent the rise of Allende. This implies that when the goals of the MNC do not support the designated priorities of the US government, the US government will not come to the defense of the MNC.

A clear way to affirm the relative power of the primary actors is to measure each one's success in realizing its specified goals regarding Chile and the copper industry. The MNCs were concerned with maximizing profit and protecting their long term physical investments. As the bargaining process proceeded, the MNCs struggled to retain high profit margins and protecting their long term physical investments became more problematic with time. For that reason, once nationalized, MNC efforts were solely focused on fair compensation. The US government had strategic interests in Chile, primarily to prevent the spread of communism, but also to maintain a consistent copper supply and promote US private interests. Allende's rise to power obviously diverged from the primary objectives of the US government and the US MNCs. Therefore, the goals of the US government were moderately achieved. While it appears that the interests of the US government and the US MNCs were aligned to prevent Allende's rise to power, the outcomes of his death three years later produced different results for the two actors. For the US government, Allende's death satisfied the government's primary objective as it prevented a communist revolution from fully materializing in Chile. For the US MNCs, on the other hand, the Allende's death did not produce an undoing of nationalization; the copper industry was the only major industry left nationalized under the new government.[374] This confirms that the MNCs were virtually powerless against the state. Furthermore, because Allende was killed by his own people, the insignificance of the MNCs is reinforced given that the industry had already been nationalized.

The Chilean state proved the only actor capable of fully attaining its specified objectives, namely full control over its copper industry, sole recipient of the industry's rents, economic sovereignty, and the nationalist satisfaction derived from expelling all US influence in the country. Chile essentially sought after a redistribution of power and wealth. Its ability to achieve that demonstrates the limited influence the MNCs and the US government actually had over Chile's domain.

[374] Note: The MNCs were granted some compensation under the military dictatorship, yet far below what the MNCs had claimed (See Fortin, 154)

The role of the US government is critical for the theoretical analysis of this study. Equally important to consider is the alternative position the US government could have taken. If the US government had opted to protect the copper MNCs, potentially the outcomes could have overturned and favored the MNCs over the state. Under this premise, dependency theory may be an applicable framework. Yet, this is all conjecture. What can be confirmed is that the dependency theory is not a relevant framework for the Chilean copper case.

Despite the dependency argument that the MNC is the source of under-development for the third world, the MNCs spurred economic growth for Chile by developing its copper industry. The MNCs also proved incapable of defending its interests against the state despite its large economic resource base, its position in the international economy, and the relative power of its home government. This study has not sought to form any conclusions about the relevance or usefulness of dependency theory as there may exist any number of cases where the theory is apt. Yet from the Chilean case, it can be concluded that dependency theory ignores the benefits that MNCs can offer the third world. It can also be concluded that the theory ignores the independent power that small actors, like Chile, can possess.

The dramatic events of 1973 in Chile have kept scholars intrigued for decades. Meddled in the mystery and confusion that surrounds Allende's death, the multinational corporation has been viewed by the world with a suspicious eye. The evidence in this paper reveals that such suspicions are misconceived. Chile's remarkable struggle to break free from *dependencia* shows that the state can defend itself from powerful external forces, namely the multinational corporation. Furthermore, the Chilean copper case demonstrates that rigid conceptual frameworks, such as the dependency theory, conceal the many complexities surrounding the interaction of the developing state and the MNC.[375] For this reason, the debate between the two actors remains a highly contentious and imperative topic in the discipline of international relations.

[375] Weinert, 256.

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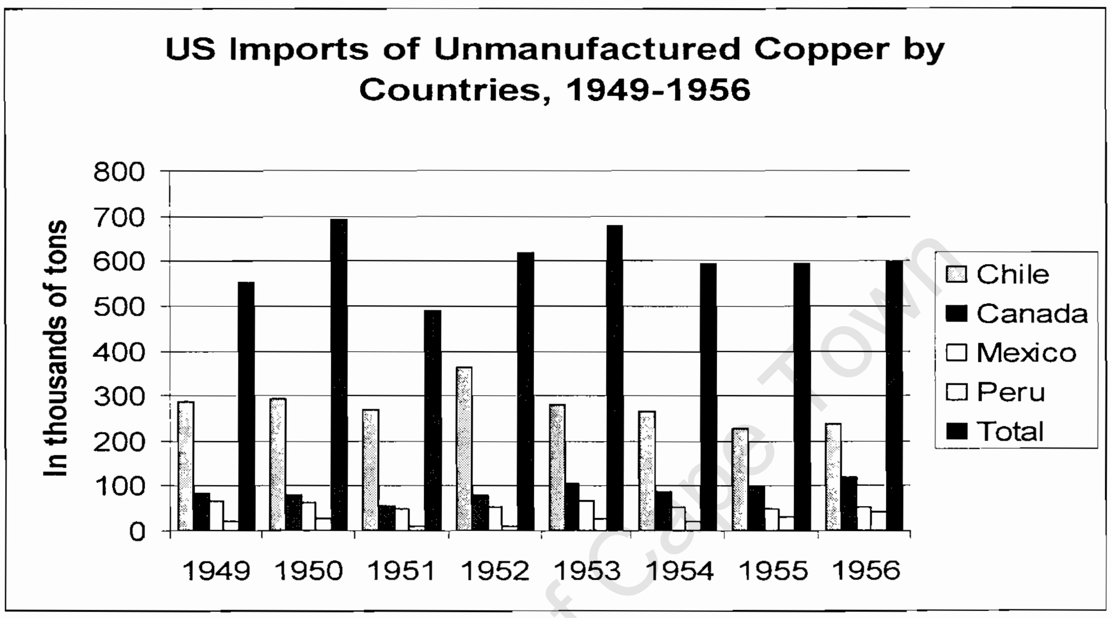
Appendix 1A (Data & Graph)

U.S. Imports of Copper from Primary Vendors, 1949-1956

	1949	1950	1951	1952	1953	1954	1955	1956
Chile	285	292	268	362	281	267	226	237
Canada	83	82	55	82	104	88	100	120
Mexico	65	63	48	51	66	51	48	53
Peru	22	29	10	11	27	22	31	43
Total	553	690	489	619	676	595	594	596



Source: Departmento del Cobre (Department of Copper) cited in *El Cobre de Chile*. (Santiago: Editorial Universitaria, 1960), 28.

Appendix: 2A (Data) & 2B (Graph - See next page)

Primary Buyers of Chilean Copper: 1956 – 1958 (Sales in Metric Tons)

Electronic

	1956	1957	1958
Germany	**2063**	**38361**	**28062**
Holland	**32416**	**4091**	**35224**
United States	**1702**	**3944**	**55**
England	**50313**	**39342**	**21252**

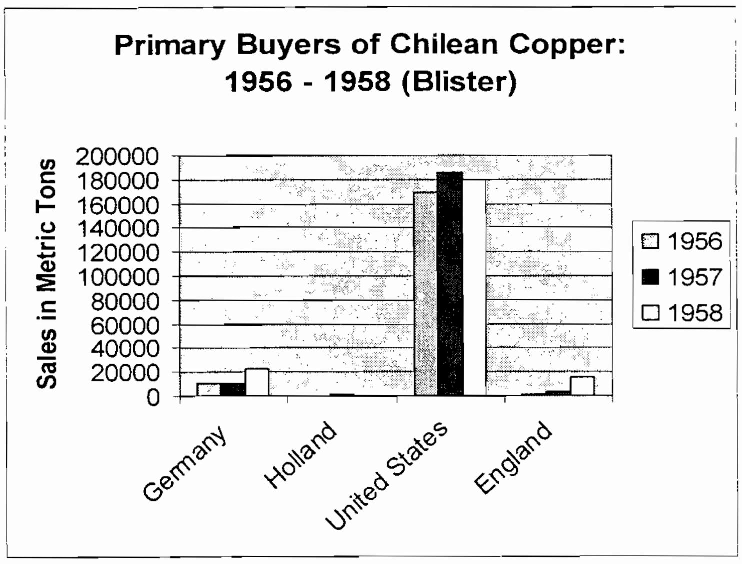
Refining

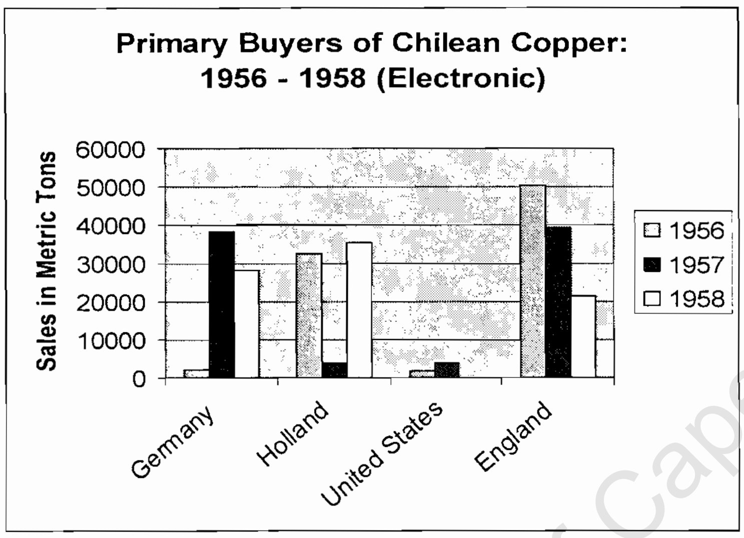
	1956	1957	1958
Germany	**5149**	**7633**	**5837**
Holland	**234**	**544**	**n/a**
United States	**36779**	**3843**	**227**
England	**36614**	**40485**	**39903**

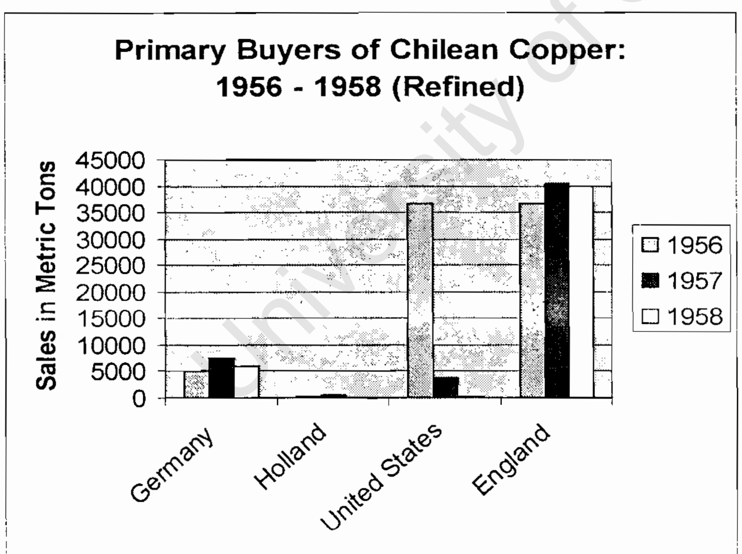
Blister

	1956	1957	1958
Germany	**10442**	**10381**	**22424**
Holland	**200**	**1309**	**n/a**
United States	**169614**	**185835**	**179485**
England	**704**	**3483**	**15154**

Source: Departmento del Cobre (Department of Copper) cited in *El Cobre de Chile* (Santiago: Editorial Universitaria, 1960), 24.


Primary Buyers of Chilean Copper:
1956 - 1958 (Blister)
Sales in Metric Tons
200000
180000
160000
140000
120000
100000
80000
60000
40000
20000
0
Germany
Holland
United States
England
1956
1957
1958

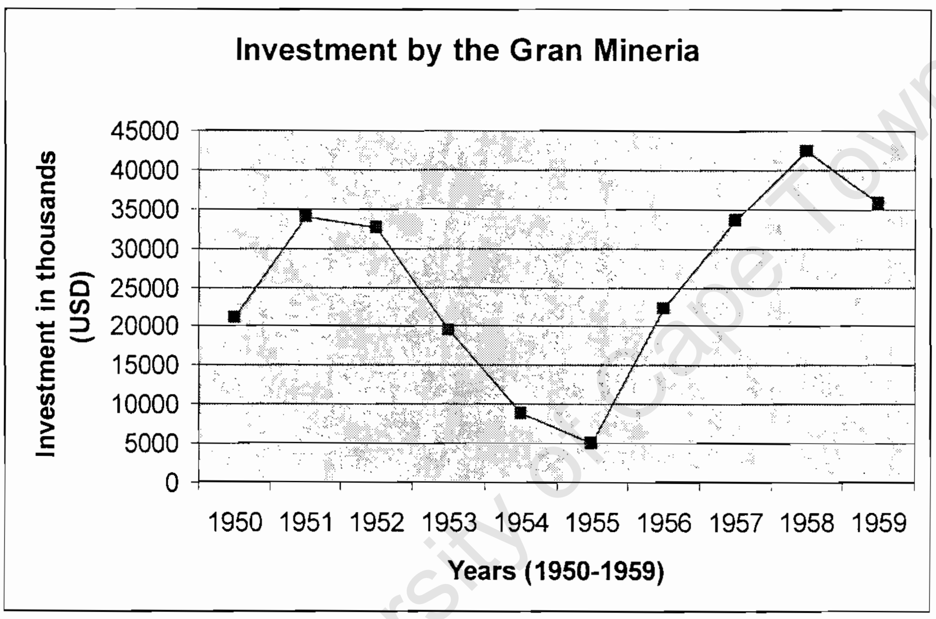

Primary Buyers of Chilean Copper:
1956 - 1958 (Electronic)
Sales in Metric Tons
60000
50000
40000
30000
20000
10000
0
Germany
Holland
United States
England
1956
1957
1958


Primary Buyers of Chilean Copper:
1956 - 1958 (Refined)
Sales in Metric Tons
45000
40000
35000
30000
25000
20000
15000
10000
5000
0
Germany
Holland
United States
England
1956
1957
1958

Appendix 3A (Data & Graph)

Investments by Major Copper MNCs in Chile (The Gran Mineria): 1950-1959

Year	Investment (In thousands USD)
1950	21083
1951	33998
1952	32611
1953	19565
1954	8797
1955	4945
1956	22392
1957	33555
1958	42485
1959	35684

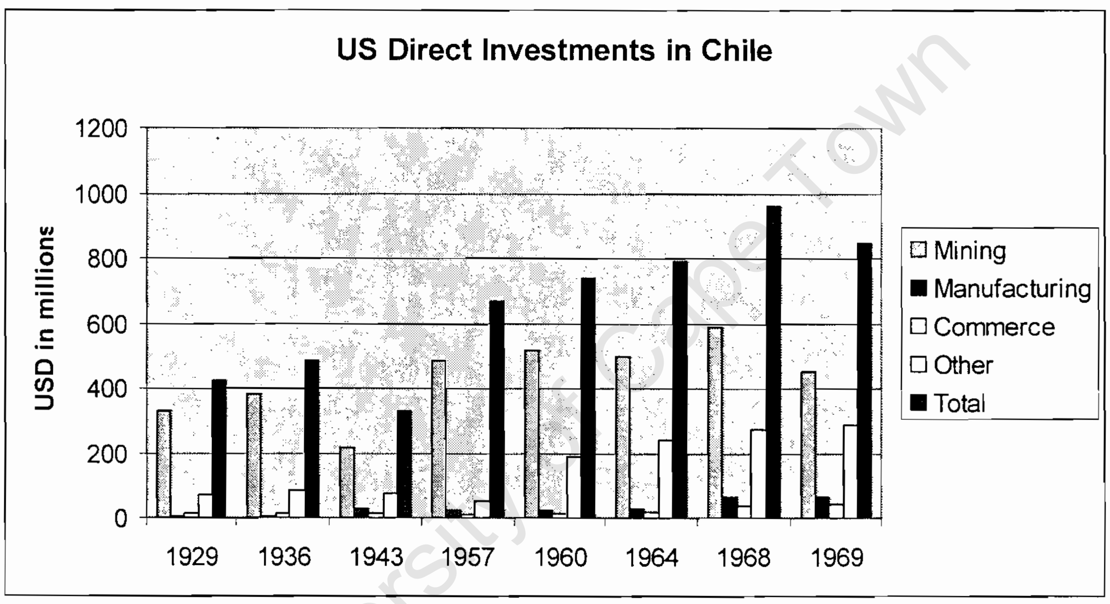


Source: Diario de Sesiones del Senado, Informaciones del Banco Central, 2-viii-60 as cited in Marion Vera Valenzuela in *La Politica Economia del Cobre en Chile* (Santiago: Universidad de Chile, 1961), 129.

Appendix 4A (Data & Graph)

US Direct Investments in Chile (in USD millions)

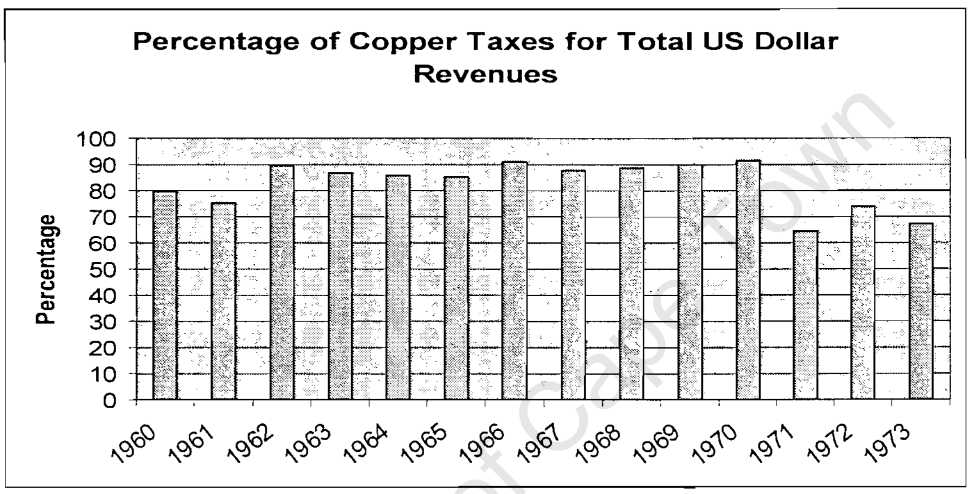
	Mining	Manufacturing	Commerce	Other	Total
1929	331	7	13	72	423
1936	383	5	12	84	484
1943	215	28	15	76	329
1957	483	22	9	52	666
1960	517	22	12	188	739
1964	500	30	20	239	789
1968	586	66	39	271	962
1969	452	65	41	288	846

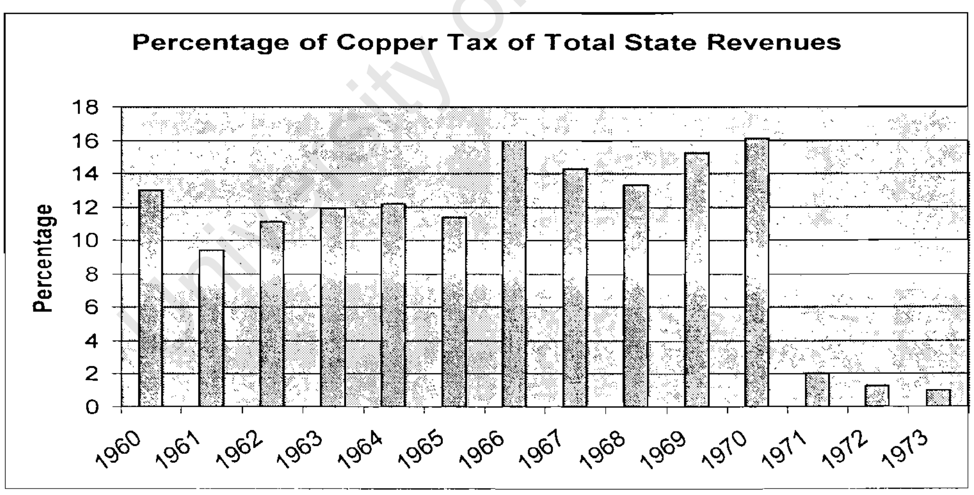


Source: NACLA (North American Congress on Latin America). *New Chile* (New York: NACLA, 1973), 92.

Appendix: 5A (Data and Graphs)

Year	Copper Taxes per Total USD Revenues	Copper Taxes per Total Revenues
1960	79.6	13
1961	75.3	9.4
1962	89.4	11.1
1963	86.8	11.9
1964	85.5	12.2
1965	85.4	11.4
1966	90.9	16
1967	87.8	14.3
1968	88.4	13.3
1969	90.2	15.2
1970	91.2	16.1
1971	64.1	2
1972	73.7	1.3
1973	67.2	1





Source: Manuel Lasaga. *The Copper Industry in the Chilean Economy: An Econometric Analysis* (Massachusetts: Lexington Books, 1981), 13.