

# Chapter 15

## International Business Diplomacy: Lessons from Latin America

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### ABSTRACT

*This chapter aims to analyze conflict resolution between Multinational Enterprises (MNEs) operating in Latin America and their host countries. The chapter focuses on the importance of establishing a policy for addressing local governments through permanent channels, as a strategy to solve disagreements with the authorities. The analysis includes different scenarios drawn from the experience of foreign firms in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. Thus, international managers may get a deeper view about the consequences of relying on formal diplomatic channels when conflict arises. Decision makers at MNEs need to evaluate separately each country outlook in order to assess the level of confidence that may be placed on diplomatic representation from the parent country and, consequently, the convenience of developing additional ties with local authorities through international business diplomacy.*

### INTRODUCTION

The environment for MNEs operating abroad has changed considerably over the last few decades, as globalization has reshaped the international business arena. The issues that require attention from international managers continue to grow in importance, while multiple new actors are making their debut into an increasingly sophisticated scenario. The spread of interested parties and the complexity of the MNE-host country relationships are urging to redefine the rules of engagement among all the stakeholders on a variety of situations. The negotiation table has enlarged to accommodate other guests beyond traditional delegates from the government and the external enterprise. Representatives from all corners of society, whether rightfully appointed or not, have now a saying in matters that no longer can be restricted to secretive negotiations. Conflicts, indeed, may arise from the array of demands and ex-

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pectations of those who believe that are entitled to participate in decisions that affect the lives of many. Meanwhile, the number of MNEs is also increasing dramatically. In fact, by the end of last decade 82,000 already existed, accounting for roughly one third of international trade, and showing an expanding trend (Fienhold, 2014). In addition to global enterprises, there are nowadays numerous companies, certainly not as prominent, willing to protect their interests overseas. Hence, it becomes necessary to evaluate if traditional means for conflict solving can cope with an enlarged set of variables. Until recently, direct negotiations between the subsidiary and the government were adequate on minor disagreements between the parties. In the event of an escalation of the problem, the intervention of the diplomatic representatives from the parent country could suffice to prevent a clash. In fact, diplomacy was not confined to become an option of last resort: frequently both nations could maintain a positive relationship through established channels, fostering mutual collaboration.

In this chapter, we focus on conflict resolution between host country and MNEs. We analyze the collision of seven global corporations in the same number of countries. Although the cases presented refer specifically to Latin America, the lessons drawn may be useful to decision makers in other developing economies. Many of the problems described, such as differences in the response of society to certain topics, cross-cultural discrepancies, the role of government, corruption and bribery, taxation, social differences, ethics, among others, can be found in other continents, as well. The cases reflect the problems faced by an American firm in Mexico (Walmart) and four European organizations in Argentina, Brazil, Chile and Colombia (Repsol, Shell, Anglo American and Nestlé). The United States, Spain, the United Kingdom, Switzerland and The Netherlands are leading investors in Latin America, although presently there is a new breed of MNEs in the region. Accordingly, we included the adversities of a Chinese company in Peru (Shougang) and the hardships of a Mexican corporation in Venezuela (Cemex). This last case provides a clear example of the problems encountered by firms from less advance economies when they invest themselves in developing markets, as happens with the so-called “multilatinas” (Cuervo-Cazurra, 2010).

## **The Many Meanings of the Word Diplomacy**

As previously stated, diplomacy has been of outmost importance for the solution of conflicts in international business. Diplomacy itself has been in existence since early times, probably since pre-recorded history, naturally following the path of civilization (Szykman, 1995). Over the centuries it has evolved, flourishing during the classical Greek world, the middle ages in Italy, the seventeen and eighteen centuries in Europe, and after World War II in the Unites States, when the study of diplomacy opened up to prepare foreign ministries to get closer attention to trade, economic and business concerns (Saner & Yiu, 2001). Diplomacy successfully established rules for negotiations, created protocols for carrying out conversations in order to maintain or save peace, and had a major impact in the advance of commercial and trade agreements. Even though, there are disagreements regarding the definition of diplomacy and the boundaries of its realm.

The view of diplomacy as a function performed exclusively by professional diplomats acting as representatives of sovereign states was widely accepted for a long time. As stated in the classical definition from the Satow’s guide to diplomatic practice, *diplomacy is the application of intelligence and tact to the conduct of official relations between the governments of independent states* (Satow, 1979). New developments in advanced economies, though, have created a need for a comprehensive definition of diplomacy. Post-modern times are witnessing the proliferation of entities seeking representation for territories such as provinces, states or local entities; the opening of new forums, such as multilateral

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