

**A CASE STUDY OF THE ROLE OF MULTINATIONAL CORPORATIONS  
IN SINO-U.S. RELATIONS AND INTERNATIONAL AFFAIRS**

**A Thesis  
submitted to the Faculty of  
The School of Continuing Studies  
and of  
The graduate School of Arts and Sciences  
in partial fulfillment of the requirements for the  
degree of  
Master of Arts in Liberal Studies**

**By**

**John Adams B.A.**

**Georgetown University  
Washington, DC  
October 23<sup>rd</sup>, 2008**

**Copyright 2008 by John Adams  
All Rights Reserved**

# **A CASE STUDY OF THE ROLE OF MULTINATIONAL CORPORATIONS IN SINO-U.S. RELATIONS AND INTERNATIONAL AFFAIRS**

John Adams B.A.

Mentor: Dr. Ilkka Ronkainen Ph.D.

## **ABSTRACT**

The role of multinational corporations in international affairs and Sino-U.S. policy is a role of critical concern. Further, the influence of multinational corporations (MNCs) on host nation-states is growing, and the nation-state is no longer the only actor in international affairs. The issue of concern is the growing influence of multinational corporations in international affairs and in state relations, especially Sino-U.S. relations. This study begins with the origins of commercial influence in Sino-U.S. foreign policy and how multinational corporations have increased their influence in China's market economy. Second, this study explores the history of MNCs and the mechanisms that MNCs utilize to influence host states, and the rising Chinese multinational corporation. Third, this study provides two cases, the marketing frenzy of the 2008 Olympics and the 2007 Chinese Export Confidence Crisis which displays the increasing role of MNCs in Sino-U.S. relations and international affairs. Finally, this study defines the ethical dilemma of the role of MNCs in Sino-U.S. relations and international affairs and reaches conclusion over this role and provides suggestions in regards to the future of the international environment.

## **ACKNOWLEDGEMENTS**

I would like to take this opportunity to thank my mentor Dr. Ilkka Ronkainen for all of his diligent guidance and mentoring throughout my studies with him and through out this thesis project. Without Dr. Ronkainen's direction and support, my thesis would not have blossomed into the work that it is today. Further, Dr. Ilkka Ronkainen's teaching on international business and the ethics and values that compose international business provided me with the needed framework for this thesis.

I would also like to thank Assistant Dean Anne Ridder of the Liberal Studies Program. Dean Ridder has always been an advisor and great mentor within the Liberal Studies Program. I would like to take this opportunity to personally thank Dean Ridder for her diligence and commitment to the graduate students of the Liberal Studies Program. Dean Ridder truly embodies the spirit of the Liberal Studies Program, and I can attest personally how Dean Ridder aided me with staying focused on this thesis and remembering why I am in the Liberal Studies Program.

## TABLE OF CONTENTS

|  |      |
|--|------|
| <b>COPYRIGHT</b>   | ii   |
| <b>ABSTRACT</b>  | iii  |
| <b>ACKNOWLEDGEMENTS</b>  | iv   |
| <b>TABLE OF CONTENTS</b>   | v    |
| <b>LIST OF ILLUSTRATIONS</b>   | vii  |
| <b>LIST OF TABLES</b>  | viii |
| <b>INTRODUCTION</b>  | 1    |
| <b>CHAPTER ONE: THE HISTORICAL INFLUENCE OF THE COMMERCIAL SECTOR ON SINO-U.S. RELATIONS: THE BEGINNING OF COMMERCIAL INFLUENCES OF SINO-U.S. RELATIONS, AND THE OPENING OF CHINA BY DENG XIAO-PENG</b>      | 5    |
| <b>CHAPTER TWO: THE ROLE OF MULTIONATIONAL CORPORATIONS IN INTERNATIONAL AFFAIRS—A HISTORIC BACKGROUND OF MULTINATIONAL CORPORATIONS IN INTERNATIONAL AFFAIRS AND THEIR INFLUENCE IN SINO-U.S. RELATIONS</b> | 28   |
| <b>CHAPTER THREE: THE MADE IN CHINA CRISIS—THE PRODUCT SAFETY ISSUES STEMMING FROM THE 2007 CHINESE EXPORT CONFIDENCE CRISIS</b>   | 52   |
| <b>CHAPTER FOUR: THE MARKETING FRENZY OF THE 2008 BEIJING OLYMPICS—HOW MULTINATIONAL CORPORATIONS AND HUMAN RIGHTS ACTIVISTS ARE APPROACHING THE MARKETING EVENT OF THE CENTURY</b>                          | 70   |

|   |     |
|---|-----|
| <b>CONCLUSION: WHAT ROLE OF MULTINATIONAL CORPORATIONS MEANS TO SINO-U.S. RELATIONS AND INTERNATIONAL AFFAIRS</b> | 98  |
| <b>ENDNOTES</b>   | 103 |
| <b>BIBLIOGRAPHY</b>   | 108 |

## **LIST OF ILLUSTRATIONS**

|  |    |
|--|----|
| Illustration 1. U.S. Foreign Direct Investment in China from 2004 to 2007    | 20 |
| Illustration 2. P.R. China Foreign Assets from 1999 to 2008                  | 48 |
| Illustration 3. The Revenue Generated by MNC Olympic Sponsors from 1985-2008 | 78 |
| Illustration 4. The Turn Off/Tune In Pledge of the Olympic Dream for Darfur  | 90 |

## LIST OF TABLES

|  |    |
|--|----|
| Table 1. U.S. Multinational Corporations with Operations in China              | 36 |
| Table 2. The Top Ten Rising Chinese Multinational Corporations                 | 47 |
| Table 3. The Breakdown of the Recall Costs for Multinational Corporations      | 57 |
| Table 4. Ratio of the Number of Partners to NOCs from 1985-2008                | 77 |
| Table 5. Corporate Social Responsibility Grading list for MNC Olympic Sponsors | 87 |

## **INTRODUCTION**

The role of multinational corporations in international affairs and Sino-U.S. relations is a role that is increasing in influence and economic power in today's international system. The phenomenon of multinational corporations is changing the way nation-states and even individuals interact in a world that is becoming more and more integrated and interdependent. Further, multinational corporations are becoming the driving force in the development of the global economy. The interwoven phenomenon of multinational corporations is causing a change in the values and ethics that nation-states once used as a guideline as the economies of nations and technology continues to make the world more connected. In the international landscape of today, international business, technology, and foreign policy are constantly influencing each other. More importantly, the nation-state is not the only key actor in international affairs as multinational corporations are increasing their role and their influence in both the international economy and in foreign policy. The issue of concern in this study is the growing influence of multinational corporations in the values and ethics of international affairs as multinational corporations change the environment of the international system. Further, the role that multinational corporations play in Sino-U.S. relations and the potential influence that this third actor can have in Sino-U.S. foreign policy is of critical concern.

In Chapter one, the main focus of this chapter is to explore the history of Sino-U.S. relations from the commercial sense and analyze the evolution of the economy of China. This chapter provides a historical framework from which the reader will be able to comprehend how the commercial sector became an influence in Sino-U.S. foreign policy. By analyzing the evolution of China's economy from the planned economic model instilled by Mao Zedong to the Opening of China and the usage of Special Economic zones implemented by Deng Xiao Peng, the reader will gain a better understanding of how the economic environment evolved in China that allowed multinational corporations to thrive. Further, this chapter will explore the mechanisms that multinational corporations are utilizing in the Chinese economy, particularly foreign direct investment and foreign invested enterprises.

In Chapter two, multinational corporations become the main focus of discussion. In this chapter, the history of the multinational corporation, and how it evolved into the entity that is today is defined. For the purposes of this research, the history of the multinational corporation is considered from the Industrial Revolution, the aftermath of World War II, and then during the 1970s when multinational corporations become the international economic organizations of today. Also within this chapter, the mechanisms that multinational corporations utilize to gain influence over host nation-states will be discussed in detail. Further, this chapter will discuss the rising Chinese multinational corporation, and explore the history of Chinese MNCs and determine their success in the international market. Finally, the ethical

question over the influence of multinational corporations in the economies and governments of host nation-states will be explored.

Chapter three presents the first case study used for this research into the role of multinational corporations in Sino-U.S. foreign policy. This case study is based on the *Chinese Export Confidence Crisis* that took place in the summer of 2007. This case study aids the reader with a current example in international business that demonstrates the role that multinational corporations can play in Sino-U.S. relations, and more importantly the influence that multinational corporations can have on the Chinese economy and government. Further, this chapter provides recommendations on this case study for all parties involved. This chapter perceives the export crisis from all the key players in the event, multinational corporations, the U.S. government, and China. This case study provides the perfect model of how multinational corporations can influence governments in a positive way by providing an industry example and leading the direction of consumer safety.

In the final chapter, another case study is used to demonstrate the ability of multinational corporations to influence not only nation-states, such as China, but also world events. This case study focuses on the issue of the marketing frenzy of the Olympics lead by both multinational corporations, and human rights groups such as the Dream for Darfur. This case study analyzes the how multinational corporations can be an influencing force by their ability to contribute large financial amounts such events as the Olympics. Further, this case study questions if multinational

corporations are required to influence states to take action on such issues as the genocide in Darfur.

The purpose of this exploration into the role of multinational corporations in international affairs and in Sino-U.S. relations is to determine the increasing influence that multinational corporations have in global affairs and the international economy. Further it is the purpose of this study to determine the ability of MNCs to influence host nation-states and the relations between states. The ethical consideration in regards to this study is critical, and will be explored.

## **CHAPTER ONE**

### **THE HISTORICAL INFLUENCE OF THE COMMERCIAL SECTOR ON SINO-U.S. RELATIONS: THE BEGINNING OF COMMERCIAL INFLUENCES OF SINO-U.S. RELATIONS, AND THE OPENING OF CHINA BY DENG XIAO-PENG**

The relationship between the U.S. and China is one that has been paved with the influence of the business sector since America's first interest in China's market to the current establishment of Sino-U.S. relations. A clear distinction of the commercial sector's influence on Sino-U.S. relations can be seen since 1893, during U.S. expansionism into the Pacific. Also, the progression of the Chinese economy itself, from a planned economy into the capitalistic miracle or concern for that matter is essential to comprehend both the progression of Sino-U.S. relations, and also the current market economy of China. Further, it is evident that the current economy of China can be influenced by multinational corporations, thus effecting Sino-U.S. relations. Because of the effect of the Chinese market on the global economy, it is critical to understand the progression of Sino-U.S. relations and the influence of the business on these relations, what role that multinational corporations play in China's economy and the influence that multinational corporations can have on the Chinese government. The relationship that multinational corporations and the Chinese economy share is one that can have a rippling effect on the global economy. First, this chapter will provide the historical context of the progression of Sino-U.S. relations from 1893, focusing on the role of the business sector in pursuing a

foothold into the China market. Then the interpretation of how the Chinese economy progressed from a planned economy to a market economy will provide the needed framework to comprehend the current economic environment in China which has allowed multinational corporations to thrive and be so successful. Second, this article will analyze the role that multinational corporations can play in the new market economy through foreign direct investment and foreign invested enterprises. Finally, this chapter will consider the ethical component of allowing the business sector to drive U.S. foreign policy in regards to China, and also the ethical considerations of the increasing influencing of multinational corporations on Sino-U.S. relations.

### **The beginning of commercial influence on U.S. foreign policy towards China**

During the period between 1893 through 1901, the U.S. entered into an era of expansionism, a time when U.S. foreign policy desired to establish an “American Lake” in the Pacific. Further, the U.S. commercial sector saw China as this fabled “China Market” which would provide U.S. industrial production an outlet of consumers for manufactured U.S. goods. The period 1893 to 1901 would become the groundwork for Sino-U.S. relations, and would establish the influence of the commercial sectors in matters regarding to Sino-U.S. relations. The two major themes that are critical for the reader to comprehend and which will be analyzed and critiqued in this article are: (i) The “China Market”, the very ideal of a commercialized market in Qing dynasty China and the belief by U.S. commercial

interests that the China market was a new ground for a consumer base for the consumption of U.S. manufactured goods and for a new source of resources; and (ii) the China factor itself, and how the U.S. during this time frame almost overlooked the China factor. With further analysis and critique of these main themes during this time frame, it is the intent of this article to demonstrate how the commercial sector began to influence U.S. foreign policy towards China.

The ideal of the “China Market” itself is an ideal that would drive the U.S. commercial sector to desire to gain a foothold in the Pacific and more importantly, to establish dominance in the China Market for the outsourcing of over manufactured goods to China, and a source for new resources. The author McCormick in his book, *China Market: Quest for an Informal Empire 1893-1901* displays how economic depressions taking place within the U.S. economy, and overproduction by the U.S. industrial sector would become the catalyst for U.S. foreign policy to seek commercial expansionism in the Pacific.<sup>1</sup> Further, McCormick displays how two different administrations, the Cleveland Administration and the McKinley Administration would view the issue of U.S. commercial expansionism from different ideological perspectives and deal with the matter differently. Clearly, the events that lead the U.S. to be influenced by the commercial sector for U.S. expansionism into the Pacific and the desire to gain a piece of the China market were a combination of economic, political, and social aspects that drove U.S. foreign policy towards commercial expansionism. A clear example of a combination of

events that became a driving factor for the pursuit of the American Lake in the Pacific and the China market are the economic depressions that took place in the U.S. such as the Panic of 1873, and the overproduction caused by the U.S. industrial sector, which caused a growing power elite within the U.S., composed mainly by commercial interest, to influence U.S. foreign policy to seek foreign markets for both new markets and new resources. Further, not only were there factors taking place within the U.S. to catalyze the U.S. towards expansionism in China, yet simultaneously events were occurring in China, which only solidified the opinion of the influencers of U.S. foreign policy that expansion into the China market was a valid solution to quell U.S. concerns with the domestic issues at home. Author McCormick states as follows:

Time is one of the most fascinating elements in the historian's grab bag, for it multiplies chance variations many times over. Witness the crisis of the American marketplace: had it happened at any other time than the 1890's, it might have taken very different directions, shapes, and dimensions. But coming when it did, the crisis in the marketplace coincided with yet another crisis—that in China, occasioned by the Sino-Japanese War of 1894-1895. And it was the intersection of these two crises, reinforced by the traditional Asian orientation of American commercialism, that led many Americans to define the China market as the solution to the closed frontier and the industrial glut at home.<sup>2</sup>

Clearly, from a combination of economic, political and social factors taking place domestically within the U.S. and also with a China bombarded with internal issues, it is evident to determine the events that led to the evolution of U.S. interests in the establishing a foothold in the China market stemmed from. The root of this desire to

expand into the Pacific and enter the international political stage to become a known world power was one that stemmed from a multitude of issues that allowed both the American populace and power-elite who influenced policy to see this time in history as the opportune time for U.S. expansionism into the Pacific.

A major fault of U.S. foreign policy during this time frame is its inconsideration of the complexity of the China factor, and its potential effects on the aspirations of an establishment of a niche in the China market for U.S. commercial interests. To truly understand the difficulties that U.S. commercial interests faced in gaining a foothold in the China market, it is critical for the reader to comprehend exactly the issues that China faced during this time period. Further, reference to the internal complexities within China in regards to the economic, political, and social ramifications facing the Chinese society during this time provides better understanding how China became the victim of the Western powers. However, McCormick himself describes how the U.S. did not consider China itself a dynamic factor. McCormick describes how U.S. foreign policy was implemented without fully considering the effect that the China factor could have on the goals of U.S. foreign policy in establishing a niche within the China market. Author McCormick stated as follows:

Either out of ignorance or arrogance, it treated China as passive and static entity; not an actor but something to be acted upon. In doing so it ignored one of history's few absolutes: the extension of power (however informal) of stronger nations over weaker ones inevitably effects change in the weaker ones inevitably effects change in the weaker societies—in cultural

attitudes (toward their own culture and others), in class and social structure, in political institutions and behavior, in technology and economics, in education and the like. Moreover, such changes—and the traditionalist opposition to them—can and often do cause violent reaction against the intruding powers.<sup>3</sup>

Clearly, during this time frame, U.S. foreign policy did not give the China factor its needed consideration before implementing foreign policy with the goal of gaining a niche within the China market. Most importantly, without better representation of the China factor, it is difficult to gain a true grasp of how the U.S. commercial sector, the power-elite, U.S. policy makers, and even the American public did not give significant consideration to the China factor. During this time frame, China was ruled by a dynasty that was dying and losing its control over the nation. China was a society influenced by Confucianism, an ideology that could not progress with the modern world. Further, the social structure of China was being challenged by influence from the west, which affected both the structure of the classes and even of the family structure. Most of all, China was a nation that was not ready to face the challenges of the Western world as a whole. The issues that faced China were issues that the commercial sector and U.S. foreign policy makers needed to give more consideration before implementing a foreign policy objective for commercial expansion in China. Without understanding the China factor in all of its complexity, one cannot fully comprehend the difficulty that the U.S. faced in seeking commercial expansionism into the Pacific, and more importantly, in gaining a foothold in the China market.

The period from 1893 to 1901 demonstrates the beginning of the commercial sector influence on Sino-U.S. foreign policy, and the key motivating factors that lead for the expansion of the U.S. into the Pacific. Further, this period establishes the future key factors that will become critical for the development of Sino-U.S. relations. While not all of Sino-U.S. relations is influenced by the commercial sector, it is evident that with the rise of multinational corporations, that this influence is still a dominant factor in Sino-U.S. foreign policy. The ethical question is if whether the commercial sector should be allowed to influence foreign policy? Clearly such influence on Sino-U.S. foreign policy can have both positive and negative effects upon the relationship between the two nation-states. The next question is what mechanisms are being used by multinational corporations to influence Sino-U.S. relations. Evidently, during U.S. expansionism into the Pacific, commercial influence had a negative influence on U.S. foreign policy towards China. During this time period, the commercial influence on U.S. foreign policy towards China was short sighted and determined to enact policy that proved to have detrimental effects on the Chinese nation state. Examples of the negative impact on China from U.S. foreign policy during this time frame can be seen through the weakness of the Open-Door Policy and also the stance by both the Cleveland Administration and the McKinley Administration. Yet the stances of both administrations were different, and had different affects upon Sino-U.S. relations. The significant factor of the Cleveland Administration's stance towards China during this time frame was that

Cleveland's Administration did not want to be viewed imperialist in regards to China.<sup>4</sup> This caused U.S. foreign policy not to fully support both the needs of the commercial sector nor the governmental sector in their pursuit of a niche in the China Market. With regards to the McKinley Administration, the opposite would take precedence. For the McKinley Administration, pragmatic diplomacy and insular imperialism were the key components of McKinley's stance of the goals of U.S. foreign policy in China. McKinley's pragmatic diplomacy caused U.S. foreign policy to view China as an object that was almost static and not dynamic. Further, McKinley's pragmatic diplomacy caused U.S. foreign policy to view China for only what it could gain at the current situation, and did not consider the fate of the Chinese nation-state itself, as it was being ravaged by other foreign powers for labor and resources.<sup>5</sup> It is expected for a nation's foreign policy to be in the favor that nation-state. However, the greatest fault during this time period belongs to the commercial sector that influenced U.S. foreign policy to pursue the policy that was enacted towards China. Further, the commercial sectors grandeurs of the "China Market" and the ability for U.S. commercial interests to establish a niche with the Chinese market to allow for an outsourcing of overproduction for the U.S. industrial sector was critically flawed. During this time period, there was not a "China market" as in the perception of consumer based market that would be able to actually consume the overproduced goods created by the U.S. commercial sector. Further, the ability for the U.S. commercial sector to establish a niche within the Chinese market

proved difficult because of two main reasons: (i) the U.S. commercial sector had competition from the European foreign powers who had the complete backing of their governments to establish a niche within China, even if it meant taking an imperialistic standpoint; and (ii), the China factor itself. Neither the U.S. commercial sector nor did U.S. Foreign Policy calculated correctly the internal situation of the China factor and how the internal situation of the China factor would affect the goals of U.S. Foreign Policy and Sino-U.S. relations. From the U.S. expansionism into China during the during 1893-1901, a clear pattern of influence from the commercial sector on Sino-U.S. relations is evident.

### **From a planned economy to a market economy**

To fully understand the market economy of China and the role of multinational corporations in this new economy, it is imperative to have knowledge of the events that lead the PRC to take the gradual steps needed to transition from a planned economy into the economic model in practice today. Before the pragmatic leadership of Deng Xiaoping, the People's Republic of China was under the guidance of one of the most influential and controversial leaders of the 20<sup>th</sup> century, Chairman Mao Zedong. Chairman Mao was the embodiment of Maoist thought, which maintained the core belief of class struggle and Mao constantly pushed the Chinese populace into revolutionary mass mobilization. While Chairman Mao was a revolutionary leader who was able to bring a broken and battered China together after years of strife and turmoil, he was however, not the most pragmatic leader

when it came to issues of social and economic policy. To Chairman Mao, the revolution did not end in 1949, and the Chinese populace was meant to continue the struggle. A clear example of the impractical planning by Chairman Mao is the Great Leap Forward of 1958-1962.<sup>6</sup> The Great Leap Forward is a prime example of a centralized planned economy. The structure of the campaign surrounded around organizing farming villages into the people's communes, which theoretically would allow each commune to be in charge of their production and function as a primary accounting unit for the state.<sup>7</sup> This allowed each commune to become a self-supporting community for the purposes of agriculture and small-scale local industry and to determine the method of production and take the responsibility for marketing, administration, and local security.<sup>8</sup> The concept of the people's commune in theory seemed valid as it would allow a cession of the family ties that separated villages and force villages to function as one unit and force a community to become self-reliant for agricultural production and local industry which would perpetuate other needs within the community. However, history proved that the Great Leap Forward was an economic disaster that not only retarded the progression of the Chinese economy, yet would also sacrifice the lives of 20 to 43 million Chinese to the poor centralized planning indoctrinated by Chairman Mao.<sup>9</sup> Author Dr. Edwin Pak-wah Leung stated as follows:

The Great Leap Forward Campaign was an economic failure...Among the Great Leap Forward Campaign's economic consequences were a drastic shortage of food (in which natural disasters also

played a part); shortage of raw materials for industry; overproduction of poor-quality goods; deterioration of industrial plant through mismanagement; and exhaustion and demoralization of the peasantry, intellectuals, and party and government cadres at all levels.<sup>10</sup>

Clearly, the Great Leap Forward and the experimentation of a planned economy was a painful lesson for both the Chinese populace and the CCP party. Unfortunately after the Great Leap Forward, China was forced to deal with yet another painful scar also lead by Chairman Mao, the Proletarian Cultural Revolution.<sup>11</sup> The Cultural Revolution threw Chinese society into complete chaos as the youth or as they became labeled, the Red Guard was instructed by Mao to rid society of the four old elements within Chinese society: (i) old customs; (ii) old habits; (iii) old culture; and (iv) old thinking.<sup>12</sup> With the Chinese Youth attacking practically every aspect of Chinese society and any political leader that Mao deemed to be leading China unto the “capitalist road”, no one or any facet of Chinese society was safe during this traumatic and violent period in Chinese modern history. The Cultural Revolution brought the destruction of traditional aspects of Chinese society, the persecution of members of society deemed to be capitalistic, for example bourgeoisie or landowners; and even academics who taught western ideals.<sup>13</sup> Most importantly, the Cultural Revolution further set back the progression of the People’s Republic of China. It would not be until the end of the Cultural Revolution and the death of Chairman Mao in 1976 when the Chinese finally began to recover and start the long journey to political stabilization and economic progression. After the death of Mao

Zedong, China would finally have leadership that focused less on ideology and more on pragmatism for both social and economic planning. Evidently, the political leaders of the CCP learned the painful lessons of the Great Leap Forward and the Cultural Revolution. The main leader that can be credited for the current market economy that China has today is CCP leader Deng Xiaoping. From the failure of a centralized planned economy in China and from the success of capitalistic economies in neighboring countries and the west, the leadership after Mao Zedong realized that capitalism and a market economy were the correct course for China's economy. However, the implementation of capitalism and steps to a market economy did not mean the end of socialism in China. CCP leaders such as Deng Xiaoping believed that socialism and capitalism were able to positively coexist and work in union. Author Dr. Gregory Chow stated as follows:

Two years later, Deng Xiaoping became the leader of China, having removed the political leaders responsible for the more extreme policies of the Cultural Revolution. More liberal economics policies were introduced because of the Chinese leaders and economic officials, after experimenting with the commune system and central economic planning for more than two decades, recognized their deficiencies. They had begun to appreciate some virtues of a market economy, which had existed in a small extent throughout the previous 25 years. Their recognition was further enhanced by the successful experience of economic development in the neighboring economies of Hong Kong, Singapore, Taiwan, and South Korea. The open-door policy of Deng permitted them to learn more about the successful development of these and other economies.<sup>14</sup>

By reopening China to its neighbors and the west, Deng Xiaoping was able to allow capitalism to transform China into the market economy that brought China out of the

backwardness of the Great Leap Forward and the Cultural Revolution. However, Deng Xiaoping realized that this transition must be gradual, and he achieved this gradual transition through the implementation of Special Economic Zones.<sup>15</sup> Chinese leaders and economic reformers realized that if the transformation were enacted too quickly, then society would not be able to adjust progressively to the changes of a market economy. The economic reformers focused on six key areas for the reformation of the economy: (i) give individual state enterprises autonomy in decisions regarding production, supply, marketing, pricing, investment, and personnel, as independent profit-seeking economic units; (ii) reduce the scope of central planning to guidance planning; (iii) allow prices of more products to be determined by the forces of supply and demand; (iv) establish various forms of economic responsibility systems within individual enterprises to promote efficiency and encourage differential wage rates to compensate for different kinds of work and levels of productivity; (v) foster the development of individual and collective enterprises as supplements to state enterprises; and (vi) expand foreign trade and investment as well as technological exchanges.<sup>16</sup> It was clear to the economic reformers and the political leaders that the economic reform needed macroeconomic control mechanisms within the economy to allow regulation and stability within the system as the transformation took place. The economic reformers focused on three primary macroeconomic control mechanisms: (i) taxes; (ii) interest rates; and (iii) monetary policy to insure stabilization within the emerging market economy.<sup>17</sup>

While China has transformed from a planned economy to the market economy that it is today, it is evident that that the government still plays a key role in insuring that the transition of the Chinese economy is stable. A clear example of this guidance is through the interaction of the government of China and multinational corporations. The relationship between the government of China and multinational corporations is one that must be further considered to understand how multinational corporations are influencing the Chinese government and also Sino-U.S. relations.

### **The role of multinational corporations in China' new market economy**

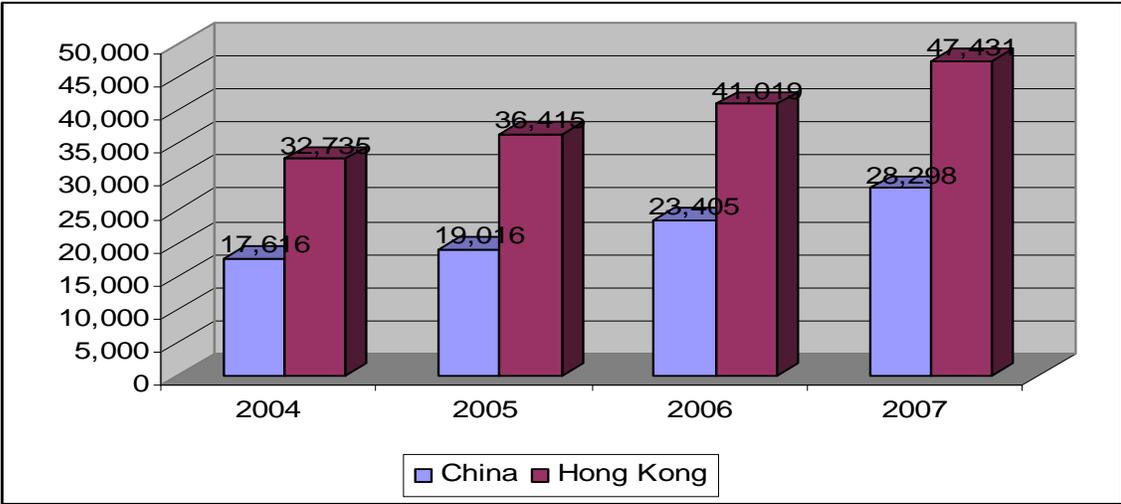
Since the transformation of the China's economy from a planned to a market economy, multinational corporations have become a critical part in the success and stability of the Chinese state. More importantly, multinational corporations are becoming a key actor in Chinese economy and even have the potential of influencing Chinese policy. Multinational corporations promote the growth of the Chinese economy in two primary ways, through the implementation of foreign direct investment and through new business ventures by foreign invested enterprises.<sup>18</sup> With these mechanisms that multinational corporations brought to emerging Chinese economy, China was able to rapidly develop its economy to become an economic superpower. However, foreign direct investment and foreign invested enterprises affected the Chinese economy differently, and it is imperative to understand what effects FDI and FIE have on the economy. The effect of FDI on the Chinese economy can be summarized by author Dr. Yadong Luo, stated as follows:

Recently, several studies found that FDI significantly promoted the economic growth of China during the 1976-1996 period by contributing to domestic capital formation, increasing exports, and creating new employment. Moreover, FDI improved the productive efficiency and resource allocation efficiency of Chinese domestic sectors by transferring technology and facilitating inter-regional and inter-sector flows of labor and capital...China has been remarkably successful in attracting FDI and directing it to help promote the country's long-term development plans, despite economic up and downs and FDI inflows along the way.<sup>19</sup>

FDI from multinational corporations provides the capital resources needed for China's economic growth. Evidently from the massive amount of FDI that has been flowing into the country since 1976, multinational corporations are providing the economic engine to stimulate the Chinese economy by providing the capital, increasing the demand of exports, and by creating new jobs within the growing economy. China's FDI is only second to the United States, and could very possibly in the future overcome the United States as the primary source of foreign direct investment for multinational corporations as long as China's economy continues to grow and as long as the political situation within the country remains stable. If foreign direct investment provides the capitals needed for China's growth, then foreign invested enterprises provide the structure and the transfer of technology and expertise needed for the Chinese economy. As China's economy gradually opens more to multinational corporations and becomes more of a capitalist economy with little to no intervention from the Chinese government, foreign invested enterprises will be able to more freely enter the Chinese market and establish new ventures with little to no intervention from the CCP. Since 2004, FDI provided by U.S.

multinational corporations has significantly increased in just a short time span. The amount of FDI from U.S. multinational corporations into China has provided China with dramatic economic growth over the short span of three years. With this continuous increase of foreign direct investment by U.S. multinational corporations, U.S. MNCs have been able to establish a multitude of benefits by investing this rising economic powerhouse. The following illustration demonstrates the sharp increase in foreign direct investment provided by U.S. multinational corporations from 2004 to 2007:

Illustration 1. U.S. Foreign Direct Investment in China from 2004 to 2007



\*Statistics pulled from the U.S. Bureau of Economic Analysis at <http://www.bea.gov/international/datatables/usdctry/usdctry.html>

The amount of foreign direct investment from U.S. multinational corporations from 2004 to 2007 is estimated in the millions. The statistical information from the U.S. Bureau of Economic Analysis separates mainland China and Hong Kong for their

analysis. However, Hong Kong is still considered a province of mainland China, and will be utilized in this study to examine U.S. FDI in China. In just three years, U.S. F.D.I in China and Hong Kong increased from \$50, 351 million to \$75, 729 million within a brief time. Such an increase in foreign direct investment by U.S. multinational corporations in China demonstrates a continued investment by U.S. MNCs in the development of China. Yet, what are multinational corporations gaining from supplying FDI into China? The gains for multinational corporations are multifold. Primarily multinational corporations gain from their FDI in China in the following ways: (i) establishment of supply chains within China; (ii) access to both inexpensive labor and natural resources; (iii) most importantly, access to the growing domestic Chinese consumer market.<sup>20</sup> By investing FDI in China, multinational corporations are able to establish new supply chains in developing China. Further, China has proven to be an excellent source for inexpensive labor and natural resources for multinational corporations seeking to deploy factories for production. The cost of labor in China versus other developing countries still remains competitive, thus China still has the capability to attract FDI from multinational corporations on this matter.<sup>21</sup> However, the most critical benefit which multinational corporations are gaining from their foreign direct investment in China is the sheer fact that FDI by a multinational corporation gives that MNC access to the growing domestic Chinese market. Author K.C. Fung states in his book *U.S. Direct Investment in China* the following:

Many multinationals have shifted their focus to the Chinese *domestic* market. China is no longer just a low-cost manufacturing base for exports. Domestic retail sales indicate the potential size of the Chinese market. Retail sales in China have grown more than twenty-seven fold since 1979. That year, the first year of China's new open door, total retail sales of consumer goods in China were 147.6 billion yuan or renminbi (the Chinese currency); by 2002, total retail sales of consumer goods reached 4,091 billion yuan, or \$500 billion. One year after China joined the WTO, many multinational corporations were bullish about their performance in the Chinese market. According to a recent study by the International Monetary Fund (IMF), companies with operations in China earned returns of 13-14 percent on invested capital during the mid-to late 1990s. Today, almost all involved companies have reaffirmed their need to stay in China. Investing in China is increasingly profitable and is a long-term strategy to gain a foothold in the large emerging market. If a company wants to be an Asia-Pacific or even a global player, it simply cannot afford *not* to be in China.<sup>22</sup>

Clearly, the advantage for multinational corporations to enter into the domestic Chinese market is well worth the risk for foreign direct investment made by these corporations. FDI provides multinational corporations with a path into the Chinese market and allows multinational corporations to establish themselves within this market. The potential gain for these corporations entering this market is immense. Based on the growing middle class in China, the Chinese market for consumer consumption may soon one day be the biggest market for consumer goods in the world. However, the concern is how this FDI can influence the Chinese government, and the ramifications of FDI from multinational corporations in China. With the current government structure of China, it is evident that officials within the Chinese government are prone to corruption. Because of this factor, it is critical to consider

how through foreign direct investment multinational corporations can gain influence on the Chinese government.

If foreign direct investment provides the financial engine for continued growth within the Chinese economy, then foreign invested enterprises provide the mechanisms for FDI to be implemented in the Chinese market. Currently, foreign invested enterprises typically establish joint-ventures with a domestic company to allow a multitude of effects to take place: (i) the gradual implementation of the FIE into the market to allow domestic companies to adjust; (ii) the transfer of technology into the economy, and (iii) the improvement of training for personnel and the recruitment of the local labor force.<sup>23</sup> Clearly, foreign invested enterprises allow for improvement of both the domestic companies and the workforce that centralized economic planning was not able achieve. Most importantly, since China possesses the world's largest consumer market, multinational corporations will continue to be willing and eager to establish foreign invested enterprises and provide foreign direct investment into this emerging economy. The benefits for Peoples Republic of China from the opening of China to the world and ending planned economic policies is evident in the success and the progression that the PRC has made in the last 30 years since CCP leader Deng Xiaoping initiated the economic reforms that transformed the Chinese economy into the market economy that it is today. While China is a rising economic superpower, it is however still a developing nation that is still behind the west in many manners. In reference to foreign invested enterprises, there

is a positive effect upon the Chinese economy because this involvement by multinational corporations in developing China for the purposes of establishing new supply chains and tapping into the potential of the domestic Chinese market. Foreign invested enterprises contribute to the improvement and growth of the infrastructure of China. Thus, inadvertently multinational corporations are contributing the stability and success of the Chinese government. Ethically speaking, there is the concern of multinational corporations contributing to a one-party system government, unintentionally supporting a corrupt regime that is not democratic and has a multitude of human right violations. Further, the values that multinational corporations use in their decision making process may not be what is best for a nation-state such as China that is still developing and still susceptible to corruption and internal strife, as the Chinese nation-state establishes itself in this new era of world history.

### **Conclusion**

The relationship between the U.S. and China is one that has always been influenced by the commercial sector. China has always been valued for its potential from a market perspective. This pattern can throughout Sino-U.S. relations, from the U.S. commercial expansionism in 1893-1901, to today, as multinational corporations continue to be an active player in China through foreign direct investment and foreign invested enterprises. Multinational corporations have proven themselves to be an important actor within the Chinese economy, and have also proven to be a

critical component to the China's success to becoming an economic superpower. Since Chairman Mao's leadership to the leadership of Deng Xiaoping, the Chinese state has endured much before reaching the positive economic growth of today. Today China is still far from perfect and still has many domestic and international issues to confront. Yet, the progression of China from the disasters of the Great Leap Forward and the Cultural Revolution can be seen in the success of the Chinese economy and the political stability that the government is providing for the Chinese populace. Clearly, the success that China enjoys today can be contributed to the three following factors: (i) the shedding the Maoist ideology to the pragmatism of Deng Xiaoping; (ii) the implementations of economic reforms that include the allowing of state enterprises to function more like corporations, enacting macroeconomic control mechanisms in the form of taxes, interest rates, monetary policy and the expanding of foreign trade and investment as well as technological exchanges; and (iii) increasing the role multinational corporations within the economy through foreign direct investment and foreign invested enterprises. However the hastened success of China's economy through economic reforms and through the participation of multinational corporations within the economy, it is critical to consider the potential influence that multinational corporations can have on the Chinese economy and the government of China. As foreign invested enterprises demonstrate, multinational corporations have the ability to improve the infrastructure of China, thus making it more economically sound and stable. Yet, at

the same time multinational corporations are increasing their influence on the Chinese government through FDI, which with a government known to be prone for corruption could have negative repercussions. However, it is evident that multinational corporations provide a stabilizing force within the Chinese economy. The ramifications of the cession of FDI from China could be severe. In the most extreme cases, multinational corporations have the potential of negatively affecting the Chinese economy from the withdrawal of FDI or the cession of new foreign invested enterprises. The positive growth of the Chinese economy is what keeps the Chinese state progressive and stable. Without the economic stability and growth that China is currently enjoying, economic chaos and social instability could ensue. Without a doubt, there is a correlation between the involvement of multinational corporations and the economic success that the China of today enjoys. Because the success of China's economy is dependent upon the role that multinational corporations play within the economy, it is imperative to determine the amount of influence that multinational corporations can have on the Chinese state. It is for this reason why the role of multinational corporations within the Chinese economy must be further researched to determine the degree of the potential influence that multinational corporations have on the Chinese market the latent influence that multinational corporations can enact on Chinese policy. Further, it is imperative to understand how this influence can affect Sino-U.S. Foreign policy. The role of multinational corporations in the Chinese economy creates a third actor in Sino-U.S.

relations. Because of this new actor in the Sino-U.S. relations, it is critical to consider the role of multinational corporations in Sino-U.S. foreign policy and international system. Whether the increased participation by multinational corporations in Sino-U.S. relations and the international system is positive or negative, it is critical to understand how multinational corporations came to be such a significant actor in the international system. Further, the ethical ramifications of a third actor, particularly multinational corporations whose primary goal is based on financial gain, influencing policy and foreign relations between two nation-states is of concern.

## CHAPTER TWO

### **THE ROLE OF MULTINATIONAL CORPORATIONS IN INTERNATIONAL AFFAIRS—A HISTORIC BACKGROUND OF MULTINATIONAL CORPORATIONS IN INTERNATIONAL AFFAIRS AND THEIR INFLUENCE IN SINO-U.S. RELATIONS**

In the recent era of international affairs, an emerging influence upon the international system has established itself as an entity to be reckoned with. The multinational corporation, is that entity in the international system that is changing the way that nation-states form economic policy and also becoming an influence in governmental relations amongst states and becoming the dominant mechanism for development in the industry sector. The role of multinational corporations cannot be denied in this age of globalization. Multinational corporations have the ability to bring forth positive growth and development to developing countries that lack the needed infrastructure to become a member of the global economy. Yet, multinational corporations also have the capability to influence a government's economic policy or industry infrastructure which may not in the best interest of that host nation-state. Without a doubt, multinational corporations have become a double edged sword in the current state of international affairs. Further, the ethical consideration of multinational corporations upon the state of international affairs and in particular, Sino-U.S. foreign policy must be considered. Ethical considerations such as whether is pertinent to allow multinational corporations to have such influence over a state's industry infrastructure or the direction in which the global

industry flows are ethical considerations that nation-states must consider. Whether multinational corporations are a necessary component in international affairs or the bane of nation-states, it is evident that multinational corporations have made their niche in international affairs, and it is apparent that the role of multinational corporations in the international system requires further analysis to determine both the impact of such entities on international affairs, and the ethical consideration of this third actors in the relations of nation-states. By analyzing the history of multinational corporations, the mechanisms that multinational corporations use to establish themselves in the international system such as the need for foreign direct investment which causes competition amongst nation-states for FDI, the transfer of research and technology, and the use of labor in developing markets, and most importantly the usage of business lobbying on nation-states, particularly China; an understanding of the role of multinational corporations in international affairs and specifically, how multinational corporations are influencing Chinese economic policy will be explored in this chapter. Further, this chapter will research the growing Chinese multinational corporation, and the impact that Chinese FDI is having in both the developed and developing world. Clearly, the role of multinational corporations in international affairs is a role that must be considered in this age where the market system is dominated by a capitalist market, and where entities such as multinational corporations can have earnings that are much higher than the gross domestic products of a majority of developing nations. Multinational

corporations are becoming vehicles of development and change, the MNCs of today have the economic capability to rival many nation-states and bring both wealth and opportunity to states which are in need of development. However, the main concern is whether this third actor in international affairs is causing the loss of sovereignty amongst nation-states and if multinational corporations are becoming a new pole of influence in the international system that one day will be able to overcome the role that nation-states once played in the international system. In this age of globalization, the roles and influence of nation-states are no longer the same as they were during the era of the sovereign state that determined the fate of the nation.

**The history of multinational corporations—from the beginning to the current state of affairs**

*Today, a new kind of Leviathan has risen from the depth's of humanity's creative powers—the multinational corporation. In its embryonic state, it is found in multinational enterprise, (MNEs), the first wave of the modern global economy, which began in the 1880s in the wake of the industrial revolution and modern empires. It took mature shape in a second wave in the multinational corporations (MNCs) of the 1970s. Both in number and in power, these multinational phenomena have made a qualitative change in our economic world by the time of the new millennium.*

*Alfred Chandler Jr., Leviathans: Multinational Corporations and The New Global Economy*

The history of multinational corporations is a complicated history that reaches as far back during the times of the Assyrian Kingdom in 3500 B.C. to the time of Phoenician merchants with the first establishment of trading branches by such merchants in foreign territories, thus creating an international trading system

crossing various territories and nation-states.<sup>1</sup> Yet, for the purposes of current affairs, a more appropriate historic model that multinational corporations evolved from would be the East India Trading Company.<sup>2</sup> The history of multinational corporations is critical to understand how MNCs developed their role and concentrated their influence in today's current international affairs. The influence that multinational corporations have gained did not develop in a vacuum, and thus by exploring this history, it will become apparent what events lead to the current multinational corporation of today. In particular, such historical events as the Industrial Revolution, World War I and its effects on the growth of multinational corporations, the aftermath of World War II, and the role of multinational corporations in the 1970s, specifically in regards to China will establish a historical framework from which a clear understanding of the role of multinational corporations in today's current international affairs has evolved from.

While the East India Trading Company may be the first multinational corporation, it is not until the Industrial Revolution that the multinational corporation truly becomes an active player in the international system competing for labor, resources, and new markets. The Industrial Revolution was an era in global history where the interests of the commercial sector and government sector went in unison as industry needed raw resources, labor, and new consumers for industrial products, and the governments who were leading the Industrial Revolution desired to increase their influence and secure their need for resources and new markets in this age

through imperialism, and also a withdrawing by governments in intervention in economic activities of the state. With the need for new resources, labor, and markets, the commercial sector would improve needed communication and transportation technology to reach these new sources of growth for the emerging multinational corporations during this era. As author Geoffrey Jones states as follows:

The growth of multinationals over the course of the nineteenth century was driven by a number of factors. Firstly, the diffusion of modern economic growth created an accelerating search for raw materials and foodstuffs and for markets for manufactured products. The process which had begun with the Industrial Revolution in Britain intensified over time...As the nineteenth century progressed, liberal economics policies took hold in many countries as governments withdrew from economic activities. Government intervention was, by later standards, minimal...Geographical distances were dramatically reduced by improvements in transport and communications...These transport and communication improvements opened new markets, and made the exploitation of natural resources in distant lands more feasible. Ores and metals could be shipped economically from Bolivia, central Africa, and Malaysia to the major markets in Europe and North America (Schmitz 1979). Before the nineteenth century the chance of sustaining direct investments was if a government awarded a monopoly or special privileges. Improvements in transport and communications made it feasible, if still difficult to manage cross-border operations.<sup>3</sup>

Clearly the age of the Industrial Revolution provided the initial framework that became the environment that multinational corporations would thrive in. Further, this era became the starting point of governments releasing their direct control in the economics of the state and thus allowing the market, or the multinational corporations who were pursuing new resources, labor, and consumers, thus putting more control of economies and industry into the hands of multinational corporations.

This period in world history has often been called the first wave of globalization. It was during this time that trade routes are established for industrial resources, multinational corporations are seeking new resources and consumers to further industrial growth and profit, and the improvement of communications, transportation, and technology only aid in this development of a global economy that is beginning to be dominated by multinational corporations.<sup>4</sup> However this growth of multinational corporations and the emerging global economy would be hindered if not almost stopped by the First World War.<sup>5</sup> World War I caused retardation in the global economy established by circumventing foreign direct investment during this time period into other sources and also by creating new barriers for both the transference of people, trade, and investment.<sup>6</sup> It would not be until the aftermath of World War II would the growth of multinational corporations take their precedence in international affairs again. After World War II, the role of multinational corporations laid the foundation of the role that these entities play in today's international affairs. As stated by Jones, "The 1950s onwards saw the beginning of the reconstruction of a new global economy. Between 1953 and 1973 the annual real GDP growth of developed market economies averaged around 5 percent. This growth was smooth, with none of the major recessions seen interwar years."<sup>7</sup> Yet it would not be until the 1970s that multinational corporations fully evolved into the international entities that they are today. From the 1970s onward, multinational corporations became true international organizations using foreign direct investment,

the establishment of new global supply chains, and pursuit of new consumer markets to drive their growth needs. During this time period an increase in FDI into foreign markets made by multinational corporations is evident from the fall of FDI during WWI.<sup>8</sup> The best example of the new role of multinational corporations in the era after WWII during 1970s can only be related to the economic miracle that is China during the opening of China during the economic reforms of Deng Xiao Peng. As author Chandler states as follows:

The most striking changes were in emerging markets. Countries abandoned state planning and import substitution and export-led growth. Multinationals were increasingly seen as a means to develop new technologies, products and skills. China's adoption of market-oriented policies is the appropriate chronological starting point for the new, or second global economy. The collapse of Communism in Russia and eastern Europe a decade later reopened further huge parts of the globe to foreign firms. Deregulation and privatization opened further opportunities, including in services such as air transport, tourism, and telecommunications which had long been closed to foreign companies.<sup>9</sup>

Since the establishment of the role of multinational corporations during the Industrial Revolution as the entrepreneurs of raw resources, labor, and new consumer markets, to the contributors of financial development and technology and skill transference in today's developing nations, the evolution of multinational corporations is one that is rooted in the first wave of globalization and today has become an economic, political, and social force not to be considered lightly. The growth of multinational corporations during the Industrial Revolution established the beginning framework of multinational corporations in an emerging global economy where corporations

needed to seek out new sources for raw materials, develop new technologies to improve business needs, and most importantly, seek out new markets for consumers and labor. With World War I, a hindrance in the development of the first wave of globalization is caused by a reduction in foreign direct investment by multinational corporations in war-torn areas of the globe and barriers preventing the flow of people and finance in the global economy. It is not until the aftermath of World War II did the reemergence of a global economy and the increased role of multinational corporations begin to resurface. Finally, during the 1970s, the image of MNCs today and their roles in both the global economy and the developing world can be seen with the opening of China to multinational corporations, transforming a once failed planned economy into the success that is China today. The success of multinational corporations has increased dramatically over just a short span of time since the entity of the MNC emerged from history. Further, with China becoming the emerging economic powerhouse of the world, many U.S. multinational corporations are not only exploring the potential of establishing global supply chains and the consumer market in China, yet even moving their headquarters to China. Table 1 presents a list of U.S. multinational corporations with operations in China:

Table 1. U.S. Multinational Corporations with Operations in China

| <b>U.S. Multinational Corporations with Operations in China</b> |                      |                        |                       |                             |
|---|----------------------|------------------------|-----------------------|-----------------------------|
| <b>Company</b>  | <b>Sales (\$bil)</b> | <b>Profits (\$bil)</b> | <b>Assets (\$bil)</b> | <b>Market Value (\$bil)</b> |
| Wal-Mart Stores   | 378.80               | 12.73                  | 163.38                | 198.60                      |
| Exxon Mobil   | 358.60               | 40.61                  | 242.08                | 465.51                      |
| General Electric  | 172.74               | 22.21                  | 795.34                | 330.93                      |
| Ford Motors   | 172.46               | -2.72                  | 279.26                | 14.41                       |
| AT&T  | 118.93               | 11.95                  | 275.64                | 210.22                      |
| Procter & Gamble  | 79.74                | 11.13                  | 144.40                | 203.67                      |
| Boeing  | 66.39                | 4.07                   | 58.99                 | 63.32                       |
| Microsoft   | 57.90                | 16.96                  | 67.34                 | 253.15                      |
| Coca-Cola   | 28.86                | 5.98                   | 43.27                 | 135.86                      |
| Google  | 16.59                | 4.20                   | 25.34                 | 147.66                      |

\*Statistical information provided by Forbes at

[http://www.forbes.com/lists/2008/18/biz\\_2000global08\\_The-Global-2000\\_Counrty\\_print.html](http://www.forbes.com/lists/2008/18/biz_2000global08_The-Global-2000_Counrty_print.html)

Evidently the U.S. MNCs with operations in China are benefiting from their FDI in mainland China. The sum of the profits alone from the U.S. multinational corporations listed in the table is in the amount of 127.2 billion dollars, which is much greater than the gross domestic product for the majority of nation-states in the international system. The very market value of these multinational corporations with operations in China combined, rivals the foreign assets of the majority of nations, even nations from the developed world. Yet also, with these U.S. multinational corporations with operations in China, besides their gain financially, these corporations are gaining much more than just financially from China. For these U.S. multinational corporations, China represents the potential to tap into a developing market and not only secure resources, inexpensive labor, and a growing consumer market, yet also the potential of establishing a new head quarters for the future

operations of these U.S. multinational corporations. For the growing multinational corporation, China represents the opportunity for the increase of the financial security of the MNC. By understanding the evolution of multinational corporations from the Industrial Revolution to the opening of China to economic reform during the Deng Xiao Peng era, it is evident that multinational corporations have slowly increased their influence both on the global economy and on host nation-states. The historical influence that multinational corporations have gained over the global economy and host nation-states demonstrates how multinational corporations are becoming a driving mechanism within international affairs.

**The mechanisms of multinational corporations to establish influence in  
International Affairs**

Multinational corporations execute certain mechanisms to influence the economies and the governments of host nation-states. In particular, the need of FDI by nation-states which causes competition amongst those states, the desire of host nation-states for the transferring of technology and skills from multinational corporations, the usage of labor in a nation-state, and most of all, the mechanism of lobbying by multinational corporations on host-governments to influence economic policy, specifically in China. These mechanisms that multinational corporations utilize to gain influence over nation-states have the ability to both develop the economy of the host nation-state yet also allow the multinational corporation to gain control within the host nation. Whether such mechanisms are necessarily either

positive or negative in the ethical perspective is dependant upon the audience. However, it is critical to comprehend how each mechanism can gain influence over host nation-states.

In regards to foreign direct investment, multinational corporations have created an environment where nation-states compete for the FDI that multinational corporations are able to invest in developing nation states. This phenomena, is categorized by a theory called *the race to the bottom theory*, in which nation states literally race to the bottom by becoming the host nation that will provide interested MNCs in either tax incentives, immediate cash grants, credits, or even providing exemptions from future tax liabilities are just amongst some methods that nation-state compete with each other to gain an advantage in the “race to the bottom” for FDI.<sup>10</sup> This competition amongst nation-states can prove to be an ethical dilemma as competing nation-states are trying to gain an upper hand over the competing nation-state for much needed FDI which an underdeveloped, failing nation-state into an economic miracle. Further, as nation-states compete against each other to gain FDI from multinational corporations, the definition of what constitutes the “bottom” of the FDI race amongst states becomes more difficult to determine as competition amongst state for FDI becomes more and more fierce. Author Nathan Jensen states the following:

The efficiency hypothesis actually contains two interrelated theories. One, often called the race to the bottom thesis, argues that governments constantly compete for international investment. Governments must act and

react to the world policy environment, bidding against other countries by lowering levels of spending and taxation, loosening labor and environmental legislation, and generally providing a more hospitable environment for foreign investors...In the strongest form, capital remains mobile and governments are little more than commodities. Global corporations search the world for countries willing to offer the most attractive environments for their investments. Potential host governments can do little more than bend to the whims of multinationals, providing these firms extremely lucrative investment opportunities and policy environments. Governments throw out domestic environmental legislation, lower levels of corporate taxation, and eventually alter their patterns of spending...In essence, domestic governments must give up the ability to control their taxing and spending decisions.<sup>11</sup>

The attraction of FDI for nation-states is very powerful mechanism which multinational corporations can exploit over desired host nations. This allows MNCs to gain a level of leverage in determining the most suitable economic environments for the distribution of FDI. As can be seen in various developing nations where significant FDI from MNCs was distributed, the host economies of nation-states which were able to attract such FDI were able to transform their economies from being an underdeveloped economy with no considerable economic engine such as FDI to catalyze their economies into economic wonders. Countries such as Singapore, South Korea, Japan, and most recently China provide clear examples of nation-states which provided the preferred incentives for MNCs to invest in nations with FDI.

Besides the mechanism of FDI, multinational corporations are also able to entice host nation-states with the appeal of the transference of industry technology and skills that host nations are lacking. It is evident why these nations need the

transference of technology and skills which MNCs can provide. Such technology can allow host nation-states to leap the gap in industry technology and skills that causes developing nation-states to lag behind other states in the developed world.<sup>12</sup> Hence why host nation-states are so keen to be considered an investment site for multinational corporations not only for the benefit of foreign direct investment yet also for the potential of technology and skill transfer into the host economic infrastructure. Author Nathan Jensen states as follows:

The figures cited previously on the magnitude of FDI flows obscure a more important element of FDI inflows—the role of multinational production in transferring technology. The potential for technological transfer readily appears if one examines the characteristics of most multinational firms. “Multinationals tend to be important in industries and firms with four characteristics,” according to Markusen (1995), “high levels of R&D relative to sales; a large share of professional and technical workers in their workforce; products that are new and/or technically complex; and high levels of product differentiation and advertising. These characteristics appear in many studies, and I have never seen any of them contradicted in any study.” Investments by these technologically advanced firms may translate directly into growth-promoting technical advances for the host nation.<sup>13</sup>

Examples of such technology and skill transfer by multinational corporations are evident again in host nations that were underdeveloped economies before the deployment of foreign direct investment and technology and skill transfer into the host economies. Yet after the implementation of FDI and technology and skill transfer these host economies blossomed into the emerging economies of today. Technology and skill transfer is an essential mechanism for multinational corporations to influence host nation-states. Clear examples of technology and skill

transfer can be seen in the development new global supply chains in emerging markets by multinational corporations. Through these global supply chains and foreign investments made by MNCs established in such countries and China, India, Singapore, and other countries deemed by multinational corporations as viable sources for raw materials and a beneficial environment for the interest of the MNC, the technological and skill transfer is apparent in the domestic market of that host nation two major factors: (i) the technological and skill transfer gained by domestic companies within the host nation gain from the establishment of joint-ventures with the MNCs; and (ii) the implementation of technology and skill transfer for the improvement of the infrastructure within that host nation for the benefit of the MNC.<sup>14</sup> In some host nations, such as China, it is both beneficial and sometimes required for a MNC to establish a joint-venture with a domestic corporation. Before the MNC can break off from the domestic corporation, much technology and skill spillover can be transferred to the domestic firm which then enters the domestic infrastructure, thus improving the economy and infrastructure of the host nation-state. Further, a MNC can improve upon the infrastructure of the host nation-state through technology and skill transfer by either providing training for the domestic labor within a host nation or actually improving the technology of the infrastructure of a host nation-state such as the communication technology or even the transportation technology for benefit of operations for MNC in that host nation and also for the host nation itself.<sup>15</sup>

Another mechanism that MNCs can utilize to influence host nation-states to court the demands of MNCs is the very usage of the domestic labor of that nation-state to create employment for the citizens of the host state. While this may seem like an obvious example for an influencing mechanism for MNCs to gain the influence of host states, the importance of this mechanism can not be overlooked. For host nation-states with large populations who are in need of employment which the domestic economic infrastructure can not sustain, MNCs provide the needed demand for labor in these host nations. Author Nathan Jensen states as follows:

Multinational enterprises employ some 70 million workers; with 22 million of these jobs in foreign subsidiaries (OECD 1995, 10)...This employment creation is often targeted regionally. Multinationals invest in production facilities in specific locations, generating employment...National governments recognize this and attempt to use incentives to channel multinational investment into areas that enjoy less economic development...Most investment promotion agencies articulate the importance of targeting multinationals for capital and specific types of job creation.<sup>16</sup>

Evidently host states have much to gain from the employment opportunities that multinational corporations can bring to a host nation. Not only does MNCs provide a vehicle for the usage of labor within a host state, yet also the increase in employment within certain areas of the host nation can promote domestic economic growth in targeted regions. Further, host states can provide incentives to certain types of multinational corporations in the goal of attracting specific job types to the host state.

The final mechanism which multinational corporations can employ to influence host nation-states is the lobbying of host governments. Multinational corporations lobby the governments of host states with the goal of gaining influence on the economic policies that effect the operations of the MNC. While foreign direct investment is the financial method of influencing host nation-states, the lobbying of host governments by multinational corporations is definitely the political clout that a MNC can gain over a host government. Further, the lobbying of host governments by MNCs is a qualitative mechanism. According to Jensen, lobbying is the preferred mechanism for MNCs for influence government policy.<sup>17</sup> Yet in such nation-states as China, lobbying the host government can prove to be difficult. The business of lobbying in China is a complicated matter, as China is not democratic state and challenges to the government can have detrimental effects.<sup>18</sup> For MNCs, the lobbying system in China can prove to be a murky, complex maze of bureaucracy. The difficulty of lobbying in China can be summarized by the current economic history of the Chinese nation-state. Author Scott Kennedy states as follows:

The Chinese case distinguishes itself even further from previous one by its economic history and current political institutions. For almost thirty years, China had a centrally planned economy in which market forces played a minimal role. Since the late 1970s China has shifted from a planned to a capitalist economy. However, unlike European post-Communist states, which quickly instituted privatization schemes, China has attempted to revitalize and reform state-owned enterprises. Private enterprises have been encouraged to form, but state-invested enterprises still accounted for 47 percent of industrial output in 2000. At the same time, China has maintained an authoritarian regime that formally reserves itself the right to make policy and that is not accountable through standard and transparent procedures to nonstate actors.<sup>19</sup>

While the lobbying of host governments has proven to be an effective tool for multinational corporations in other host nations, clearly in the case of China, lobbying is not able to be executed in the same manner. The level of bureaucracy and lack of transparency prove to be difficult barriers for successful lobbying. However, it does not mean that lobbying in China is not an effective tool; just the methods of dealing with the Chinese nation-state in regards to lobbying must be a different method than in other host nations.

### **Chinese multinational corporations—the growth and the effects of the emerging Chinese MNC**

So far in this chapter the multinational corporation has been primarily perceived through the MNC which is originated from a developed nation such as the U.S., Japan, or even an E.U. member. However, Chinese multinational corporations are expanding their roles within the international market, and are becoming impressive competitors to their MNC counterparts from developed countries. Chinese multinational corporations have been able to leap frog in the establishment of transnational operations and foreign direct investment in the span of no more than 30 years since the opening of China to economic development from the time of Deng Xiao Peng. In this section, the history of China's emerging multinational corporation and how Chinese multinational corporations first established themselves on to the international market will be explored. Further, this section will analysis the role of China's economic policies and the role of state owned enterprises in the

assistance of promoting Chinese corporations to be become prepared for transnational operations and to implement foreign direct investment in both developing and developed markets. Before 1979, the idea of a Chinese multinational corporation would be unheard of. However, after the opening of China to the west by Deng Xiao Peng, it was only a matter of time before China itself would have Chinese MNCs seeking to expand into foreign markets as their developed MNC counterparts from the west. The origin of Chinese multinational corporations stems from the state owned enterprises which composed the industry sector of the Chinese economy during China's planned economic phase.<sup>20</sup> Through Chinese SOEs, the Chinese government was able to enforce the requirement for foreign MNCs to gain access to the Chinese market by joint-ventures with Chinese SOEs.<sup>21</sup> Once the Chinese SOEs gained the technological and management expertise from their joint-venture partners, it was only a matter of time before SOEs and Chinese multinational corporations would be able to enter into the international market and gain their foothold amongst their developed counterparts. However a critical consideration of how and why Chinese multinational corporations such as Haier, TLC, and Lenovo were able to gain access to the international market so successfully and so quickly deals with the fact that the Chinese government engineered economic policy and became directly involved with the Chinese state's ability to gain access to foreign markets. Through aid programs and through SOEs, the Chinese government pursued access to the international market in both the developed and developing world

through the implementation of foreign direct investment in developed countries and through aid programs in developing countries.<sup>22</sup> For Chinese MNCs, foreign direct investment in developed countries was used for the purpose of gaining access to technology and management expertise that was inaccessible in the Chinese domestic market. Through foreign aid programs, the Chinese government was able to tap into developing markets and develop knowledge, proficiency, and experience particularly with engineering and construction services.<sup>23</sup> However it is not only the type of industry of Chinese MNCs first had success in pursuing new markets through the Chinese government aid programs, more importantly is the fact that through these aid programs Chinese MNCs were gaining experience on entering a foreign market and most of all, learning how to be successful in establishing a niche within that market and carrying out transnational operations. Without a doubt, both the Chinese government and Chinese multinational corporations have been very successful in establishing a foothold in the international market. The government of China enacted economic policies with both SOEs and Chinese multinational corporations to provide incentives for the establishment of foreign direct investment and for corporations to gain access into foreign market in both developed and developing countries. Since the economic reform of Deng Xiao Peng, it is truly amazing how successful Chinese multinational corporations have been. Chinese multinational corporations have truly made leaps in their success amongst their developed

counterparts. Recently in Forbes magazine, the top ten Chinese companies were rated for their success in international business. As stated in Table 2:

Table 2. The Top Ten Rising Chinese Multinational Corporations

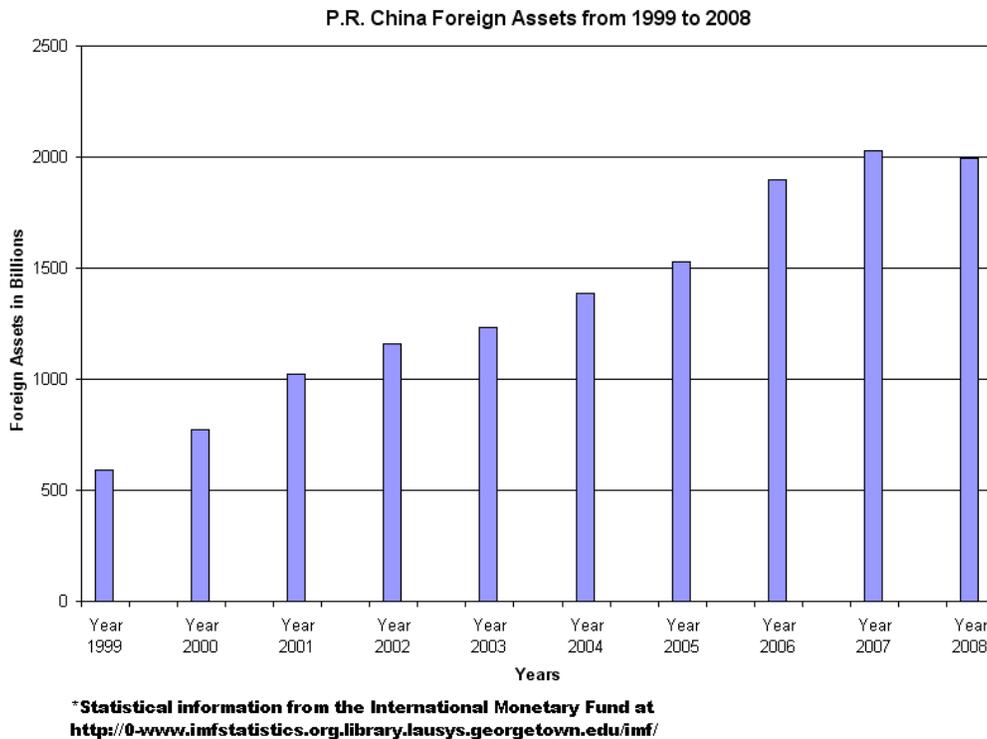
| <b>Top Ten Rising Chinese Multinational Corporations</b> |                      |                        |                       |                             |
|--|----------------------|------------------------|-----------------------|-----------------------------|
| <b>Company</b>   | <b>Sales (\$bil)</b> | <b>Profits (\$bil)</b> | <b>Assets (\$bil)</b> | <b>Market Value (\$bil)</b> |
| Sinopec  | 99.00                | 5.10                   | 65.80                 | 59.30                       |
| PetroChina   | 68.40                | 16.50                  | 96.40                 | 175.20                      |
| Bank of China  | 23.50                | 3.20                   | 587.40                | 107.50                      |
| CCB  | 23.20                | 5.80                   | 568.20                | 97.70                       |
| China Telecom  | 21.00                | 3.50                   | 50.30                 | 25.30                       |
| Baoshan Iron & Steel                                     | 15.60                | 1.60                   | 17.60                 | 9.10                        |
| China Life Insurance                                     | 11.20                | 1.20                   | 69.30                 | 38.60                       |
| Ping An Insurance Group                                  | 8.00                 | 524.00                 | 39.60                 | 16.90                       |
| Bank of Communications                                   | 6.60                 | 1.10                   | 176.30                | 28.00                       |
| China Shenhua Energy                                     | 6.50                 | 1.90                   | 17.10                 | 29.00                       |

\*Statistics provided by Forbes Magazine at <http://www.forbes.com/lists/2006/06china40>

Clearly, the success of Chinese multinational corporations can be seen with the leading ten Chinese multinational corporations that have made their mark in international business. Further, Chinese MNCs are proving successful in a variety of industries, ranging from banking with such Chinese MNCs such as the Bank of China and the Chinese Construction Bank, to telecom and even insurance with China Telecom and China Life Insurance and the Ping An Insurance Group. Since the opening of China to economic reform and foreign direct investment in 1978, it is an economic miracle that Chinese multinational corporations have been able to be so successful in only the span of thirty years, considering that developed multinational corporations have had much longer to be successful. Further proof the success of

Chinese SOEs and Chinese multinational corporations can be seen in China's foreign assets in the following illustration:

Illustration 2. P.R. China Foreign Assets from 1999 to 2008



Clearly China has made significant gains in its foreign assets since 1999. From 1999, the amount of foreign assets has progressed from 500 billion to 2,000 billion in the short span of nine years. Evidently the involvement of the Chinese government with state owned enterprises and with economic policies to encourage Chinese multinational corporations has proven very successful as determined by the chart above in regards to foreign assets. Yet most importantly, the success of Chinese multinational corporations demonstrates how quickly the Chinese nation-state was to

adapt to the new entity in the international system. Both the Chinese government and Chinese MNCs realize that to have true influence in today's international affairs; you must have a strong dominance within the international economy.

### **Conclusion**

Since the evolution of the multinational corporation from its early beginning in human history to the current entity that MNCs are today, it is without a doubt that multinational corporations have grown in influence. From its predecessor of the MNC in the East India Trading Company, to the current multinational corporations that dominate the global economy, MNCs play both a significant role in this current era of globalization and also have the ability to influence nation-states. From the evolution of multinational corporations from the Industrial Revolution, the aftermath of World War II, and the emergence of multinational corporations as driving forces in the economic improvement of underdeveloped host nation-states such as China during the 1970s, MNCs have displayed historically their capability for survival in an unstable international system. Through the mechanisms that that multinational corporations are able to utilize to influence host nation-states such as the need for foreign direct investment and the competition amongst the nation-states it creates, the ability of technology and skill transfer, the usage of labor, and the lobbying of host governments, MNCs clearly demonstrate that their ability to influence nation-states in regards to their economic policy is profound. Further, this chapter has explored the rising Chinese multinational corporation from the infancy of Chinese

MNCs from economic reform period, to their current status today in the international market. Clearly Chinese multinational corporations have gained from their tutoring under foreign MNCs through the joint-ventures required by the Chinese government for foreign MNCs to enter into the Chinese market. Such Chinese MNCs such as Haier, TCL, and Lenovo are establishing a niche within the international system and are proving to be impressive competitors for consumers amongst their foreign MNC counterparts. In the foreign assets alone, it is clear that China is becoming a leader in the international economy. Further, it is just impressive to comprehend how China transformed itself from a doomed planned economy into the economic success story that it is today, and the sheer fact that Chinese MNCs are growing in number and expertise. The influence that multinational corporations have on host states is an ethical dilemma that is an important consideration in today's international affairs. Are the mechanisms that multinational corporations use to entice host nation-states to provide ideal environments necessarily ethically wrong? Is the influence that multinational corporations can have on host states an ethical dilemma in itself? Such ethical considerations must be considered as MNCs have gained significant economic, political, and social clout in international affairs. A main ethical concern over the influence that MNCs have over host nation-states is the sheer fact that MNCs have a different driving interest than that of the host nation-state, in the need for increased profit and the bottom line. The goals of the MNC are not what is best for the host nation-state, but what is best for the MNC. Yet, through the mechanisms

that MNCs are able to influence host nation-states with come many benefits for the host state. The relationship between MNCs and host states can be described as a symbiotic relationship, where both the host and the symbiote gain from the mutual positive growth of each party. However the ethical dilemma remains over the increasing influence that MNCs have in international affairs. Yet in this age of globalization, the ethical dilemma may be just a by product of the evolution of international affairs, and the declining role of the nation-state.

## CHAPTER THREE

### THE MADE IN CHINA CRISIS—THE PRODUCT SAFETY ISSUES STEMMING FROM THE 2007 CHINESE EXPORT CONFIDENCE CRISIS

In 2007, the product recall on contaminated pet foods manufactured in China would become the catalyst that sparked product recalls by both the U.S. government and U.S. multinational corporations of faulty products exported from China. Everything from pet food, toothpaste, seafood, and tires were recalled due faulty and even sometimes fatal ailments within the products as was proven with the toothpaste recalls which was found to contain poisonous chemicals<sup>1</sup>, and tires that were found to lack an insufficient amount of gum strip within the tire that resulted in the deaths of two individuals.<sup>2</sup> However the product that has gained the most attention by the media from this series of product recalls are the toy recalls. The toy recalls enacted by the Mattel Corporation and the RC2 Corporation have gained the most attention so far. The reasons for the majority of the product recalls being focused by the media on the toy industry are multifold. Yet the primary reason for the focus on toy manufacturing companies like the RC2 Corporation and the Mattel Corporation deals with the fact that their products come in direct contact with children. The main reason for the toy recalls enacted by both the RC2 Corporation and Mattel were due to the high levels of lead found in the paint for these toys. The high levels of lead found in these products have been proven to have the potential of causing neurological damage in children from lead poisoning.<sup>3</sup> Further, with the Mattel Corporation, a design flaw was found with some toys that contained powerful

magnets that if swallowed could cause serious damage to the lining of the stomach.<sup>4</sup> This event has been marked by the media as the *2007 Chinese Export Confidence Crisis*, and presents a critical concern for U.S.-China Trade policy and for the protection of the safety of U.S. consumers, especially children. The 2007 Chinese Export Confidence Crisis presents a case where the standards for the safety of products to be exported from China into the U.S. needs to be raised to insure the safety all consumers from faulty products from China. Further, the 2007 Chinese Export Confidence Crisis presents a case where multinational corporations can be utilized as a tool for influencing trade policy and product standards between nations. For the international manager, the confidence crisis proves that while the workshop of the world is a dynamic opportunity for manufacturing products at low costs, there are still key ethical issues with the regulatory practices of the Chinese government and responsibilities of quality control that the international manager must stay focused on to insure that events such as the export crisis is minimized to reduce the future risk of product recalls from mainland China and the safety of consumers.

This 2007 Chinese Export Confidence Crisis demonstrates the fact that the product safety quality for products being exported from China is far behind the standards for consumer product safety for products in the U.S. The sheer fact that the majority of products for global consumption are produced in China raises an issue of concern in consumer product safety as it is proving more and more difficult to find a single product that is not fully made in China, nor composed of parts made in China. The fact is that the majority of consumer products sold in the U.S. are in way or

another tied to production lines in China. Further, the Chinese Export Confidence Crisis demonstrates the need for U.S. government involvement to take further action through additional consumer product safety regulation and through continued interaction with the Chinese government to strengthen their product safety regulations to prevent such export fiascos from occurring again. This case will focus on the current status on the issue and will also provide both short-term and long-term goals for improving the quality of the safety of products that are to be exported from China to the U.S. This is a matter that affects the U.S. consumer, the U.S. multinational corporation with production lines in China, and even for the Chinese state itself. The majority of the toys for the global economy are produced in China. Therefore, the risk of U.S. children being affected by either lead paint or faulty parts in toys is a situation for any U.S. president that could turn into a public relations nightmare. Further, this also presents an excellent opportunity for a U.S. president to take a stance on consumer product safety, and to raise the bar on the quality of products that are being exported from China.

### **The role of the Consumer Product Safety Commission and the House of Representatives in the Export Confidence Crisis**

Since the debacle of the Chinese Export Confidence Crisis, a multitude of new policies and actions were executed. The primary actors who were involved in the Chinese Export Confidence Crisis and are currently engaged in assuring that the policies and mechanisms put in place to are: (i) the U.S. Consumer Product Safety Commission; (ii) the House of Representatives with the passing of H.R. 2997 The

Assured Food Safety Act of 2007 and H.R. 3100 The Import Safety Act of 2007; (iii) U.S. multinational corporations such as the Mattel Corporation; and (iv) and the Chinese government itself. This case will review the role of each party involved in the 2007 Export Confidence Crisis to clarify what each party contributed to the current policies and mechanisms for increased consumer product safety from exports from China.

The Consumer Product Safety Commission (CPSC) provides the main vehicle to offer mechanisms to improve consumer product safety for products exported from China. In regards the current status, the CPSC has devised an action plan with the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ), to improve upon the safety of products being imported to the U.S. from China by focusing on the following objectives: i) the Sino-U.S. Safety Summit to be held every other year to discuss issues of product safety; ii) working groups to focus on specific products safety concerns annually such as electrical products, toys, cigarette lighters, and fireworks; iii) information exchange between the CPSC and AQSIQ; iv) technical cooperation between the governmental organizations to foster support in technical research, academic communication, and personnel training; v) training and cooperation between CPSC and AQSIQ; and vi) technical assistance between the two groups.<sup>5</sup> The purpose of the action plan and the objectives listed out within the plan is to promote transparency of product safety concerns between the two government organizations and to cultivate an environment that will promote cooperation between

the CPSC and the AQSIQ to limit the possibility of a recurrence of the Chinese Export Confidence Crisis.

Within the House of Representatives, Representatives Congresswoman Marcy Kaptur and Congressman Mark Kirk have working bills before the House that reflects the concerns of product safety, and the need for stricter product safety guidelines.<sup>6</sup> The bills being proposed by Congresswoman Kaptur and Congressman Kirk are the H.R. 2997 Assured Food Safety Act of 2007 and H.R. 3100 Import Safety Act of 2007.<sup>7</sup> The purpose of these two bills is to enforce tighter product safety guidelines for products that are exported to the United States.<sup>8</sup> Basically the main focus of H.R. 2997 is to require the Secretary of Agriculture and the Commissioner of the Food and Drugs to establish a program requiring a certificate of assured safety for imported food items.<sup>9</sup> With regards to the purpose of H.R. 3100, the bill is primarily targeted at increasing the standards for toy safety by increasing the financial penalties that can be inflicted upon parties importing toys that could safety hazard for children.<sup>10</sup> Further, the bill provides increased funding for the inspection imported toys in the sum of \$20,000,000.<sup>11</sup> The involvement of the House of Representatives and the working bills H.R. 2997 and H.R. 3001 demonstrates how critical it is for the government to be involved in assuring that consumer product safety standards are being met with products that are being exported from China.

### **The role of multinational corporations in the Export Confidence Crisis**

U.S. multinational Corporations such as the Mattel Corporation played a pivotal role in the Chinese Export Confidence Crisis. With regards to the crisis, U.S. multinational corporations in specific the Mattel Corporation played a watchdog to faulty manufacturers in mainland China and also became an influencing force through product recalls on the government of China. This caused a reassessment within the Chinese government of government policy, manufacturing procedures, and the standards of products to be shipped for export.<sup>12</sup> However the cost of the product recalls affecting the multinational corporations manifested itself financially, legally, and most importantly through the potential loss of consumer faith in their products and the souring of business relationships with mainland China. The financial perspective of the product recall for a sampling of corporations can be observed in Table 3:

Table 3. The Breakdown of the Recall Costs for Multinational Corporations

| PRODUCT                 | RECALLS                       | ESTIMATED COST                   |
|-------------------------|-------------------------------|----------------------------------|
| Foreign Tire Sales Inc. | 450,0000                      | \$60 Million                     |
| Menu Foods Pet Food     | 60 Million                    | \$40 Million                     |
| RC2 Corporation         | 1.5 Million                   | \$ 6.7 Million                   |
| Mattel Corporation      | 21 Million                    | \$24 Million                     |
| TOTAL                   | 82.5 Million<br>approximately | \$130.7 Million<br>approximately |

*\*Composed from data abstracted from various websites such as CNN Money, The Wall Street Journal, and the Consumer Product Safety Commission.*

The Mattel Corporation took proactive action on the recall matter, recalling a total of 21 million products found to be hazardous to children because of a design flaw from powerful magnets that could be ingested and also because of the potential of leading poisoning due to lead paint found in toys. Mattel from the beginning of the recall crisis took quick, decisive action to rectify the matter and was and is still providing the public a clear explanation for the situation and has demonstrated to the public sincerity for the concern for the safety of the for their consumers. Mattel provided the business sector a correct model to deal with a recall crisis to insure consumer safety, yet also raised the product safety standards in regards to toys.<sup>13</sup> Mattel displayed how the private sector can contribute to increasing consumer safety by taking decisive action promptly in a recall crisis and also increasing the product safety guidelines of the corporation, thus raising the industry's standards. Further by taking the proactive stance on consumer product safety, Mattel was to establish a new standard in corporate social responsibility in regards to consumer safety. As Harvard Business School professor John Quelch stated as follows:

Mattel has been criticized heavily for having to recall not once but twice in as many as weeks 20 million toys manufactured in China with lead paint and/or loose, potentially dangerous magnets. Clearly, Mattel did not have sufficiently tight quality control procedures in its supply chain to compensate for the extra risks of outsourcing to relatively new Chinese subcontractors. Clearly there were design flaws in the toys with the magnets that could come loose. But Mattel deserves praise for now stepping up to its responsibilities as the leading brand in the toy industry.<sup>14</sup>

Evidently while Mattel may have not been more proactive in securing quality standards their new Chinese subcontractors nor the quality standard within their

supply chain in China, Mattel was however highly proactive in dealing with this consumer safety product crisis. Mattel effectively took charge of the product recall crisis by enacting the following procedures: i) The CEO Robert A. Eckert took personal charge of the situation; ii) Mattel instilled an effective communication strategy to the public by informing the consumer of the product through effective use of the internet; and iii) The Mattel recall website. CEO Robert Eckert proves how critical a public spokesperson can be to a corporation implementing an effective product recall. Eckert displays the characteristics in a spokesperson that is needed to inform the public the steps that a corporation is taking rectify a product recall crisis. Further, Eckert is able to relay to the public a confidence that Mattel has the product recall situation under control. If the spokesperson for a product recall crisis provides the face for the public, then the communication strategy that the company deploys provides the method to reach the public to in order to effectively to regain the defective products from the consumer. Mattel used the internet to its utmost potential in the 2007 Chinese Export Confidence Crisis. Mattel utilized internet banners on such websites Yahoo.com to drive consumers containing defective products to Mattel's product recall website.<sup>15</sup> Finally, the Mattel Corporation's product recall website provides an excellent example of how a corporation should design their product recall website. The Mattel product recall website provides detailed information, on which products are being recalled, what steps the consumer must take to return the product and receive a new product, and also what steps the company is taking to improve product safety check measures. Most importantly, the

Mattel Corporation's website provided the consumer with video segments of CEO Robert Eckert attesting to the importance of consumer safety to the Mattel Corporation and the action and direction that the corporation would take to rectify the matter. Clearly, not only did the Mattel Corporation display the correct method to solve a product recall crisis, it also demonstrated how effective a corporation can be when it takes full advantage of its corporate social responsibility. In the scenario of the 2007 Chinese Export Confidence Crisis, Mattel demonstrates how corporations can gain by being proactive in product recall issues and upholding their corporate social responsibility. First, by being proactive in product recall scenarios, corporations can maintain consumer faith in their products, and mitigate the financial costs in a product recall. Second, corporations that who a proactive strategy on product recall and consider the safety of the consumer as the utmost concern gain an ethical stand and aid to further the standards of corporations in regards to corporate social responsibility.

### **The role of the Chinese government in the Export Confidence Crisis**

The role of the Chinese government in the Chinese Export Confidence Crisis is one that is both positive and negative. To confront the issue of product safety and to improve the faith of consumers in the "Made in China" brand, the Chinese government enacted the following policies and took the following actions: i) AQSIQ sent notice to PRC importers with overseas suppliers urging clearer Chinese standards be included in import contracts; ii) the AQSIQ introduced the China Compulsory Certification Program that requires PRC toy manufacturers to a safety

inspection and to receive a CCC label prior to exporting toys abroad or selling them domestically; iii) the Chinese government states that all food shipments from China will bear a government seal certifying that these products have been inspected; iv) AQSIQ announces that it closed 180 food factories and uncovered more than 23,000 food safety violations in a campaign launched in December 2006; v) AQSIQ began construction on a new database for information, inspection, and quarantine of imported and exported products aimed at businesses, government agencies, and the public; vi) the rotation of inspection officials to limit corruption and the increased inspection on a wide array of goods; and finally vii) the Chinese government sentenced the former SFDA head Zheng Xiaoyu to death for receiving bribes of cash gifts in the hope of providing a deterrent to corruption. By clarifying exactly what the standards are for products to be exported overseas, the Chinese government is able to execute policy and take action to meet the standards of importers. The CCC Program is critical to insure that products are properly inspected and then stamped with government approval which will allow the Chinese government to gain better control over product quality and assure that product safety guidelines are being met. The issue of corruption will always be difficult matter for the Chinese government. However the rotation of inspection officials will be beneficial in discouraging corruption by not allowing an inspection official to become tainted or influenced to look the other way on faulty products for bribes.

### **Recommendations for the improvement of consumer product safety**

For the improvement of consumer product safety, this article will provide the following recommendations which could be implemented by the U.S. government and multinational corporations to enable the prevention of a product recall crisis occurring again. With regards to the U.S. government, consumer product safety can be improved in enacting the following policies: i) Establishment of U.S. food and product safety inspectors in China; ii) Establishment of a CSPC office in China to monitor export product safety to the U.S; and iii) Government incentives to U.S. multinational corporations to establish new production lines in other countries. For multinational corporations, the following actions can be taken to better prepare corporations for reoccurrence of a such a product recall crisis: i) a well-planned recall strategy; ii) tighter regulations and closer monitoring of foreign supply chains; and iii) maintenance of positive corporate-governmental relations during the product recall crisis period. A main issue in regards to product safety standards in China is due to the sheer fact that many of the Chinese inspection officials don't have the training or the expertise that U.S. food and product safety inspectors have. Further, it has been demonstrated that Chinese inspection officials are prone to bribery. A quick solution to mitigate the lack of qualified expertise and experience of Chinese inspection officials would be to put a team of U.S. food and product safety inspectors on the ground in China to supplement Chinese inspection officials. Further, U.S. food and product safety inspectors could provide on-site training and aid in establishing better protocol for the improvement of Chinese product safety.

However, this solution would be presented with difficult obstacles that have the potential lessening the success of such a plan. Primarily, U.S. food and product inspectors would have two main factors that could be prove to be a challenge for the implementation of this plan: (i) the sheer size of export production in China; and (ii) dealing with the Chinese government over product safety. The sheer size of China's export production covers a vast number of products amongst many factories spread throughout the Chinese nation. The number of U.S. food and product inspectors needed to provide adequate inspection support to Chinese inspection officials would prove be a challenge itself. Further, it may not be possible for such a considerable amount of U.S. food and products inspectors to be assigned overseas to actually make a difference in product safety inspection in China. The Chinese government itself could prove to be challenge for U.S. food and product inspectors as the Chinese government has proven difficult to with when it comes to matters that the Beijing views as internal issues. The establishment of a CSPC office in China to monitor export product safety would be an excellent long term goal for the U.S. to secure consumer product safety. By the CSPC establishing a permanent office in China to deal directly with product safety concerns with the AQSIQ, the CSPC will be able to deal with product safety concerns in real time. The establishment of a CSPC office in China will also allow the CSPC to be closer to the potential source of faulty products and thus be able to monitor and isolate much more quickly where faulty products are originating. And most importantly, with an office in China the CSPC will able to create a presence in regards to consumer product safety. However the

establishment of a permanent CSPC office in China can prove to be difficult matter. First, establishing a CSPC office in China would require the CSPC to allocate funding for the creation and the maintenance of an office in China. Second, the development of a team to man A CSPC office in China would also be a consideration that must be carefully planned. The team that would potentially be station in this overseas office has to be well experienced in dealing with product safety in an overseas environment. This team would have to be prepared to deal with issues involving not only consumer product safety but also be prepared to deal with the Chinese government. Further, the CSPC must be ready to commit to the success of an office in China as an overseas office will need strong support from its home organization to insure stability and success. Finally, the establishment of a permanent CSPC office in China will need the approval and support of the Chinese government who may not be willing for the CSPC to have a permanent office in China. The 2007 Chinese Export Confidence Crisis demonstrates just how detrimental the Chinese export economy can be on consumer product safety. The majority of exported goods for U.S. consumption are produced in China. Hence why a bulk of the product recalls stemmed from China. Further, while the economic miracle of China has enabled the Chinese state to become an economic powerhouse, this phenomenon at the same time, handicaps China from taking permanent positive action in improving product safety. The reason being is that economic growth contributes to the stability of China and thus continuously increases the Chinese living standards. Further, China has proven time and time again to be a difficult state

to work with when it comes to trade issues and consumer product safety. It is for these reasons why a long-term goal for the U.S. should be government incentives to U.S. multinational corporations to explore new production markets which would be more willing to meet product safety standards and be more transparent in their actions. The exploration of new production markets for U.S. multinational corporations would not only improve consumer product safety but also diversify the source of export goods to U.S. The main vehicles for government incentives that could be utilized are Overseas Private Investment Corporation and the United States Agency for International Development. Through OPIC, the U.S. government can develop specialized programs for U.S. multinational corporations who are willing to venture into new production markets to offset the risks and costs involved in establishing new production lines in new countries. OPIC can develop specialized financing and provide greater insurance to reduce the risk for U.S. multinational corporations willing to venture into countries to establish new production lines. In regards to USAID, the U.S. government can utilize exactly what USID was designed for, the development of the economy and infrastructure of countries whose economic growth are in the best interest of the U.S. USAID is the key vehicle for economic development and infrastructure improvement that will allow U.S. multinational corporations to venture into new countries with a reduced amount of risk. It would be ideal for the U.S. government to provide incentives to U.S. multinational corporations to gradually move production lines to new countries other than China, the truth of the matter is that even with government incentives to establish new

production lines in other countries; U.S. multinational corporations would be very reluctant to. While the 2007 Chinese Export Confidence Crisis proved that in the area of product safety China has much to improve upon, it still does not provide a strong enough effect on the bottom line for most U.S. multinational corporations to diversify their production line outside of China. The majority of U.S. multinational corporations will continue to develop their product lines in China instead of considering developing new product lines in other countries. The 2007 Chinese Export Confidence Crisis demonstrated how critical it is for the corporation to be prepared with a well planned recall strategy. The export crisis demonstrates that while China has progressed dramatically, it is still a developing country and the prudent manager would be wise to have an effective recall strategy as Mattel did. It is critical that this recall strategy be represented by a key spokesperson of the corporation who will be able to relay the sincerity and confidence that the public will need to keep consumer faith in the corporation. Further, it is vital that a well planned recall strategy consist of an effective communication strategy to reach the public of what is the product concern, how to return the product, and most of all the progress that the corporation is making to ensure product safety. Another key factor that multinational corporations must focus on to mitigate the potential of a second export confidence crisis unfolding deals with the need for tighter regulations for product safety and closer observation on foreign supply chains. It is critical for multinational corporations to monitor closely the foreign supply chain to ensure that production and quality standards are being met. A major issue during the crisis was the fact that

manufacturing sites in China were outsourcing to third-party manufacturers to assist with production demand. By keeping a closer watch on Chinese product manufacturers, managers can mitigate the risk of faulty products being produced. Finally, it is imperative for multinational corporations to maintain positive corporate-governmental relations during a product recall crisis, especially if the government is China. For multinational corporations dealing with business dilemmas in China, keep corporate-governmental relations positive and stable. The Mattel Corporation performed remarkably in this matter by issuing a public apology to the Chinese government over the recall issue. This allowed the Chinese government to save face in the media and with Mattel thus allowing the continuation of a positive relationship.

### **Conclusion**

The 2007 Chinese Export Confidence Crisis displays many matters for U.S.-China trade policy, the standards of product quality control for corporations importing products from China, the improvement of product safety regulation by the Chinese government, and for international business in general. Overall, the financial impact of the product recall is not devastating for any of the actors who were involved in the crisis, yet the benefits that all parties can gain from this crisis are numerous. For multinational corporations, the opportunity to turn this negative situation into a positive one presented itself in the Chinese Export Confidence Crisis. No other company than Mattel provides a better example. Mattel was able to take decisive action during the product recall crisis which enabled the company to retain

the positive image of the corporation before the crisis and also allowed the corporation to improve its image by demonstrating to the consumer how important children safety is to the Mattel Corporation. For the U.S. government, the opportunity to increase communication and cooperation with the Chinese government over product safety presented itself through interaction between the U.S. Consumer Product Safety Commission and the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China. The agreed actions between the two governmental organizations will permit Washington and Beijing to work together to prevent such events as the recall crisis from occurring again. The working bills in the House if they are passed will raise the standards for product safety, which in long-term aspects is best for all parties involved. Yet the majority of the benefits from this crisis will go to developing China. By enacting new policies concerning product safety, China will be able to improve the regulations for product safety and increase the manpower and infrastructure needed to insure the safety of exported products. Most of all, through the rotation of inspection officials and the firm stance that Beijing has demonstrated on corruption by executing the former head of the SFDA, corruption will hopefully be undermined in the future. For international business, the recall crisis demonstrates how multinational corporations and trade restrictions can be an effective tool for policy change. MNCs improved cooperation and communication between governments, and most of all hastened time for governments to take action. Most importantly for the international manager doing business in China, the recall

crisis is a obvious reminder that while there are many benefits for conducting business in China and establishing manufacturing sites in China, it is still the responsibility of the international manager to not only insure that production is meeting safety guidelines yet be prepared with a recall strategy as the Mattel Corporation was in this situation. The Chinese Export Confidence Crisis is an important lesson in product safety and regulations for multinational corporations, the U.S. government, and the government of China.

## CHAPTER FOUR

### **THE MARKETING FRENZY OF THE 2008 BEIJING OLYMPICS—HOW MULTINATIONAL CORPORATIONS AND HUMAN RIGHTS ACTIVISTS ARE APPROACHING THE MARKETING EVENT OF THE CENTURY**

The year of 2008 will go down in history for many things, from the potential of the United States of America electing either a woman or a multi-racial president, to the crisis within Darfur, or even the five year anniversary of U.S. occupation of Iraq. However, the year 2008 will be most known for one major event, the Beijing 2008 Olympics. To China, the 2008 Olympics entails many things to the Chinese nation-state. The Olympics provides China with the acknowledgement of the nation's coming of age and its acceptance by the international community as a key player in the international system. To China, the Olympics is the ultimate symbol of the removal of 100 years of humiliation by foreign powers and the end of the struggle of a people who went through foreign occupation, a civil war, the Cultural Revolution, the issue of Taiwan, the rising economic power of China, and the constant fear of the international community of a rising China with aggressive intentions. The 2008 Olympics provides Chinese nation-state with both international political acceptance and foreign investment and improvement of infrastructure from multinational corporations as international companies rush for the opportunity to become involved in the sponsorship of the 2008 Olympics.

However, it is not to say that the 2008 Olympics are without risk for the Chinese nation-state. The 2008 Olympics presents the perfect opportunity for the

media and more importantly, the perfect potential for various human rights groups to attack both China and the multinational corporations that are sponsoring the event on the issue of human rights and even China's involvement Darfur, and the social responsibility that the Olympic sponsors should be taking on the Darfur issue. The 2008 Olympics represents an apex in this world that is dominated by the influence of globalization as multinational corporations are being pressured to coerce Beijing to take action on the issue of Darfur. Multinational corporations, not nation-states have the most potential to sway Beijing's foreign policy on Darfur. Because of this factor, the 2008 Olympics will be remembered as not only the coming of age for China on to the international stage, but also a clear establishment of a key actor in the international community, the multinational corporation. For the multinational corporation, the potential of tapping into a 250 million middle class is an opportunity that Olympic sponsors cannot allow to pass by. However the ethical question is present of multinational corporations who sponsor the 2008 Olympics knowing full well that China's human rights record is one that still needs improvement.

Multinational corporations are presented a difficult situation; the marketing potential of the 2008 Olympics is one that no multinational corporation is willing to cede due limitless benefits of establishing brand recognition with the Chinese populace during the 2008 games. However, simultaneously, by sponsoring the games and supporting the Chinese government, multinational corporations are providing Beijing with needed legitimacy to their governance of China. This case

study will analyze the history that has led to the commercialism of the Olympic Games, the benefits and risks present to the multinational corporations who are sponsoring the 2008 Olympics, the role of the Olympic Dream for Darfur in the 2008 Olympics, the effect of hosting the 2008 Olympics for China, and finally, recommendations for multinational corporations in dealing with the onslaught of human rights groups in regards to the social responsibility of multinational corporations in 2008 Olympics.

### **The commercialism of the Olympics and the marketing structure**

The modern Olympic Games of today are significantly different from what the original designers had intended the game to encompass. While the modern Olympics can be attributed to an evolution and a collaboration of ideas between three individuals, William Penny Brookes, Evangelis Zappas, and Pierre De Coubertin; De Coubertin is given credit to founding the modern Olympics as it is known today.<sup>1</sup> For De Coubertin, the purpose of the Olympics was to reestablish physical education within French youth. During this time frame, the physical aspects of an individual's character were not as heavily stressed as the intellectual aspect.<sup>2</sup> However to De Coubertin, the Olympics represented much more than just the celebration of sportsmanship and physical education. To De Coubertin, the Olympics represented a potential unparalleled like any other festival. The authors Robert K. Barney, Stephen R. Wenn, and Scott G. Martyn in their book, *Selling the Five Rings: The*

*International Committee and the Rise of Olympic Commercialism* state the following:

Pierre De Coubertin, though he scarcely admitted it, knew all about the Zappas-inspired initiatives as well as those of the English physician....Coubertin began to think of Modern Olympic Games as his own grand idea: Olympic Games for the celebration of youth, culture, and beauty, for the furtherance of health and fitness, for the promotion of peace, tolerance, and understanding—indeed, for the instilment of positive values. Unlike Brooke's Games, Coubertin's Games would be ambulatory, taking place in the great cities of the globe every four years. This scheme was perhaps the only difference from Brooke's earlier dream of a modern Olympic festival. But in time it was enough to galvanize the interest of supporters beyond the borders of England, France, and Greece.<sup>3</sup>

Clearly, the originators of the modern Olympics devised the original concept of the Olympics not for the purposes of commercialism, yet more for promotion of humanistic values of sportsmanship, culture, peace, tolerance, and understanding. The critical concern is how the original ideal of the founding fathers of the Olympic movement has evolved into the international organization that it is today, and become one of, if not the greatest global marketing event in human history? The answer to this question can be attributed to the two primary factors: i) the inability of governments within host nations to raise the funds necessary to present the Olympics; and ii) the opening of sponsorship of the Olympics to corporations during the 1984 Olympics in Los Angeles.<sup>4</sup> Previous to the 1984 Olympics, the host nation that was chosen to house the Olympics for that period would use government funding to be able to provide the building of needed infrastructure, hiring of staffing, marketing, and provisions needed for the athletes for the games. Needless to say, the

Olympics became a very expensive endeavor for the hosting nations as each nation would do their best to out do the previous host of the Olympic Games.<sup>5</sup> The cost the Olympic Games before the 1984 Olympics ranged from \$50 million to \$ 9 billion. In the 1960 Rome games the cost of hosting the games was \$50 million, \$850 million for the 1972 Munich games, \$1.5 billion in the 1976 Montreal games, and \$9 billion in 1980 for the Russia games. Bear in mind that during this time frame, the Olympics lacked corporate sponsorship meaning the costs was undertaken primarily by the nation housing the games.<sup>6</sup> Clearly, before the 1984 Los Angeles Olympics, the games presented the housing nation much prestige in hosting the event yet simultaneously with a heavy economic burden. However, with the 1984 Los Angeles Olympics, the model of how the Olympics would be financed and presented to the world changed as nations ceased to the bear the economic burden of housing the Olympics. And for this reason, today the Olympics is judged as being no more than a tool for the marketing needs of multinational corporations and breaking away from the original ideals and values that the founding fathers had instilled in the modern Olympics. As De Coubertin is contributed to being the originator of the Olympic model that is known as the modern Olympics, then Peter Ueberroth can be contributed to being the entrepreneur that guided the Olympic movement to open sponsorship of the Olympics to corporations, thus providing the needed funding for the Olympics. In return for their sponsorship, corporations are given access to a global marketing venue and a global brand image that no sports or even non-sports

related event has been able to compete with. The impact of Ueberroth's opening of sponsorship to corporations can be summarized in this statement from authors Robert K. Barney, Stephen R. Wenn, and Scott G. Martyn stated as follows:

In the end it was the entrepreneurial genius of Peter Ueberroth that led to the great success of the Games. Ueberroth mounted an impressive marketing program that attracted thirty-five commercial "partners", "sixty-four suppliers," and sixty-five companies holding licenses. Each commercial product category designated rights and exclusivity. In most cases the sponsor companies were large multinational corporations. The Los Angeles marketing program alone generated some \$157.2 million in the form of cash, equipment, goods, "value-in-kind" products and services provided...As the newly Los Angeles Olympic Games Organizing Committee, Peter Ueberroth understood that television money and corporate sponsorship were central to the successful funding of the Los Angeles Games. Arthur Young and Company and Peat, Marwick and Mitchell collaborated on a study of revenue streams employed by the Organizing Committees of the Munich, Montreal, and Moscow Summer Olympics festivals. It revealed that Los Angeles required "a six-fold increase in revenue from non-public sources, primarily in sponsorship programs, television sales, and ticket revenue" in order to compensate for the loss of government funding.<sup>7</sup>

While Ueberroth's opening of sponsorship to corporations allowed for the much needed funding, provisional resources, and staffing support that the Olympics needed to be able to move forward, it also tainted the Olympics as being no more than the tool of multinational corporations. Some Journalists, social commentators, and even academics critique the modern Olympics of today as being no more than the "whore" of multinational corporations for their marketing needs.<sup>8</sup> While the Olympics of today pale in comparison to the Olympics that was dreamed by its creator De Coubertin, to label the Olympics being no more than the "whore" multinational

corporations is a bit extreme to say the least. However, it is not without some truth, as the Olympic sponsors do have influence on the host cities for the Olympics as it is the multinational corporations that are providing the needed funding and resources to be able to even have the Olympics Games in existence. As Michael Payne stated, “With the sheer size and complexity of today’s Olympic Games, it has reached the point where if there were no sponsors, there would be no Games.”<sup>9</sup>

With the realization of how vital corporate sponsorship was to the Olympics, in 1985 the International Olympic Committee established a new organization to manage the sponsorship of corporations to the Olympic movement.<sup>10</sup> This new organization within the IOC is known as The Olympic Partnership Program whose sole purpose to further the relations between the IOC and the Olympic sponsors, and protect the rights of the Olympics sponsors in regards to their global marketing rights and the sponsor’s brand recognition with the Olympic logo.<sup>11</sup> Further, The Olympic Partnership, or TOP provides with the following marketing rights: i) a partnership with the International Olympic Committee; ii) partnerships with all active National Olympic Committees and their Olympic teams; iii) the right to use Olympic intellectual property, i.e. the use of the Olympic logo with the sponsor’s product; iv) access to Olympic advertising and promotional opportunities including Olympic broadcast advertising; v) on-site concessions, franchise and product sales, and showcase opportunities; vi) protection from ambush marketing; and vii) acknowledgement of the sponsor’s support through the Olympic sponsorship

recognition program.<sup>12</sup> Since the conception of the TOP organization, the ratio from of Olympic partners to National Olympic Committees has increased significantly from 1985 to 2008. As it is presented in Table 4:

Table 4. Ratio of the Number of Partners to NOCs from 1985-2008

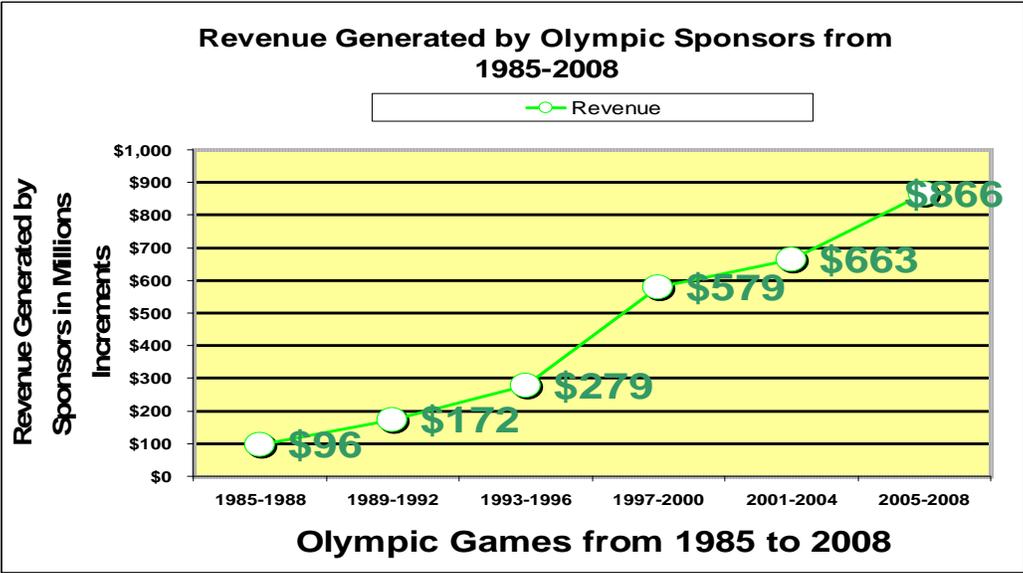
| TOP Program Ratio of Number of Partners and NOCs Participating from 1985-2008 |                       |                    |      |
|---|-----------------------|--------------------|------|
| Quadrenium  | Games                 | Number of Partners | NOCs |
| 1985-1988   | Calgary/Seoul         | 9                  | 159  |
| 1989-1992   | Albertville/Barcelona | 12                 | 169  |
| 1993-1996   | Lillehammer/Atlanta   | 10                 | 197  |
| 1997-2000   | Nagano/Sydney         | 11                 | 199  |
| 2001-2004   | Salt Lake/Athens      | 11                 | 202  |
| 2005-2008   | Torino/Beijing        | 12                 | 205  |

\*Statistical information taken from the Olympic Marketing Fact File provided by the International Olympic Committee.

Clearly as the number of corporate sponsors has remained steady on the average from 1985 to 2008, the number of NOCs has increased significantly over the time span from 1985 to 2008. This increase in the number NOCs becoming involved in the Olympic Games can be contributed to the fact that while the numbers of Partners may not be significantly increasing over the period from 1985 to 2008, the contributions of the Olympic sponsors in the forms of funding and resources are, which enables more National Olympic Committees to be involved in the Olympics

and thus allowing more Olympic Teams to take part in the Olympics.<sup>13</sup> Evidently, the role of Olympic partners in the Olympic movement is critical to insure an increase in the number of NOCs that are able to participate in the Olympic Movement. Of the revenue generated by marketing revenue for the Olympic Games, the IOC redistributes 92% of the revenue generated from marketing sources which includes revenue from the TOP program to the NOCs of the Olympic movement and uses the remaining 8% of revenue to support the IOC.<sup>14</sup> What is more staggering in perspective is the actual revenue generated by the Olympic sponsors since the induction of the TOP program in 1985 to 2008. The increase in revenue from 1985 to 2008 is best represented in illustration 3:

Illustration 3. The Revenue Generated by MNC Olympic Sponsors from 1985-2008



\* Statistical information taken from the Olympic Marketing Fact File provided by the International Olympic Committee.

Since the implementation of the TOP program in 1985, the financial support that the Olympic sponsors have contributed to the Olympic Games has increased dramatically over the span of 23 years. The original supplement to the Olympic movement made by the Olympic Sponsors was in the amount of \$96 million dollars. By 2008, the amount that the Olympic Sponsors are contributing to the Olympic Games is in the sum of \$866 million dollars. In the mere span of 23 years the Olympic sponsors have increased their financial commitment to the Olympic movement since 1985 to present day in the difference of \$770 million dollars. What is even more impressive, as of today, there are only 12 worldwide Olympic sponsors who are contributing the majority of this large amount of funding to the Olympic Games: i) Coca-Cola; ii) Atos Origin; iii) General Electric; iv) Johnson & Johnson; v) Kodak; vi) Lenovo; vii) Manulife; viii) McDonalds; ix) Omega; x) Panasonic; xi) Samsung; and xii) Visa.<sup>15</sup> Clearly, if the Olympic sponsors are contributing such large sums of funding and resources to the Olympic movement, then there is much to gain for the partners. The major benefit that the Olympic movement provides for the Olympic sponsors is two fold: i) brand association and recognition with one if not the greatest sporting event in human history which is known by almost every individual on every continent; and ii) global marketing access to literally all individuals of the world through the vehicle of the Olympic Games. Authors Robert K. Barney, Stephen R. Wenn, and Scott G. Martyn states as follows:

The IOC's contemporary success in generating revenue by courting multinational corporations and granting them an exclusive opportunity to link their marketing programs to the five-ring Olympic logo—the most recognized symbol in the world...The power of the Olympic rings and the “Olympic mystique” as the central elements of a comprehensive marketing program exceeded all expectations.<sup>16</sup>

### **The role of multinational corporations in the 2008 Olympics**

If there is one group that will directly benefit from the 2008 Olympics in Beijing, it is the multinational corporations who support through sponsorship gain advertising time during the games. China presents unbridled potential for the establishment of brand recognition with a population that is numbered to be 1.3 billion.<sup>17</sup> More importantly, China's middle class economic buying power is growing; the middle class alone number 250 million from the total population.<sup>18</sup> Currently, the burgeoning middle class of China have only begun to flex their buying potential. It is for this reason why multinational corporations are so eager to be recognized with the 2008 Olympics with the hope of establishing brand recognition amongst the growing middle class with their products. However, to the multinational corporations who are so engaged in the marketing campaigns of the 2008 Olympics, the Olympics in China are only the beginning. An author demonstrated in an article of the marketing potential into the Chinese market during and after the 2008 Olympics stated as follows:

Most marketers like Johnson & Johnson view the Beijing Olympics as just part of a long-term marketing campaign in China. In other words,

marketing budgets for China are going up but will not drop after the Olympics as some skeptics argue as companies want to target China's 250 million strong middle class. With companies like KFC making considerable profits in China, MNCs are not going to reduce marketing expenditures here in the near-term post-Olympics. Advertising companies JC Decaux, Focus Media, and Clear Media all can take advantage of these increased expenditures as can the service companies like WPP who help MNCs figure out how to tap into the wallets of Chinese consumers.<sup>19</sup>

It is evident to see the reasons why multinational corporations are so eager to attach themselves to the fervor that is being focused upon the 2008 Olympics. Not only do multinational corporations benefit by sponsoring the Olympic movement and thus gaining access to advertising vehicle that is the Olympics, yet simultaneously multinational corporations are able to use the Olympics as the perfect Trojan Horse to establish brand recognition through the usage of the Olympic logo and the marketing rights provided by the TOP program to sponsors. Further, the 2008 Olympics will provide multinational corporations a rare opportunity to solidify a historic connection with the Chinese populace at a critical time in Chinese history. Every Chinese citizen will remember the 2008 Olympics and the supporters of China's Olympics from the beginning to the end. To the Chinese people, the Olympics in China are a rite of passage for a people who as a nation have struggled through a hundred years of humiliation.<sup>20</sup> The potential to establish a historical link in the minds of Chinese populace is an opportunity that the Olympic sponsors for the Olympics Games just cannot allow to fade away into history without their involvement.

Yet where there are the potential for rewards for the multinational corporations that are involved in the sponsorship of 2008 Olympics, there is also the potential for risks also for the Olympic sponsors of the Beijing Olympics. Primarily, the sponsors have come under attack by various human rights group who protest to the support by multinational corporations of the 2008 Olympics, and thus ignoring their social responsibility in response to China's human rights record. The major human rights activist groups that have been targeting the Olympic sponsor are i) The Olympic Dream for Darfur; ii) The Race for Tibet, and iii) Falun Dafa.<sup>21</sup> The greatest threat for multinational corporations in regards to the 2008 Olympics will be the potential damage to their corporate image if a human rights violation were to take place during Beijing Olympic Games. Author Drew Thompson, writer for the *China Business Review* stated as follows:

MNCs sponsoring the 2008 Olympics face considerable risks that cannot be easily mitigated. PRC officials and MNCs have a decidedly different calculus when it comes to protecting national and corporate images, respectively. Moreover, the Chinese state has more tools at its disposal to quell dissent, notably a colossal security force and a court system subordinate to political authorities. Protestors of any stripe will likely be unwelcome at event venues, and some high-profile MNCs may find it difficult to escape controversy...MNCs must be especially attuned to their strategies, policies, practices—and quick shifts in public opinion.<sup>22</sup>

Evidently, the potential challenges of a public relations crisis for the Olympic sponsors is one that the multinational corporations involved with the Beijing Olympics must strategize for in the situation that a crisis does break out during the Olympic Games in regards to either a human rights protest on Chinese soil, which

can only mean negative publicity for the multinational corporation who is not prepared for such a crisis. Yet, even with this potential of a negative publicity backlash from the barrage of human rights groups in response to the Olympic sponsors support of the Chinese government, no Olympic sponsors seems to have any intention of withdrawing their support for Beijing for the 2008 Olympics. Clearly, the marketing potential that the 2008 Olympics represent are far greater than the potential of a negative publicity crisis from such human rights groups as The Olympic Dream for Darfur, the Race for Tibet, or Falun Dafa. Writer Marc Gunther, writer for CNN stated as follows:

But despite the activists' high-level publicity and lobbying campaign, the companies aren't budging. They argue that the Olympics transcend politics: that it's not their role to lobby the Chinese government, and that resolving the crisis in Darfur is a job best left to the United Nations. "As Olympic sponsor, we are guests at the 2008 Beijing Games," said Antonio M. Perez, the chairman and CEO of Kodak, in a letter to the group. "It is not our place to make political demands of the hosts of what is, at its root, an athletic event."<sup>23</sup>

### **The role of the Olympic Dream for Darfur in the 2008 Olympics**

Of all the human rights activist groups that can be said to have taken the attention of the media and displayed the most success in applying pressure the Chinese government and the Olympic sponsors, no other group can even compare to the Olympic Dream for Darfur. The Olympic Dream for Darfur, an activist group led by celebrity turned activist Mia Farrow, is lobbying the Chinese government to use its diplomatic and economic muscle to coerce the Khartoum to end the

Genocide.<sup>24</sup> The group Dream for Darfur strongly feels that because China is Darfur's leading consumer of petrol, that China has the greatest potential of enacting an intervention in the crisis taking place in Darfur. Writer Nicholas D. Kristof, writer for *The New York Times* stated as follows:

The central problem is that in exchange for access to Sudanese oil, Beijing is financing, diplomatically protecting and supplying the arms for the first genocide of the 21<sup>st</sup> century. China is the largest arms supplier to Sudan, officially selling \$83 million in weapons, aircraft and spare parts to Sudan in 2005, according to Amnesty International USA. That is the latest year for which figures are available.<sup>25</sup>

While it is evident that the Dream for Darfur group has just cause for pursuing their campaign against China to enact a policy of intervention to stop the genocide of Darfur, what is truly impressive of the human rights group are the methods and the public relations strategy that the group has enacted to apply pressure to China and the Olympic sponsors. The Dream for Darfur group represents the new savvy activist group that will use the current public relations environment and communications technology to apply pressure to governments, non-government organizations, and most of all corporations who have the most to lose from a loss of credibility with the public. The Dream for Darfur presents an activist group that uses a combination of celebrity support, internet advocacy, timing of the Olympic Games, and the targeting of corporate sponsors to apply pressure Beijing. Primarily, Dream for Darfur is applying pressure to both China and the Olympic sponsors with the following the following methods: i) the targeting of both the Chinese government

and the Olympic sponsors; ii) the support of such celebrities for example spokesperson Mia Farrow, Steven Spielberg, and various others; iii) usage of the media to apply negative publicity to China and the Olympic sponsors; iv) unconventional protests related to the Olympics, i.e., the Olympic torch relay to Darfur; v) the critiquing of the corporate sponsors with the Dream for Darfur's grading system; and vi) the enactment of the *Turn Off/Tune In* campaign whose purpose to undermine the advertisements of the Olympic sponsors.<sup>26</sup>

From the all of the methods that the Dream for Darfur group have implemented to pursue their campaign to apply pressure to Beijing and the Olympic sponsors, the ones that stand out the most are usage of celebrity support on the issue, the grading system to apply pressure to corporate sponsors of the Olympic Games, and the *Turn Off/Tune In* Campaign. The usage of celebrity support gives the Dream for Darfur a dual advantage in their cause: i) celebrity support for the Darfur cause provides enhanced media coverage and even financial support for the goal of humanitarian intervention in Darfur; and ii) celebrity support offers both soft power and credibility for the Olympic Dream for Darfur. Without the support of such celebrities as Mia Farrow, Steven Spielberg, and even George Clooney and Brad Pitt, it is difficult to determine if the Olympic Dream for Darfur would have had the same media coverage over their cause had celebrities not supported the activist group. On a segment of *ABC News* the issue of celebrity involvement with the Dream for Darfur was stated as follows:

Steven Spielberg, under pressure from Darfur activists, may quit his post as artistic advisor to the 2008 Beijing Olympics, unless China takes a harder line against Sudan, a representative of the film director tells ABC News...In that same piece, "The Genocide Olympics," Farrow compared Spielberg to the Nazi director Leni Riefenstahl whose film "Olympia" was a paean to the 1936 Berlin Games. "Does Mr. Spielberg really want to go down in history as the Leni Riefenstahl of the Beijing Games," Farrow wrote...Several celebrities-turned-activists have pointed their fingers directly at China. George Clooney, Brad Pitt, Matt Damon, Don Cheadle, and Jerry are in the process of creating the foundation Not on Our Watch and have donated \$5.5 million raised at premieres of their film "Ocean's 13" to several development agencies working on Darfur.<sup>27</sup>

Evidently, the celebrity support that the Dream from Darfur is getting such well-known celebrities such as Mia Farrow, Steven Spielberg, and various others is providing the activist group the needed support in pursuing their campaign to apply pressure to China and the Olympic sponsors. While many other causes have also had the support of celebrities, the main difference here is that celebrities such as Mia Farrow are heavily engaged in the campaign, thus providing the needed prolonged support for the group the Olympic Dream for Darfur. This extended support by the celebrity community on this issue allows the activist group further attention from the media and an increased potential for funding for their cause from the support of celebrities. However, it is without a doubt that Mia Farrow is the driving celebrity force behind the Olympic Dream for Darfur as she sits as the chairman and main spokesperson for the activist group.<sup>28</sup> Without her engagement of the celebrity community and her exposure to the media, it is not certain if the Dream for Darfur group would have been so successful.

The Olympic Dream for Darfur attacked the Olympic Sponsors directly by enacting a grading system to scale the level that each corporate sponsor of the Olympic Games was accountable for their corporate responsibility in regards the upholding the values and ideals of the Olympics and further, in their position on the genocide taking place in Darfur. The results of the grading system are summarized in Table 5:

Table 5. Corporate Social Responsibility Grading list for MNC Olympic Sponsors

| <b>Final Grades</b>              |              |
|----------------------------------|--------------|
| <b>Olympic Corporate Sponsor</b> | <b>Grade</b> |
| Adidas                           | C            |
| Anheuser-Busch                   | F            |
| Atos Origin                      | F            |
| BHP Billiton                     | F            |
| Coca-Cola                        | D            |
| Eastman Kodak                    | F            |
| General Electric                 | C+           |
| Johnson & Johnson                | D            |
| Lenovo Group Limited             | F            |
| Manulife                         | F            |
| McDonald's                       | C            |
| Microsoft                        | F            |
| Panasonic                        | F            |
| Samsung                          | F            |
| Staples                          | F            |
| Swatch                           | F            |
| UPS                              | D            |
| Visa                             | F            |
| Volkswagen                       | F            |

\*Grading information taken from report generated by the Olympic Dream for Darfur group

Out of the all the sponsors who were graded in this report, only three technically were able to obtain a grading of average. The majority of the sponsors were not as fortunate as Adidas, General Electric, and McDonalds. However to be able to comprehend the scrutiny that the corporate sponsor underwent in this grading system, it is imperative to understanding the criteria that the Olympic Dream for

Darfur used to judge the sponsors. The sponsors were judged under the following methodology: i) identification of a point person to deal with the Darfur issue; ii) sponsor made a clear effort to understand the China-Darfur issue; iii) sponsor contacted the Chinese government in either a direct or private appeal to Beijing over the Darfur issue; iv) sponsor contacted the International Olympic Committee over Darfur; v) Sponsor signed the Dream for Darfur Corporate Sponsors Pledge; vi) Sponsor joined with other sponsors by co-signing letter to be delivered to President Hu Jintao and the IOC over the matter that the Darfur issue could tarnish the Olympics; vii) sponsor took other significant steps as a corporate leader to influence China' role in the relation to Sudan through high-level contacts with policymakers or the media; and viii) Sponsor gives aid to the humanitarian cause for Darfur either before or after the Dream for Darfur initiative.<sup>29</sup> While some of the demands within the grading system of the Olympic Dream for Darfur are understandable and some to be expected, the majority of the demands that the activist group is coercing upon Olympic sponsors to take action upon are ludicrous to say the least. For the Dream for Darfur group to expect the Olympic sponsors to confront either in public or in private the Chinese government to discuss the foreign policy matters of China over the Darfur issue borders beyond the extreme. It is one issue for an Olympic sponsor to donate funds to the Darfur cause to assist in mitigating the suffering of the people of Darfur. However, it is a completely different issue to demand the Olympic sponsors to act as a foreign policy mediator and use their very sponsorship to Beijing

Olympics as the carrot and stick to force China to intervene in Darfur. Yet, the Olympic Dream for Darfur is attacking the corporate social responsibility of multinational corporations who choose to sponsor China and remain silent about Darfur in a truly creative and innovative way.

Besides the usage of the grading method to apply pressure to the multinational corporations who compose the sponsors for the Olympic Games, the Olympic Dream for Darfur also enacted one more tool to apply pressure to both the Olympic Sponsors and Beijing, the *Turn Off/Tune In* campaign.<sup>30</sup> The *Turn Off/Tune In* campaign directly attacks the multinational corporations who are sponsoring the games by providing a protesting format online for individuals who are opposed to the stance that the Olympic sponsors have taken on the Darfur issue.<sup>31</sup> Protestors can pledge with the Olympic Dream for Darfur that they will turn off their televisions to the Olympic advertisements and tune in to Mia Farrow who will be broadcasting live from a camp in Darfur to protest the lack of Chinese intervention in the Darfur issue and the silence that multinational corporations have taken. This innovative method for the human rights group the Dream for Darfur to rally individuals through the internet with an online pledge aimed directly at the viewing of the 2008 Beijing Olympics has a dual purpose. First, the *Turn Off/Tune In* campaign aims at the marketing budgets that the Olympic sponsors have invested so heavily in by targeting and undermining the very goal of the Olympic sponsor. Through the *Turn Off/Tune In* campaign, The Dream for Darfur group is potentially

enlisting the target audience of the Olympics to turn off their televisions during the games and tune in to Darfur. This can potentially cause a significant decrease in the viewers for the 2008 Olympics, thus decreasing the viewing audience for the Olympic sponsors. Second, the *Tune Off/Tune In campaign* provides an undermining force to the glory of China's turn to host the Olympic games. Below is a picture of the website that demonstrates the ease for a potential protestor to pledge with Dream for Darfur in illustration 4:

Illustration 4. The Turn Off/Tune In Pledge of the Olympic Dream for Darfur



Clearly, it is easy for an individual go onto the Dream for Darfur website and pledge to turn off the advertisements of the Olympic Games and tune in to the broadcast that will take place in Darfur in protest the 2008 Olympics. This online pledge is an innovative way to apply pressure to multinational corporations to take action on the issue. How effective it will be, will have to be determined as the Olympic Games

approach and the number individuals pledge increases. The Dream for Darfur successfully combines celebrity power, the media, and the internet to apply pressure to China and the Olympic sponsors. These methods are nothing new, and have been used by various activist groups before. However the Olympic Dream for Darfur has demonstrated that these methods combined and with their spokesperson Mia Farrow leading the way, the Dream for Darfur represents a new type of activist group that is truly a devastating organization to a multinational corporation's image.

### **The 2008 Olympics: What the Olympics means to China**

For the nation-state of China, the arrival of the Olympic Games on Chinese soil represents a multitude of achievements for a nation that has struggled through many challenges due to both foreign occupation and internal strife. To China, the acceptance by the International Olympic Committee for Beijing to host the Games is a symbol to the populace and the government of recognition of China as a rightful member of the international community.<sup>32</sup> More over, the hosting of the Olympic Games provides China with the following i) further foreign investment through sponsorship for the games and through the desire of multinational corporations who see the Olympic Games as their doorway to the Chinese consumer; ii) establishment of legitimacy for the government from the international community and from multinational corporations who aspire to lay a foundation in this emerging market; and iii) the Olympic Games provides the unifying for of nationalism for the nation-state of China.

Before the hosting of the Olympic Games, China was already the recipient of a substantial amount of foreign direct investment from multinational corporations. However, the sponsorship by multinational corporations and the desire for multinational corporations to establish marketing campaigns during and beyond the games is a different type of foreign investment. This type of investment in China is not only a financial investment by multinational corporations, but also an investment in brand management and brand recognition for a middle class that is 250 million in number and growing and whose economic buying power is increasing multifold.<sup>33</sup> Many corporations, both large multinational corporations and small corporations perceive the 2008 Olympics as the opportunity to establish a connection with the China's population and make their products become infused in the Chinese consumer's choice. Writer Kevin Boyer, for *The Enquirer* stated as follows:

The Summer Olympics will be held in Beijing; and in the last year, China emerged as the first country to contribute more to the global economy than the United States...With a population of 1.3 billion and one of the world's fastest-growing economies, China has for decades been on the radar screen of large Cincinnati corporations such as Procter & Gamble Co. and GE Aircraft Engines. But an increasing global economy, driven by technology, floating monetary exchange rates and a mind-set popularized by author Tom Friedman's best-seller "The World is Flat" has made a presence in China an imperative for even the smallest companies.<sup>34</sup>

For multinational corporations desiring to establish marketing campaigns in China, the 2008 Olympics presents the perfect opportunity to begin to plant the seeds of brand recognition with the China's 1.3 billion population. The Olympics offers the sponsors of the Games the chance to be historically tied to China in this prestigious

moment for the Chinese nation-state. Further, the hosting of the Olympics provides Beijing with a legitimacy of its governance that the state needed from the international community and from multinational corporations.<sup>35</sup> Because of China's human rights record and its foreign and domestic policies, China has constantly been scrutinized by activist groups and fellow nation-states. The approval by the IOC for China to host the 2008 Olympic Games provides Beijing much prestige and acceptance from both the international community and from multinational corporations. Most importantly, the 2008 Olympic Games provide the Chinese populace with a symbol of nationalism and acceptance for China. The history of how modern China evolved from a nation carved by foreign powers, divided by composing ideologies, a civil war, the painful economic lessons of the Great Leap Forward, and the nightmare of the Cultural Revolution. The Olympic Games gives China the perfect "Coming Out" party onto the international stage as stated by the media. Writer Lin Tin Li for the *Harvard International Review* stated as follows:

When Beijing won the bid for the 2008 Olympics, thousands of Chinese citizens flooded Tiananmen Square in celebration of the momentous event. Unlike most people around the world, the Chinese seem unfazed by the scandals that have recently wreaked havoc on the reputation of the Olympics. There is an estimated 95 percent approval rating from the citizens of Beijing for the 2008 Olympics. To the Chinese people the Olympics are not simply construction contracts, athleticism, or the spirit of the games. For the people, but more importantly for the Chinese government, winning the bid for the 2008 Olympics was an affirmation of China's 30 years of social and economic progress and its new status as a great world power. In the success of the 2008 Olympics Beijing hopes to prove that China is coming of age in 21<sup>st</sup> century...For China, the 2008 Olympics is a matter of prestige and pride.<sup>36</sup>

To both the outside world and to China, the hosting of the 2008 Olympics by Beijing is a moment in history that will not be forgotten. For the world, it signifies the arrival of a new economic superpower that is ready to take its place amongst the international community. For China, the Olympic Games is the much needed symbol of acceptance by the world of its culture, and more importantly, acceptance and tolerance of its government. Further, the 2008 Olympics represent a unifying force in the form of Chinese nationalism, which will only provide more of the cohesive factor that nationalism brings to a state. It is guaranteed that 2008 will be the year for the Chinese citizen to remember.

### **Conclusion**

For all parties involved with the 2008 Olympics, there is much opportunity and risk at stake. No Olympic Games in the history of the Olympics has had as much focus and attention drawn to it as the Beijing Olympics. However, no other Olympics as the 2008 Olympics has had the potential of being a media fiasco as 2008 games due to the potential of protests at the games, negative publicity, and the boycotting of Olympic advertising. As the old Chinese proverb states, “With great risk comes great opportunity.” And for the key players dealing with the event, all have much to gain and much to risk. For multinational corporations and the sponsors, direct marketing access to the Chinese population, the opportunity to establish brand recognition with China’s growing middle class, and the potential to

become a part of China's historic moment are truly a rare opportunity. However, the greatest risk for the Olympic sponsors and the multinational corporations involved with the Olympic Games are negative publicity generated by activist groups over the Darfur issue, potential failure of brand recognition not taking place with the Chinese populace, and the possible historic reflection to 2008 Games if the games turn out to another Tiananmen Square incident. For activist groups like the Olympic Dream for Darfur, the 2008 Olympic Games present a rare opportunity to target both the Chinese government and the Olympic sponsors to enact a humanitarian intervention in Darfur to end the Genocide. However, the greatest risk that the Dream for Darfur takes is the fact that their efforts may not produce the intended results. For China, the greatest opportunities and risks are ahead the Chinese state as time before the opening ceremony for the Olympic Games comes arrives this August. To the Chinese nation-state, the 2008 Olympics represent the ultimate symbol of acceptance by the international community and a unifying symbol pride and prestige for the Chinese populace. However the risk of the Beijing Olympics being mirrored in history as another human rights violation also looms as protest groups plan and strategize how to attack Beijing with protests at the Olympic Games. For multinational corporations, it is critical to be prepared with both marketing and public relations strategies as the games approach. There are four major lessons that the multinational corporations involved with the 2008 Olympics need to adhere to insure successful marketing campaigns and to mitigate the potential damage created

by activist groups: (i) don't underestimate the local corporations—while local corporations may not have the marketing knowledge or the capital resources available multinational corporations, they will have the cultural and nationalistic advantage over foreign countries. Underestimating Chinese companies during such an event has the potential to undermine the marketing campaigns of multinational corporations if not planned for. Anticipate the local companies, or even work with local companies in joint marketing ventures to gain better access to the Chinese public; (ii) devise a marketing campaign that extends beyond the 2008 Olympics—While the 2008 Olympics will truly be an extravaganza of an event, it is only the beginning. Multinational corporations who are already invested in the games would be wise to carry their campaigns with devised strategies that have fortitude beyond the games; (iii) develop Crisis plans to combat activist groups—Because of the nature of the 2008 Olympics and because multinational corporations have already been the target of such groups as the Olympic Dream for Darfur, it is necessary for multinational corporations to be ready with both a crisis team and a crisis strategy to combat the potential protests that will take place at the Olympic Games. It is without a doubt that groups like the Dream for Darfur are planning to stage a protesting event at the 2008 Olympics targeting China and the multinational corporations involved that will pale in comparison to protests of the past. It is vital that multinational corporation be ready for this onslaught upon corporate image that is brewing. (iv) make a public statement about the Darfur issue and donate funding to the Darfur

cause—For multinational corporations to potentially quell activist groups like the Olympic Dream for Darfur, taking a public stance on the issue and donating money to Darfur issue may be the best way to take away their momentum. By taking a public stance that does not sour relations with China and by donating money to the Darfur cause, multinational corporations could be able to reduce the attacks on their social responsibility. The 2008 Olympic Games will be a proud moment for China, and the sponsorship of the games provides companies a marketing doorway for brand recognition. However, both China and the Olympic sponsors must be prepared for activist groups at the games. As the old Chinese proverb states, “great opportunity comes with great risk.”

## **CONCLUSION**

### **WHAT THE ROLE OF MULTINATIONAL CORPORATIONS MEANS TO SINO-U.S. RELATIONS AND TO INTERNATIONAL AFFAIRS**

The current environment of the international system today is one that has undergone significant change since the emergence of the nation-state in international affairs. Today's state of global affairs is one where nations are not the only actors in the international arena, and one where the very subject of sovereignty of the state is questioned. The international system of today is one that is completely different from the era of the Cold War. Today, no two nation-states reign supreme and there is no clear balance of power. Nor can it be stated that there is truly a state which holds the crown of hegemony in this state of international affairs. In this international system, there is no defined leader of the world. The international arena of today is an environment where nation-states are competing for the financial and economic developing resources that multinational corporations can provide. Multinational corporations have become an economic force to be reckoned with. The MNCs in today's global affairs have the ability to bring financial stimulus to developing markets, research and implement new technology, explore new resources, and influence the governments of host nation-states. Multinational corporations are proving to be an effective economic engine in the international system. Yet while MNCs are effective drivers of the international market, their ability to influence host nation-states is of critical concern. Sino-U.S. relations

provide an excellent model of the ability of MNCs to influence the relations between states. Since the beginning of Sino-U.S. relations there has been influence in Sino-U.S. foreign policy from the commercial sector. This influence from the commercial sector in Sino-U.S. foreign relations displays how the commercial sector can drive policy in the adverse interests of the nation-state.

Yet while commercial influence can have an adverse effect in the relations of nation-states, clearly as in the case of the economic reforms of China, multinational corporations also have the ability to bring positive economic growth and infrastructure development by establishing themselves in developing markets. Through Deng Xiao Peng's economic reforms, China provided a very suitable economic environment for multinational corporations to invest. Further, China provided access to untapped resources and a growing consumer market that will be the driving purchasing force in the international market for years. The involvement of multinational corporations in the development of China's economy reveals just how powerful multinational corporations can be in this new era of international affairs driven by globalization.

The mechanisms that multinational corporations utilize to influence host governments demonstrates the dramatic change in international affairs and also validates the influence of multinational corporations on host nations. Multinational corporations are the driving engine within international market, and nation-states seek the FDI, technology transfer, and usage of labor that multinational corporations

can provide. The very mechanisms of influence used by multinational corporations causes host nations to compete amongst each other for the incentives that MNCs can provide.

The case studies within this analysis on multinational corporations provide two contrasting roles that multinational corporations can fulfill in Sino-U.S. relations and international affairs. The Chinese Export Confidence Crisis case study demonstrates the influence that multinational corporations can have on Sino-U.S. relations. Multinational corporations in this case study became a driving force in implementing change in China's policy to consumer safety. Further, multinational corporations such the Mattel Corporation provided a paragon of how MNCs should lead a product safety recall. The Beijing Olympics marketing crisis case study displays how the multinational corporations can provide much needed financial support to an organization such as the International Olympic Committee to bring more nations to the games. Simultaneously, the involvement of MNCs in the 2008 Olympics raises ethical questions as the Olympic sponsors for the 2008 games are supporting an authoritative regime whose involvement in Darfur could be supporting genocide. This case study explores not only the influence of MNCs on host-states, yet also the responsibility of those MNCs in international affairs.

The ethical dilemma of the role of multinational corporations in Sino-U.S. foreign policy and their increasing influence in international affairs is a concern that cannot be taken lightly. However, this does not mean that the role of multinational

corporations is neither a complete negative influence upon the ethics involving relations between nation-states nor their influence on the international economy. The role of multinational corporations in Sino-U.S. foreign policy and international affairs is a role that cannot be constrained to a finite definition. The role of MNCs will always be within a broad definition and MNCs will be driving forces both for the benefit of host nations and also gain advantages over the host nation which may not be in the best interest of that host state. However, it is in the full capability and the responsibility of host states to determine the degree of influence that multinational corporations will have in their economies and on their governments. While MNCs are the primary economic driving force for foreign direct investment, the transfer of technology, and the usage of labor, MNCs still have to reside within a host nation-state and still have to seek out the consumers within a host state for profit. Because of these factors, nation-states still hold a great level of autonomy within the international system and can provide a balancing power against the influence of multinational corporations. Yet this study does not want to suggest that multinational corporations and host states must be in a balance of power. More importantly, it is critical for host states to realize that they are also active drivers of the international economy, and can contribute to the progression of economic development as much as multinational corporations. For the future of not only Sino-U.S. relations, yet also for other host states and the further progression of the international economy, it is vital that host nation-states and multinational

corporations work in unison for the continued betterment of the international economy and for continued development of developing states. Without a doubt, there is a third actor within Sino-U.S. relations and international affairs. Multinational corporations have evolved within the international system into an entity that will not fade away into history. Now that is evident that MNCs are an influencing force upon the relations of nation-states and a vehicle for economic development within the international economy, the effect of MNCs cannot be denied and cannot taken lightly. With the current state of international affairs, now is the time for nation-states to accept the role of MNCs, and for all actors to work together.

## ENDNOTES

### CHAPTER ONE

<sup>1</sup> McCormick, Thomas J. China Market: America's Quest for Informal Empire 1893-1901. (Chicago: Elephant Paperbacks, 1990).

<sup>2</sup> Ibid 53.

<sup>3</sup> Ibid 155.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Leung Pak-wah, Edwin, Essentials of Modern Chinese History: 1800-Present. (New Jersey: Research & Education Association, 2006) 112-115.

<sup>7</sup> Ibid 112-115.

<sup>8</sup> Ibid 112-115.

<sup>9</sup> Ibid 112-115.

<sup>10</sup> Ibid 112-115.

<sup>11</sup> Spence D. John, The Search for Modern China. (New York: W.W. Norton & Company, 1990) 606.

<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

<sup>14</sup> Chow Gregory C. Understanding China's Economy. (New Jersey: Princeton University Press, 1994) 10.

<sup>15</sup> Ibid 12.

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> Luo, Yadong. Multinational Corporations in China. (Forlag: Copenhagen Business School Press, 2000) 15.

<sup>19</sup> Ibid 13.

<sup>20</sup> Fung, K.C, Lawrence, J. Lau, and Joseph S. Lee. U.S. Direct Investment in China. (Washington, DC: Library of Congress Publications, 2004) 3.

<sup>21</sup> Ibid.

<sup>22</sup> Ibid.

<sup>23</sup> Luo, Yadong. Multinational Corporations in China. (Forlag: Copenhagen Business School Press, 2000) 13.

## CHAPTER TWO

<sup>1</sup> Jones, Geoffrey. Multinationals and Global Capitalism: From the Nineteenth to the Twenty-first Century. (Oxford: Oxford University Press, 2005) 16.

<sup>2</sup> Chandler, Alfred Jr. Leviathans: Multinational Corporations and the New Global Economy. (Cambridge: Cambridge University Press, 2005) 3.

<sup>3</sup> Ibid 3.

<sup>4</sup> Ibid 5.

<sup>5</sup> Jones, Geoffrey. Multinationals and Global Capitalism: From the Nineteenth to the Twenty-first Century. (Oxford: Oxford University Press, 2005) 40.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid 30.

<sup>8</sup> Chandler, Alfred Jr. Leviathans: Multinational Corporations and the New Global Economy. (Cambridge: Cambridge University Press, 2005) 25.

<sup>9</sup> Ibid 2.

<sup>10</sup> Jensen, Nathan M. Nation-States and the Multinational Corporation: A Political Economy of Foreign Direct Investment. (Princeton: Princeton University Press, 2006) 53-54.

<sup>11</sup> Ibid 57.

<sup>12</sup> Ibid 29.

<sup>13</sup> Ibid.

<sup>14</sup> Jones, Geoffrey. Multinationals and Global Capitalism: From the Nineteenth to the Twenty-first Century. (Oxford: Oxford University Press, 2005) 51.

<sup>15</sup> Chandler, Alfred Jr. Leviathans: Multinational Corporations and the New Global Economy. (Cambridge: Cambridge University Press, 2005) 66-67.

<sup>16</sup> Jensen, Nathan M. Nation-States and the Multinational Corporation: A Political Economy of Foreign Direct Investment. (Princeton: Princeton University Press, 2006) 31.

<sup>17</sup> Ibid 8.

<sup>18</sup> Kennedy, Scott. The Business of Lobbying in China. (Cambridge: Harvard University Press, 2005) 3.

<sup>19</sup> Jensen, Nathan M. Nation-States and the Multinational Corporation: A Political Economy of Foreign Direct Investment. (Princeton: Princeton University Press, 2006) 19.

<sup>20</sup> Zhang, Yongjin. China's Emerging Global Business: Political Economy and Institutional Investigations. (New York: Palgrave Macmillian, 2003) 82.

<sup>21</sup> Alon, Ilan. Globalization of Chinese Enterprises. (New York: Palgrave Macmillian, 2008) 69.

<sup>22</sup> Ibid 71.

<sup>23</sup> Zhang, Yongjin. China's Emerging Global Business: Political Economy and Institutional Investigations. (New York: Palgrave Macmillian, 2003) 84.

### **CHAPTER THREE**

<sup>1</sup> Morrison, Wayne. *CRS Report for Congress—China-U.S. Trade Issues Updated March 7, 2008*.

<sup>2</sup> <http://www.cbsnews.com/stories/2007/08/09/business/main3152147.shtml> accessed 10/23/2008.

<sup>3</sup> <http://www.npr.org/templates/story/story.php?storyId=14527497> accessed 10/23/2008.

<sup>4</sup> Ibid.

<sup>5</sup> <http://www.cpsc.gov/businfo/intl/china07.pdf> accessed 10/28/2008.

<sup>6</sup> <http://www.uschina.org/public/documents/2007/110th-congress-legislation-related-to-china.pdf> accessed 10/23/2008.

<sup>7</sup> Ibid

<sup>8</sup> <http://www.govtrack.us/congress/billtext.xpd?bill=h110-3100> accessed 09/09/2008.

<sup>9</sup> Ibid.

<sup>10</sup> Ibid.

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

<sup>13</sup> Quelch, John. *Getting a Toy Recall Right* HBS Working Knowledge August 27<sup>th</sup>, 2007.

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

## CHAPTER FOUR

<sup>1</sup> Martyn, Scott G., Stephen R. Wenn, & Robert K. Barney. Selling The Five Rings: The International Olympic Committee and the Rise of Olympic Commercialism. (Salt Lake City: The University of Utah Press, 2002) 19.

<sup>2</sup> Ibid 19.

<sup>3</sup> Ibid 19.

<sup>4</sup> Young, Kevin. Global Olympics: Historical and Sociological Studies of the Modern Games. (New York: Elsevier Publishing, 2002) 136.

<sup>5</sup> Ibid 137.

<sup>6</sup> Close, Paul, David Askew, and Xu Xin. The Beijing Olympiad: The Political Economy of a Sporting Mega-Event. (New York: Routledge, Taylor & Francis Group Publishing, 2007) 10.

<sup>7</sup> Martyn, Scott G., Stephen R. Wenn, & Robert K. Barney. Selling The Five Rings: The International Olympic Committee and the Rise of Olympic Commercialism. (Salt Lake City: The University of Utah Press, 2002) 161-193.

<sup>8</sup> Ibid 278.

<sup>9</sup> Ibid 19.

<sup>10</sup> [www.olympic.org/uk/organization/facts/programme/sponsors\\_uk.asp](http://www.olympic.org/uk/organization/facts/programme/sponsors_uk.asp), accessed 10/23/2008.

<sup>11</sup> Ibid.

<sup>12</sup> International Olympic Committee Olympic Marketing Fact File 2008 Edition [http://multimedia.olympic.org/pdf/en\\_report\\_344.pdf](http://multimedia.olympic.org/pdf/en_report_344.pdf), accessed 10/29/2008.

<sup>13</sup> Martyn, Scott G., Stephen R. Wenn, & Robert K. Barney. Selling The Five Rings: The International Olympic Committee and the Rise of Olympic Commercialism. (Salt Lake City: The University of Utah Press, 2002) 19.

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> Martyn, Scott G., Stephen R. Wenn, & Robert K. Barney. Selling The Five Rings: The International Olympic Committee and the Rise of Olympic Commercialism. (Salt Lake City: The University of Utah Press, 2002) 278.

<sup>17</sup> Doctoroff, Tom. "Olympic Heat" *The Huffington Post* June 22<sup>nd</sup>, 2007.

<sup>18</sup> Madden, Normandy. "Sponsoring the Games: Marketing plans shaping up" *AdAge China* February 14<sup>th</sup>, 2007.

- <sup>19</sup> Rein, Shaun. "Profit From China's Advertising Boom: 2008 Olympics and Beyond" [www.seekingalpha.com/article/52795-profit-from-china-s-advertising-boom-2008-olympic](http://www.seekingalpha.com/article/52795-profit-from-china-s-advertising-boom-2008-olympic), accessed 10/23/2008.
- <sup>20</sup> Lin Tin, Li. "2008 Olympic: Dragon in the Limelight" *Harvard International Review* Spring 2005.
- <sup>21</sup> Monogoven, Bart. "China: The 2008 Olympics as a Major Activist Inroad" [www.stratfor.com/china\\_2008\\_olympics\\_major\\_activist\\_road\\_inroad](http://www.stratfor.com/china_2008_olympics_major_activist_road_inroad), accessed 10/22/2008.
- <sup>22</sup> Thompson, Drew. "Beijing Olympics: More at Stake than Gold Medals" *China Business Review Online* [www.lincense.icopyright.net/user/viewFreeUse.act?fuid=Nzg3MDYy](http://www.lincense.icopyright.net/user/viewFreeUse.act?fuid=Nzg3MDYy), accessed 10/29/2008.
- <sup>23</sup> Gunther, Marc. "Olympic Sponsors Ignore Darfur Protest" *Fortune Magazine* November 28 2007.
- <sup>24</sup> [www.dreamfordarfur.org](http://www.dreamfordarfur.org), accessed 10/23/2008.
- <sup>25</sup> Kristof, Nicholas D. "China's Genocide Olympics" *The New York Times* January 24, 2008.
- <sup>26</sup> [www.dreamfordarfur.org](http://www.dreamfordarfur.org), accessed 10/23/2008.
- <sup>27</sup> <http://ablocal.go.com/kgo/story?section=entertainment&id=5513114&pt=print>, accessed 10/23/2008.
- <sup>28</sup> [www.dreamfordarfur.org](http://www.dreamfordarfur.org), accessed 10/23/2008.
- <sup>29</sup> Freudenheim, Ellen. And Now...Not A Word from Our Sponsors: A Report Card Grading Corporate Sponsors of the 2008 Olympics on Their Response to the Genocide in Darfur October 27, 2007. [www.dreamfordarfur.org](http://www.dreamfordarfur.org), accessed 10/23/2008.
- <sup>30</sup> [www.dreamfordarfur.org](http://www.dreamfordarfur.org), accessed 10/23/2008.
- <sup>31</sup> Ibid.
- <sup>32</sup> Long, Simon. "China's Great Game" *The Economist* January 1, 2008.
- <sup>33</sup> Rein, Shaun. "Profit From China's Advertising Boom: 2008 Olympics and Beyond."
- <sup>34</sup> Boyer, Kevin. "China Boom: The Future is Now" *The Enquirer* January 6, 2008.
- <sup>35</sup> Close, Paul, David Askew, and Xu Xin. The Beijing Olympiad: The Political Economy of a Sporting Mega-Event. (New York: Routledge, Taylor & Francis Group Publishing, 2007) 10.
- <sup>36</sup> Lin Tin, Li. "2008 Olympic: Dragon in the Limelight" *Harvard International Review* Spring 2005.

## BIBLIOGRAPHY

- Alon, Ilan. Globalization of Chinese Enterprises. New York: Palgrave Macmillian, 2008.
- Barboza, David. "Product Safety and the 'Made in China' Label." Fresh Air from WHYY, September 19<sup>th</sup>, 2007.
- Chandler, Alfred D. and Bruce Mazlish. Leviathans: Multinational Corporations and the New Global History. Cambridge: Cambridge University Press, 2005.
- Close, Paul, David Askew, and Xu Xin. The Beijing Olympiad: The Political Economy of a Sporting Mega-Event. New York: Routledge, Taylor & Francis Group Publishing, 2007.
- Doctorof, Tom. "Olympic Heat" *The Huffington Post* June 22<sup>nd</sup>, 2007.
- Fung, K.C., Lawrence J. Lau, and Joseph S. Lee. U.S. Direct Investment in China. Washington D.C.: AEI Press, 2004.
- Gunther, Marc. "Olympic Sponsors Ignore Darfur Protest" *Fortune Magazine* November 28 2007.
- Jensen, Nathan M. Nation-States and the Multinational Corporation: A Political Economy of Foreign Direct Investment. Princeton: Princeton University Press, 2008.
- Jones, Geoffrey. Multinational Corporations and Global Capitalism: From the Nineteenth Century to the Twenty-First Century. New York: Oxford University Press, 2005.
- Kennedy, Scott. The Business of Lobbying in China. Boston: Harvard University Press, 2005.
- Kristof, Nicholas D. "China's Genocide Olympics" *The New York Times* January 24, 2008.
- Lieberthal, Kenneth. Governing China: From Revolution Through Reform. New York: W.W. Norton & Company, 2004.

- Leung, Edwin Pak-wah. The Essentials of Modern Chinese History: 1800-Present. New Jersey: Research & Education Association Inc., 2006.
- Lin Tin, Li. "2008 Olympic: Dragon in the Limelight" *Harvard International Review* Spring 2005.
- Long, Simon. "China's Great Game" *The Economist* January 1, 2008.
- Luo, Yadong. Multinational Corporations in China: Benefiting From Structural Change. Forlag: Copenhagen Business School Press, 2000.
- Madden, Normandy. "Sponsoring the Games: Marketing plans shaping up" *AdAge China* February 14<sup>th</sup>, 2007.
- Martyn, Scott G., Stephen R. Wenn, & Robert K. Barney. Selling The Five Rings: The International Olympic Committee and the Rise of Olympic Commercialism. Salt Lake City: The University of Utah Press, 2002.
- McCormick, Thomas J. China Market: America's Quest for Informal Empire 1893-1901. Chicago: Elephant Paperbacks, 1990.
- Montagne, Renee. "Safety Agency: Importers Must Meet U.S. Standards" Morning Edition, August 15<sup>th</sup>, 2007.
- Rein, Shaun. "Profit From China's Advertising Boom: 2008 Olympics and Beyond".
- Spence, John D. The Search for Modern China. New York: W.W. Norton & Company, 1990.
- Young, Kevin. Global Olympics: Historical and Sociological Studies of the Modern Games. New York: Elsevier Publishing 2002.
- The U.S.-China Business Council, "110<sup>th</sup> Congress, First Session Legislation Related to China" December 2007.
- The U.S.-China Business Council, "Selected China-Related News and Actions on Food and Product Safety" September 20<sup>th</sup> 2007.
- U.S. Consumer Product Safety Commission, "International Consumer Product Safety Program: 2007 China Program Plan".

Warner, Jeremy. "Crisis of Confidence in Chinese produce" *The Independent* August 16th, 2007.

Watts, Jonathon. "Made in China: tainted food, fake drugs, and dodgy paint" *The Guardian* July 5<sup>th</sup>, 2007.

Young, Kevin. Global Olympics: Historical and Sociological Studies of the Modern Games. New York: Elsevier Publishing, 2005.

Zhang, Yongjin. China's Emerging Global Business: Political Economy and Institutional Investigations. New York: Palgrave Macmillian, 2003.

[www.olympic.org/uk/organization/facts/programme/sponsors\\_uk.asp](http://www.olympic.org/uk/organization/facts/programme/sponsors_uk.asp),  
accessed 10/23/2008.

[www.seekingalpha.com/article/52795-profit-from-china-s-advertising-boom-2008-olympic](http://www.seekingalpha.com/article/52795-profit-from-china-s-advertising-boom-2008-olympic),  
accessed 10/23/2008.

[www.dreamfordarfur.org](http://www.dreamfordarfur.org), accessed 10/23/2008.