

**From Cold War to the Washington Consensus:
Evolution of the Multinational Corporations' Strategies in Chile**

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The relationship between rich-world multinationals and Latin American societies has been a complicated one. These firms have repeatedly pointed to as representatives of imperialism and exploitation and have dealt with the hostility of different segments of respective domestic societies at different times. This paper analyses the evolution of the strategies of several American and European corporations in Chile for a period encompassing an era of big changes: from an era of development policies dominated by protectionism led by a civilian government, to a period of rule of a right-wing open market friendly military dictatorship, to an era of democratization and a market friendly regime. The multinationals had to adapt to a changing political and economic environment that responded to wider global shifts in existing paradigms on economic development. The chapter shows how these foreign firms adapted to these changes by developing different ways to integrate the Chilean elites in their corporate boards.

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Introduction¹

In 1975, the documentary film *La batalla de Chile* (“The battle of Chile”)², directed by Chilean filmmaker Patricio Guzmán, premiered at the Cannes film festival; great international success followed.³ This three-part documentary chronicles the fierce polarization between the Chilean political left and right during the months preceding the election of Marxist president Salvador Allende in 1970, the deepening of those tensions during Allende’s administration, and the coup that ended the Allende government in 1973 and started the military dictatorship of Augusto Pinochet that lasted until 1989. The title of the film is consistent with the global perception of the events in Chile as a major Cold War battle between capitalism and Communism. On one side, the United States Central Intelligence Agency (CIA) spent resources (unsuccessfully) to prevent Allende’s election and later conspired successfully with different Chilean political actors to overthrow him.⁴ On the other side, the Latin American left led by Cuba’s Fidel Castro considered Allende’s accession to power as the continent’s most important revolutionary triumph after the Cuban Revolution.⁵ The policies developed by Pinochet’s dictatorship after the coup have also been considered paradigmatic in terms of representing changes that eventually took place at the global level. Shortly after taking power Pinochet embarked on a series of economic reforms consisting of mass privatizations (including most utilities and social security) and opening of the economy to foreign markets. In this way, in the early 1980s Chile was following a recipe that was eventually adopted in most countries in the 1990s (although not equally everywhere). In fact, in his history of neo-liberalism David Harvey puts Pinochet at the same level of Ronald Reagan, Deng Xiao Ping, and Margaret Thatcher in terms of his importance in pushing the new economic agenda that dominated the post-1990s world.⁶ In this way, Chile constitutes a textbook-case example of a country that experimented with the different economic models debated during the Cold War and the following period of open markets (or neo-liberalism).

Multinational corporations have been at the centre of the political and academic debate during the Cold War and the subsequent neo-liberal period. At the height of the Cold War, they were one of the preferred targets of the left who considered them an arm of imperialistic exploitation

that acted with the complicity of a segment of the domestic bourgeoisie.⁷ Another group of economists and sociologists working for the Economic Commission for Latin America (ECLA) considered multinationals potential partners in state-led programmes of industrialisation.⁸ Even though both groups had a different view of what types of policies governments should follow with respect to multinational corporations, they both agreed with the idea that the economic structure of their countries needed to change from being one based on exports of raw materials into an industrial one. These views partially explain policies towards multinationals in less developed countries during the 1960s and 1970s. They ranged from expropriation of assets owned by foreign multinationals for the creation of domestic state-owned enterprises, re-negotiation of contracts with foreign firms, or incentives to foreign firms to invest in nascent industries.⁹ These views lost steam and popularity in Latin America during the 1980s and 1990s when, after a series of economic crises, governments abandoned import substitution in favour of open market policies that returned to the idea of exploiting the continent's rich natural resources as a way to achieve economic prosperity.¹⁰ The multinational corporations played a new role in this environment by investing heavily in buying privatized government property, including state property resulting from previous expropriations. Multinationals participating in this process included firms originating from countries such as Spain, China or Russia – rather than from the traditional post-World War II capital-exporting countries (namely, the United States, United Kingdom, Germany, France, Switzerland, Holland, and Japan).¹¹

This chapter studies how multinational firms adapt to a changing political and economic environment through the political composition of their boards of directors. These boards play a crucial role in any organisation at creating links between the firm and other firms, industries, or political actors. Although a changing composition of a board of directors is not reflected in the general organisational structure of a firm, this chapter shows how the way a firm determines the political composition of this board has serious implications to the way the firm relates to other companies or the government. The chapter shows how the political composition of the board of directors was an asset or a liability depending on how the board members provided the firm with connections to the most relevant decision makers in the changing political context.¹²

The role of foreign multinationals in the Chilean telecommunications sector evolved in the following manner. Between 1927 and 1964 the sector was completely dominated by one firm: the US-based multinational International Telephone and Telegraph Company (ITT), which owned the Compañía de Teléfonos de Chile (hereafter CTC). After 1964, ITT shared a small fraction of the market with the state-owned firm Entel. This situation remained until 1972, when Allende expropriated ITT. In 1987, the Pinochet regime started gradually selling the CTC shares of the and by 1989 the Australian firm Bond Corporation became the new owner. Later, in 1990, the Spanish multinational Telefónica acquired Bond's shares and renamed the firm as Telefónica Chile CTC. During the Pinochet regime Entel had a similar fate. The government sold its participation between 1986 and 1992. In its early years, the main investors were from Italy and Chile, but eventually, the Chilean investors took over the totality of the firm's ownership.¹³ The decision-making process in each of the two multinationals was not the same, although there were some elements in common. ITT's subsidiaries enjoyed a great degree of independence. Since its early years, the firm was organised as a federation in which the headquarters allowed the subsidiaries to develop their own strategy independently from other places.¹⁴ This made sense given the differences in the regulatory environment of the countries in which ITT operated. In the case of Telefónica, the firm also gave its subsidiaries a great degree of independence, but a general strategy was laid out from the headquarters.¹⁵

ITT and Cold War debates on foreign direct investment

Few firms have been closer to the centre of the debates about the role of multinationals than ITT and part of it is due to the firm's operations in Chile. In 1972, the firm made headlines after the *Washington Post* leaked a series of cables between ITT and the US Department of State in which the firm volunteered to aid Washington at overthrowing the Allende government.¹⁶ ITT could do little to argue against the accusations and its reputation was tainted by this event for a long time. In fact, an informal poll among historians conducted by the American publication *The Daily Beast* put ITT among the thirteen world's most hated companies.¹⁷

ITT arrived in Chile in 1927 and controlled the totality of Chile's telecommunications until the 1960s, but was required to have two members of the government on the board of directors. The

timing of ITT's arrival was particularly favourable for the firm, because an authoritarian regime was at that moment creating incentives for foreign investors, particularly in the utilities sector.¹⁸ The regime fell partially as a result of the Great Depression and by 1932 was replaced by a democratic one that started the adoption of the state-led, protectionist import substitution industrialisation model (hereafter ISI). This year started a period in which the Chilean political landscape was defined by two, traditional right-wing parties – the Liberals and Conservatives (representing the secular, urban, and pro-industrialisation and Catholic, landed, and rural elites respectively) – the centre middle class-oriented Radical Party, and the rising labour-oriented Socialist and Communist parties.¹⁹

Fighting Communism through industrialisation: the adoption of ECLA's ideas and policies towards ITT in Chile

The ISI model has long been attributed to the ideas of Argentine economist Raúl Prebisch and the economists and sociologists working at the United Nations Economic Commission for Latin America (ECLA) in Santiago. The influence of ECLA in economic policy in Latin America cannot be overstated. ECLA did not limit itself to writing technical economic reports on the region, but also adopted a historically-informed view to analyse the roots of Latin American underdevelopment.²⁰ Additionally, ECLA trained hundreds of Latin American central bank and ministry of finance officials through courses taught in Chile and in other countries.²¹ Partially inspired by the writings of Nobel Prize economist Arthur Lewis (particularly his work 'Economic development with unlimited supplies of labor'), many ECLA economists believed that in order to jump start a process of economic development the government and foreign multinationals needed to provide investment in strategic and other crucial areas of the economy.²²

Chile was a serious follower of ECLA's recipe and the country's political development was closely linked to its economic transformations. The adoption of the ISI model led to dramatic changes in Chilean society. First, the percentage of urban population increased from 49.4 percent in 1930 to 75 percent in 1970. Second, spending on social welfare led Chile to rank fourth in terms of levels of literacy, while public spending on infrastructure funded from taxes

levied on the foreign companies in the copper sector allowed the government to set the basis for industrialisation.²³ These social changes were reflected in the political landscape of the country. A larger urban industrial sector meant also a larger industrial proletariat that organized itself around labour unions, whose membership quadrupled between 1932 and 1940.²⁴ The middle class-oriented Radical Party and the Socialist and Communist parties increased their share of the electorate, while the traditional Liberals and Conservatives gradually dwindled.²⁵

As long as ISI was consolidated in Chile, the political parties aligned with urban sectors became increasingly popular. This led to the creation of a coalition between the Radicals and the left-wing parties known as the Popular Front, which ruled Chile between 1938 and 1941. This coalition reinforced ISI and created a series of government agencies to channel resources towards the industrialisation effort, the most important one being the Corporación de Fomento (CORFO), established in 1939. CORFO's leadership strongly believed in the role of the state in creating the foundations or inputs for a powerful privately-owned industrial private sector.²⁶ Around the same period, the Chilean corporate sector consolidated a process of organising itself around large diversified conglomerates (or business groups), which gave them even stronger capacity to coordinate their activities with each other and with the government.²⁷ As Schneider summarized it, "after 1939, most of the crucial economic decisions in Chile were made, not by the Senate but by CORFO in closed-door meetings."²⁸

As part of the government's efforts to have a stronger power to coordinate the economy, soon after its creation CORFO purchased 12.5 percent of ITT's shares, and the government remained with its two representatives on the board.²⁹

Societal change directly affected the telecommunications sector. The number of telephones went from 33,285 in 1927 (or 8 per thousand people) to 127,344 in 1950 (or 20.9 per thousand of people).³⁰ In fact, by 1947, Chile was ITT's largest consumer of telephones in the world.³¹

ITT, board composition, and new ideas of development

The rise of centre and left-wing parties translated into challenges to the existing economic model. In 1952, former president Carlos Ibáñez was elected with strong support of the political left. Ibáñez, however, found the country going through a seemingly uncontrollable inflation of 71 percent in 1954 and 83 percent in 1955, which he fought by cutting down on social spending and subsidies and increasing utilities rates (including telephone). As a result, the left broke its alliance with the president forcing him to re-approach them at the end of his administration to obtain support for a constitutional reform that would increase mass participation in politics and reduce the power the right had in the countryside.³² In spite of this re-approach, Ibáñez also revised ITT-CTC's concession, awarding the firm a new contract under which the multinational committed to increase coverage, while the government ensured a 10 percent profit rate to the firm – a promise that enraged the left and the centre.³³

During the 1950s, the inflation-generated economic crisis changed the political landscape in Chile in a way that resembled wider debates worldwide. A new centre political party oriented towards the urban middle class was created, in 1957, under the name of Christian Democratic Party. This party followed the general beliefs of Christian Democratic parties in other countries including the Catholic moral obligation to relieve poverty (even if this meant income redistribution), whilst opposing the Communist option. The Chilean Christian Democratic political platform strongly resembled the ideas developed by ECLA and was supported by the World Bank.³⁴ The left also reorganized itself around the Frente de Acción Popular (FRAP), created by the Communist and Socialist parties in 1956, which adopted the world view developed by the Dependency scholars, who interpreted Latin America's underdevelopment as a result of economic imperialism (of which the multinationals were accomplices – a view later summarized in the highly popular work of André Gunder Frank).³⁵ The rise of these two parties came at the expense of the popularity of the traditional right-wing Liberal and Conservative parties.³⁶

The new political forces, which came to dominate the political debate in the 1960s, challenged the way the ISI model was operating at that time. The Christian Democrats argued that the

model had been too oriented towards big business and had not had major redistributive effects. These criticisms coincided with some self-criticisms at the ECLA level and by Prebisch himself, who stated that ISI had not had the expected results and claimed that lack of economic integration impeded development.³⁷ Additionally, the US government, concerned about the popularity of the Cuban Revolution and supported partially by the writings of Lewis, started advocating land redistribution programmes in Latin America as a way to overcome some of the industrialisation bottlenecks (mainly a lack of a large enough domestic market).³⁸ The left-wing FRAP agreed that ISI had not benefitted the lower classes but maintained that as long as big businesses (either domestic or foreign) dominated the programme it was always going to benefit the oligarchy. Their solution was expropriation of foreign property and state control of monopolies, the financial sector, foreign trade, and strategic sectors. Finally, the Conservatives and Liberals also questioned some aspects of ISI. From their viewpoint the strong state interventionism in the economy was to blame for the inflation and they proposed as the solution privatisation and opening of the economy.³⁹ In this way, the right was preceding the arguments eventually used in the 1970s to dismantle ISI.⁴⁰ The Chilean right formed a coalition for the 1958 elections and narrowly won with 31.6 of the votes against 28.5 percent for FRAP, and 20.5 for the Christian Democrats.⁴¹ The polarisation of ideas was apparent.

The ideas around how the economy should be managed were reflected in debates around the telecommunications industry. By the late 1950s and early 1960s, ITT was repeatedly attacked by the media and politicians for its poor and expensive service. Interestingly, all political parties agreed that the firm enjoyed a very generous concession, opposed the guaranteed ten percent profit rate, and believed that coverage was poor, narrow, and expensive. However, they differed on the solutions. The Christian Democrats were divided among those advocating expropriation and those calling for more regulation, the left proposed expropriation and a national state-owned monopoly, while the right proposed deregulation and opening of the market to other firms. In congressional debates, the left justified its calls for expropriation as a defence for national sovereignty and anti-imperialism. Members of the centre and the right maintained that even though they did not like the contract ITT operated under, as a country with the rule of law they could not simply change it overnight.⁴²

The debate took another turn after an earthquake in the year of 1960. The earthquake destroyed a significant part of the telecommunications infrastructure leading politicians of the centre and those affiliated to CORFO to call for the creation of a parallel state-owned firm. Fearing that this was a first step towards state control of the economy, both ITT and the US embassy opposed the initiative increasing tensions with the rising centre and left political parties.⁴³

The political composition of ITT's board of directors worked to the firm's disadvantage at moments when it was under attack. Out of thirty-six directors sitting on the firm's board between 1950 and 1970, sixteen belonged to the Conservative or Liberal parties and just four were affiliated to the Christian Democrats. Among the directors and executives who worked for more than four years for the firm during the same period, there was only one Christian Democrat and ten Liberals and Conservatives Congressmen from the Christian Democratic party and the left explicitly used this information to accuse the firm of being a relic of the past that reflected less democratic periods.⁴⁴

ITT and the battle of Chile

The 1964 presidential elections pushed Chile even further towards a Cold War battlefield. Christian Democrat candidate Eduardo Frei won with 56 percent of the vote, followed by Marxist Salvador Allende (FRAP) with 38.9 percent, and the Radical candidate with a mere 5 percent.⁴⁵ With these elections, the Liberals and Conservatives had lost relevance, while those representing the harshest critics of ITT dominated the political arena.

The Chilean elections were being watched closely from Washington. Some analysts considered Frei a good alternative to the lure of the Cuban Revolution. Some of his seemingly radical proposals such as the nationalisation of the copper industry or the redistribution of land among poor peasants were not inconsistent with plans proposed by the Alliance for Progress (an initiative from US President John F. Kennedy to channel development funds to Latin America as a counterweight to the Communist offensive).⁴⁶ An analysis of Frei and Chile published in the United States called him the "last best hope" for the West to show a credible and viable alternative to Communism.⁴⁷

The idea that Frei acted as a bulwark against Communism went beyond approving publications in the United States. After Frei's triumph, the CIA channelled funds to the Christian Democratic candidates for the 1965 congressional elections, while ITT itself volunteered to support these efforts financially (a proposal rejected by the CIA).⁴⁸ The Christian Democratic candidates handsomely won 43.6 percent of the votes in those elections, but, to the concern of Washington and the Chilean elite, Allende's FRAP came second with 26.3 percent and the Liberals and Conservatives obtained 3.1 and 1.9 percent of the votes respectively.⁴⁹

Washington's support to Frei did not mean the Chilean right agreed that he was the best alternative to Communism. In fact, the constituency of the Conservative party (mainly the landed oligarchy) strongly opposed agrarian reform and the government empowerment of labour unions in the countryside and the urban areas. For this segment of the population, Frei was simply "paving the road to Communism in Chile."⁵⁰ At the same time, Frei was also attacked by the left who accused him of being the "candidate of imperialism."⁵¹

Shortly after taking power, Frei created the state-owned telecommunications firm ENTEL to serve areas neglected by ITT, increased government oversight of ITT's operations, and authorized CORFO to buy 49 percent of ITT-CTC shares.⁵² Even though CORFO did not actually conduct the purchase of those shares, the fact that the legislation to do so was there indicated increasing interest by government to intervene in the sector.⁵³

Despite the heated political environment, ITT did not change the political composition of its board of directors. One reason the company might have been reluctant to do this was because its board provided the firm with important links with corporate Chile. According to an article written by investigative journalists of *Vistazo*, Chile's weekly magazine, the presence on the board of an individual who was also sitting on the board of the powerful Banco de Crédito e Inversiones made it possible for the firm to obtain cheap loans, while having shared directors with Chile's private oil company, COPEC, allowed ITT indirectly to have relations with the government.⁵⁴ At least 38 percent of ITT's directors sat on the board of another firm giving ITT connections with twenty-two firms in fourteen industries. Two of the firms ITT had strongest

connections with were the country's major cement firm, Cementos Bío Bío (a firm highly involved in most ISI projects), and the state-owned national electricity firm (Empresa Nacional de Energía).⁵⁵

Another possible reason as to why ITT remained so stubbornly with a board composed of discredited political parties is that the firm was simply doing what it had done in other countries. Since its early years one strategy the firm followed in most countries was to have boards composed of members of the domestic elite as a way to have access to information and resources.⁵⁶ The firm started with this practice in Spain and later continued using it in other countries.⁵⁷ The fact that the Liberal and Conservative parties were not popular anymore did not mean their constituency had stopped being members of the Chilean economic elite, so even though the board composition did not provide political benefits, it could provide economic ones. In the remaining years of the 1960s, however, events were to prove that political considerations should have taken greater importance than economic ones when choosing board members.

In the run up to the 1970 elections the Chilean political environment became increasingly polarised. In 1967, the weakened Liberal and Conservatives reinvented themselves under a new party known as the National Party and immediately started opposing Frei. That same year, the Socialist party openly declared the legitimacy of armed struggle and the following year a new clandestine left-wing Cuba-inspired group was created (the Movimiento de Izquierda Revolucionaria, or Revolutionary Left Movement, MIR).⁵⁸ As early as 1969, radical left groups put bombs in the American Cultural Institute and the *El Mercurio* newspaper building, while a group of right-wing army officers unsuccessfully rebelled against the government. The National Party added fuel to the fire by declaring the army rebellion a justifiable act and the inevitable outcome of what they considered Frei's failed policies. Frei even faced challenges within his own Christian Democratic party, when its left-wing faction created its own movement known as MAPU and joined the Allende coalition. Voters rewarded the boldness the new National Party showed when criticizing increasing chaos by giving them an outstanding 20 percent of the votes in the parliamentary 1969 elections.⁵⁹

In this environment, for the presidential 1970 elections the National Party nominated former president, Jorge Alessandri, the Christian Democrats nominated Radomiro Tomic (from

the Christian Democratic left-wing faction), and the left (now under an umbrella known as Popular Unity, UP) re-nominated Allende. The stakes of this election were too high for the US government, and it did not wait passively for the election results. A plan was envisioned by the CIA by which it would provide funding for both the Christian Democrats and the National Party in addition to media outlets in Chile and worldwide, instigate a coup after the elections in case Allende won, and encourage congressmen to frustrate his accession to power due to constitutional technicalities.⁶⁰ Neither one of these plans worked, so after Allende's election the CIA sought to undermine the Chilean economy to generate discontent among the population.⁶¹

In 1972, Allende was facing fierce opposition from the right, centre, the United States, and other Latin American governments.⁶² US Secretary of State Henry Kissinger was already justifying a coup in a leaked cable when he said, "I don't see why we need to stand by and watch a country go Communist due to the irresponsibility of its own people."⁶³ That year, Jack Anderson, a *Washington Post* journalist, made public some cables that showed ITT enthusiastically offering to fund the CIA operations in Chile to overthrow Allende.⁶⁴ This was a global scandal that put Chile and ITT in the world's headlines and Allende soon decreed the expropriation of ITT-CTC. Despite the strong opposition to Allende's policies, ITT-CTC counted with little support in the Chilean parliament.⁶⁵ The bad reputation ITT had earned for years due to its bad and expensive service and the type of political composition of its board had left it with little chance of earning political support. Even though Allende was eventually overthrown, the new military government of Pinochet did not return ITT's assets, and the firm never returned to Chile.

After the Cold War: building the neo-liberal project with new actors

General Augusto Pinochet is considered as the quintessential Western Cold War proxy.⁶⁶ After taking power he started a harsh counter-offensive to "extirpate" what one of the members of his military junta called "the Marxist cancer."⁶⁷ As a result, around 3,000 were killed by government forces and another 200,000 went into exile (out of a population of fewer than 9 million).⁶⁸ Members of the traditional political parties that opposed Allende and celebrated the coup were quickly disappointed when it became increasingly clear that Pinochet was not going to return power to the civilians soon. Pinochet rapidly amassed power around himself, decreased

the importance of the other members of the military junta and closely aligned himself with the United States.⁶⁹ In 1980, Pinochet called for a referendum to approve a new constitution written by his inner circle, by which he would remain in power until a new referendum in 1989, and after which he would remain senator for life. The new constitution also gave important economic and political benefits to the military. During the campaign for the 1980 plebiscite the government gave almost no space to the opposition (led by Frei and the Christian Democrats) to campaign and eventually the new constitution was approved.⁷⁰

Pinochet's break with the past also included the economic arena. Pioneering open market policies, starting in 1973 the regime went through an aggressive process of opening the economy to external markets and radically reducing the size of the state through privatisations of state-owned firms. Between 1973 and 1982, Chile experimented with a radical version of laissez faire economics. Pinochet shunned the traditional industrial and agricultural business groups (who had a strong say in economic policy before Allende), and put unprecedented power in economic policy planning into the hands of a narrow group of young technocrats popularly known as the "Chicago Boys" – Chilean former students of Milton Friedman at the University of Chicago.⁷¹ The Chicago Boys applied an extreme version of Friedman's free market ideology, carrying out one of the world's most aggressive processes of privatisation of state-owned companies and eliminating subsidies and protection to the private sector.⁷² Between 1973 and 1980, the number of state-owned enterprises went from 596 to 48 (by the time Allende took power in 1970 the Chilean state owned 68 enterprises).⁷³ The new model discouraged investment in manufacturing and Chile rapidly de-industrialised.⁷⁴

The policies developed by Pinochet and the Chicago Boys reflected the wider fight of ideas. Following its technical approach, ECLA had started a series of self-criticisms that were later used by those to criticize the institution itself.⁷⁵ Additionally, the popularity of American graduate programmes in economics among the Latin American elite delegitimized approaches developed within Latin America (mainly historically-informed analyses not completely based on quantitative methods).⁷⁶

The Chicago Boys' model crumbled in 1982 when global credit tightening led Chile to a severe economic crisis.⁷⁷ In 1983, Pinochet faced mass demonstrations from the unemployed and subtle messages from a private sector threatening to join the growing opposition. In order to assure a loyal coalition, Pinochet replaced the Chicago Boys with individuals connected to Chile's traditional business elite and, starting in 1984, followed a new economic policy that respected free markets but acknowledged the need of government intervention to stabilise prices and promote production.⁷⁸

In 1989, Pinochet lost a new plebiscite in which Chile would decide whether he would remain in power or not, but his defeat did not mean a defeat for his project. The civilian government that followed respected the 1980 constitution, Pinochet remained senator for life until his death in 2006, when he was buried with the honors reserved for former heads of state, and the new centre and centre-left governments did not challenge the basics of the economic model.⁷⁹

The economic policies developed by the Pinochet regime made of Chile the darling of multinational corporations. Between 1978 and 1990, foreign direct investment in Chile went from US\$168 million to US\$1,194.3 million. While the amount of foreign investment in 1978 represented 6.1 percent of the country's gross investment, it went up to 41.9 per cent in 1989.⁸⁰

Between 1990 and 2010 Chile was uninterruptedly ruled by a centre-left coalition known as the Concertación. The Concertación did not challenge Pinochet's economic system, but developed some redistributive policies arguing that the years of economic growth of the dictatorship had benefitted mostly a small segment of the population.⁸¹

The next section shows how the composition of the Concertación's coalition, the changing landscape in the global economy, and Chilean government policies determined the type of policies towards the telecommunications sector as well as the way the new investors organized the composition of their board of directors.

Importing the Spanish legacy: Telefónica's approach to the political elite

Developments in Spain resembled in some aspects those that took place in Chile. Spain entered the twentieth century ruled by a weak constitutional monarchy that could not control the increasing tensions between the right and the left.⁸² The right took power with a dictatorship (1923-1929), followed by a brief democratic experiment, which collapsed with the bloody Civil War (1936-1939) in which the right triumphed and installed dictator Francisco Franco. Franco remained in power until his death in 1975.

Despite political instability there was some continuity in Spanish economic policy. Protectionism dominated before and during Franco, with the dictator aggressively pushing for a faster industrialisation process. This process increased Spain's per-capita income, but the country remained behind comparable countries like Italy. Due to the fascist nature of Franco's regime, the Allies did not include Spain in the Marshall Plan after World War II, so Spain remained isolated from the rest of Western Europe with an outdated political and economic regime.⁸³

In the 1960s, Franco created incentives for foreign direct investment in manufacturing, attracting many multinationals, and setting the basis for a rapid economic growth period (6.9 per cent in real terms between 1960 and 1975), known as the 'Spanish Miracle.'⁸⁴ The main beneficiaries of this economic growth were the so-called "business groups" who were a collection of firms with diversified investments and a relatively unified entrepreneurial guidance, and who had a very close relationship with key government officials.⁸⁵

Franco's death in 1975 led to rapid and dramatic changes in Spain. The country became a democracy, gradually abandoned its traditional protectionist policy, and was accepted in the European Economic Community in 1986. The latter process led to unprecedented inflows of foreign direct investment and the beginning of the expansion of Spanish firms outside their national borders, with some business groups modernising and re-orienting themselves to global markets, while others failed and were bankrupted.⁸⁶ Between 1996 and 2001, the Spanish

government received around 30 billion Euros resulting from massive privatisations of state-owned firms including the country's flagship airline Iberia, the electricity firm Endesa, and Telefónica, with Telefónica being one of the first firms moving abroad.⁸⁷ As a result, Spanish investments in Chile increased from US\$ 313 million in 1990 to \$12.9 billion in 2006. By 2008, 51.7 percent of these investments went to the utilities sector (gas, water, electricity), 17.5 percent to telecommunications, and 15.8 percent to finance.⁸⁸

Pinochet's closest advisers watched closely the events taking place in Spain and some of them strongly admired Franco.⁸⁹ Even Pinochet considered himself as the heir of Franco in the sense that he thought of himself and Franco as leaders that intervened at crucial moments to save their countries from Communism.⁹⁰ In fact, one of the few trips Pinochet made abroad during his regime was to Spain to attend Franco's funeral.⁹¹

The relevance of taking into consideration the political and economic development of Spain is that it allows us to understand how Telefónica organized itself when operating in Chile. Joining the group of Spanish firms that were expanding to Latin America and taking advantage of the wave of privatisations in those countries, Telefónica arrived to Chile in 1990 after acquiring the shares of the Australian firm Bond Corporation and changed the name of the firm to Telefónica CTC, starting a period in which the firm controlled Chile's domestic and foreign communications.⁹²

One practice that Telefónica followed after its privatisation in Spain was to appoint politically-connected individuals as members of its board of directors.⁹³ This practice was inherited from the time of the dictatorship and was followed by many other firms in Spain.⁹⁴

When Telefónica arrived in Chile, it followed the same strategy it had followed in Spain (and that it followed elsewhere) – building links with the host country's political elite. When doing so, Telefónica went against the Chilean firms' practices and approached people linked to the centre-left of the political spectrum. At that time, Chilean firms were still strongly aligned with the right-wing political parties that promised to continue the Pinochet agenda and distrusted parties they considered aligned to the long gone but still remembered Allende administration.⁹⁵

Telefónica went as far as appointing, in 1991, Mr. Oscar Garretón to its board of directors. Garretón's resumé was certainly very different from what was expected to be found in Chile's corporate boards at that time. During the Allende administration, Garretón was the person in charge of expropriation of private property and was one of the founders of the left-wing political movement MAPU.⁹⁶ Garretón tried unsuccessfully to prevent Pinochet taking power by trying to convince some sailors to mutiny against their commanders, should a coup take place.⁹⁷ Right after the coup, Garretón appeared in the newspaper pages as one of the top ten 'most wanted' individuals in Chile, so he rapidly smuggled himself out of the country and into exile in Cuba, only to return to Chile in 1989 after living some time in Argentina.⁹⁸ In addition to Garretón, Telefónica also appointed members of the centre Christian Democratic Party that had participated in the (also hated by the Chilean right) Frei government that preceded Allende.⁹⁹

Telefónica's decision to appoint a left-wing director was not isolated from events taking place in Spain. This appointment took place when Spain was ruled by the Socialist Party (PSOE), which had strong links with the Concertación and enthusiastically supported Chile's transition to democracy. In Spain, Telefónica also had links with members of PSOE.¹⁰⁰ By 1994, 40 percent of Telefónica's directors in Chile were from the centre-left, a percentage that decreased only between 1998 and 2000, when the right-wing Popular Party was in power in Spain.¹⁰¹ A re-appointment of left-wing individuals came after 2000, when Telefónica's leadership realised they needed close relations to the Concertación if they wanted to negotiate successfully with the government. In 2001, the firm appointed Fernando Bustamante, a former union leader and member of the Socialist Party, who was the manager of Chile's oil state-owned firm during the Allende administration and who was later jailed and tortured during the Pinochet regime.¹⁰² Both Bustamante and Garretón were crucial negotiators at different moments with the government and the labour unions, when Telefónica considered some layoffs.¹⁰³

Conclusion

This chapter explores how multinational corporations operating in the Chilean telecommunications sector organised the political composition of their board of directors in the context of the battle of ideas around economic development during the Cold War and the years

afterwards. The chapter focuses on two firms, the US-based ITT and Spain's Telefónica between 1958 and 2001. This period covers dramatic changes taking place both in Chile and at the global level. As the chapter shows, Chile's political and economic development provides extreme examples of the type of transitions taking place internationally. When deciding the composition of its board of directors, ITT chose members of the Chilean economic elite that gave the firm links with major domestic firms. In the 1960s, however, Chile became a major Cold War battlefield in which clearly defined right, centre, and left-wing parties competed for power. The centre and left-wing parties used ITT's board composition – consisting of members of the discredited right – to call for expropriation or for an increase of government oversight of the industry. The political events in Chile were closely watched by Washington and other Latin American governments, who did their best to avoid Allende succeeding in his political agenda. As a firm coming from a Western power, ITT joined the fight and this cost it all its Chilean assets when the firm's collusion with the CIA was made public. The right-wing military dictatorship that followed the Allende government turned Chile into a model of free market economics that was later adopted in most of the world. The reduction of the size of the state in other countries led to an expansion of a new breed of multinationals that went into other countries using other organisational practices. One of them was Spain's Telefónica that followed in other countries the practice of appointing to its subsidiaries' boards individuals closely connected to the host country's political power. This practice is more common among emerging markets multinationals than among those originating in the United States. As a result, Telefónica was the first major firm in Chile appointing members of the centre-left to its board, which gave the firm good access to policy-makers. By this time, the Cold War was over, but global neo-liberal reforms pushed for the expansion of new firms that did not copy the Western model, but expanded using practices that were a better fit for emerging market environments. In this respect, the difference in practices between the American and Spanish investors is apparent and this chapter shows how approaching the government, even if this meant bringing in former Communists, was beneficial for the Spanish investors, while aligning to the right proved counter-productive for the American investors.

The chapter shows that corporate decisions such as those that relate to the political composition of a multinational's board of directors cannot be analysed in isolation from (a) changes in

political economy and, (b) the wider shifting ideological context. Following Wadhvani and Bucheli, the chapter points to the need for a type of analysis that focuses on decisions made at the corporate level in the context of wider social, political, and economic changes preceding and succeeding such decisions.¹⁰⁴

¹ The author wishes to thank the feedback by seminar participants at Kyoto University (2017), especially Asli Colpan, and Takashi Hikino. He also thanks Thomas DeBerge for valuable research assistantship.

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¹² Some results of this research were previously published in Bucheli and Salvaj (2013, 2014, 2018). This paper frames those findings within the context of the challenges faced by multinationals in the transition from the Cold War to the Neo-Liberal period.

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¹⁶ Jack Anderson, *The Anderson Papers* (New York: Ballantine Books, 1974); United States Senate. Select Committee on Foreign Relations, *The International Telephone and Telegraph in Chile, 1970-71* (Washington: U.S. Government Printing Office, 1973)

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