State-Firm Bargaining

A case study of the negotiations between Trollhättan, Rüsselsheim and General Motors
Abstract

The technological revolution that has taken place during the past three decades and global deregulations of financial markets have put big multinational firms in a unique position. These firms no longer need to produce where markets are located but can move and seek cost advantages throughout the world.

Stopford and Strange account for the only extensive study of how these changes have affected the relations between firms and states. They argue that states and firms negotiate in order to maximise their wealth. This approach is an assessment of Stopford’s and Strange’s theoretical results, applied on the actions that took place when General Motors announced that the production in Trollhättan and Rüsselsheim would be moved to one of the two assembly plants.

This case study presents evidence that states and firms do negotiate with each other and that in these new international relations, a broad view of the many actors involved must be taken. Furthermore, it is argued that states need to find new ways to organise themselves in order to become more effective and meet the demands of firms. Many of the questions asked by Stopford and Strange are being answered and as a result of new findings, many issues for further research are being addressed.

Key words: State-firm bargaining, Trollhättan, Rüsselsheim, MNC, FDI
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1 Introduction

In 2001, the German tire producer Continental wanted to move its production from Gislaved in the south of Sweden to Portugal. At the time, a debate arose because there were rumours that the Portuguese government had promised to finance education and give tax subsidies worth approximately € 20 million (DI, 2002). When the Swedish Minister for Industry, Employment and Communications, Björn Rosengren, became engaged to “save” the Swedish factory, the matter had reached the highest level of Swedish politics. Seeing no other solution to what the Swedish government recognized as unfair competition, Rosengren took the matter to the EU Commission’s antitrust unit. However, what was believed to be illegal tax subsidies turned out to be investment aid and money from the European Union’s (EU) structural fond. This was the money used by the Portuguese government and in the end, Continental moved their production to Portugal (Wennerstein, 2005).

The Continental Affair illustrates a new type of inter-state competition. It was not only cheaper factor inputs that played a decisive role for Continental’s decision to close down the factory in Gislaved but also the policies of the Portuguese government.¹ The Continental Affair is an example of how national governments are becoming increasingly aggressive in order to attract Foreign Direct Investments (FDI). It does also to some extent reveal the position in which Multinational Companies (MNC) are situated.

1.1 Structural Changes

The 19th century industrial revolution had an enormous impact on the international political economy, altering the patterns of wealth and power. The effects of the late 20th century technological revolution have however been even broader and affected more aspects of life, faster and more globally (Singleton, 2001, p 209). One dimension of the technology revolution is closely related to the production structure, a set of relationships that determine what is produced, where, how, for whom and on what terms (ibid., p 211). Each and every aspect of the production function is now affected in important ways by technology and technology innovation, no matter whether it is product or process innovation (ibid., p 211f).

A second structural change affecting the International Political Economy is the deregulation of the world’s financial markets. The impact of these deregulations can be illustrated by how international production exceeded international trade in

¹ In this case, by cheaper factor inputs we mean that labour costs in Portugal are cheaper than in Sweden.
the mid 80s, (Stopford and Strange, 1991, p 14). This change is significant as it diminishes states’ power to control economic events within their boarders. Even if international agreements such as the General Agreement on Tariffs and Trade (GATT) limits their possibilities, states still retain negative power to disrupt, manage or distort trade by controlling entry to the territory in which the national market functions. However, they cannot so easily control production that is aimed at a world market and that does not necessarily have to take place within their frontiers (ibid.). We argue that technology innovations and deregulations of financial markets have shifted the positions of national states and MNCs, thus altering their strategies in the search for power and wealth.

1.1.1 The New Diplomacy – GM, Trollhättan and Rüsselsheim

In September 2004, General Motors (GM) announced that its European production of midsize cars would be located to one of its daughter companies’ auto plants in Trollhättan or Rüsselsheim (Swärd, 2004). In GM’s announcement, it stated that the assembly plant that could present the best offer would get the production and a “competition” between the two auto plants had begun (ibid.). Both production sites were important for their regions and besides the assembly plants, suppliers, subcontractors and firms in the transport sector were directly affected by GM’s announcement. Hence, labour unions, politicians and influential business persons were engaged to help ameliorate the situation for their respective regions and thereby receive the GM production contract. Similar to what happened in Gislaved, the Trollhättan–Rüsselsheim Affair grew into great proportions. Even central political leaders such as the Swedish Prime Minister Göran Persson and the Prime Minister of Hessen Roland Koch became involved in the matter. In the end, Rüsselsheim received the midsize car production but the Trollhättan plant also received production contracts.

We believe this case constitutes a good example of how states are forced to negotiate with powerful MNCs in order to receive their investments. It also exemplifies what Stopford and Strange label as the New Diplomacy, a diplomatic game in which states have to bargain with MNCs in order to receive FDI and thereby create wealth.

For there to be no confusions, we define GM as a USA-based MNC with subsidiaries all over the world. GM’s international investments, in this case in Sweden and Germany, are per definition FDI. Furthermore, wealth is defined as investments and the wealth creating resources that are the result of such investments, irrespective of if they come from local firms or MNCs. It is however reasonable to believe that investments of large MNCs can be extensive, thus creating more work opportunities, investments in technology and knowledge with its spill over effects, intra-firm education, etc. In the long run, large investments indirectly create many different “social” businesses such as shops, hairdressers, schools, child care and restaurants. Hence, the larger the investments are, the more substantial becomes the wealth created. In certain cases, which was partly true in Gislaved, the investments from one firm can uphold a whole society.
1.2 Previous research

Much of the recent literature on international business–government relations has emphasized a more cooperative and accommodative relationship that has arisen between governments that want to pursue economic growth and development, and companies that want access to markets – horizontal FDI – or seek production inputs – vertical FDI (see e.g. Kokko and Blomström, 1997). With the exception of the New Diplomacy created by Stopford and Strange, not much attention has been given by political scientists to the role of MNCs in international relations in developed states. Regarding developing countries as hosts, detailed typologies of foreign production flourish in the literature and there is a great deal of research done on why developing states wish to attract FDI. John H. Dunning argues that certain criteria – ownership, location and internationalisation advantages – must be fulfilled for MNCs to engage in FDI (1992). Looking at FDI from a state’s perspective, he believes that MNCs are attractive to states since they carry out a major part of the research and development (R&D) and since they produce, own and control a large part of the advanced technology. For states, access to such technology will hopefully bring spill over effects to other industries in the country (ibid., chapter 11). Even if Dunning’s arguments are easily applicable on developed countries, Richard Caves’ and Tung-Jean Lee’s emphasis on diversification and access to R&D as reasons for firms to engage in FDI is more relevant to us (Caves and Lee, 1998):  

[Product diversification subsequently tends to reduce uncertainty […] Industry-level intensity in R&D, an important basis for the proprietary assets that underpin MNEs’ activities (ibid., Conclusions)

Compared to Dunning’s view, Caves’ and Lee’s findings represent a more synergetic approach to state-business relations. Yet, they do not extend their arguments to how the interdependent relationship between states and MNCs can result in a bargaining relationship.  

With their book *Rival states, rival firms – Competition for world market shares*, Stopford and Strange account for one of few attempts by political scientists to examine how the relationship between states and MNCs have evolved during the past decades (1991). They argue that contemporary industrial policies are shaped through a process of government-firm bargaining and furthermore, that the negotiating power of MNCs has increased significantly. The result is that the entire nature of international economic relations has been fundamentally altered. As Strange puts it:

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2 For a more extensive analysis on FDI per se, we recommend Richard E. Caves’ *Multinational Enterprise and Economic Analysis* (1996). Caves is one of few neoclassical economists that have taken on the task to examine the role of MNCs and FDI from a traditionally economic perspective and his work advances many interesting arguments which are related to, but do not fit in to this thesis.
Governments must now bargain not only with other governments, but also with firms and enterprises, while firms now bargain with governments and with one another (2000, p 60).

Hence, not only has the nature of government-business relations changed, but Stopford and Strange concludes that the entire nature of international diplomacy has been transformed: industrial policies and economic management have replaced conventional military-based foreign policies as the chief form of inter-state competition (1991). The authors develop the notion of a Triangular Diplomacy within international relations. They argue that international diplomacy must be expanded to include bargaining with and between MNCs. Thus, states must now bargain both with each other and with global firms, whilst global firms also bargain with each other (ibid., p 19-23).

Even after presenting this theoretical framework, no one has really taken on the task of digging deeper into these relations. Anna Leander has tried to develop Stopford’s and Strange´s theories, but only in the perspective of developing countries (2001). In conclusion, a considerable amount of research is left to be done on the bargaining relationship between states and firms, specifically regarding countries where traditional production input advantages are relatively similar.

1.3 Purpose of the study

Many seemed and still seem to be of the notion that Stopford’s and Strange’s book was addressed to developing countries. The reason may be that the three cases used in the book are Kenya, Brazil and Malaysia. This however, does not make Stopford’s and Strange’s book less interesting when studying bargaining between similar states in the North. FDI inflows have increased from US$ 59 billion in 1982 to US$ 648 billion in 2004 and industrialised countries accounted for two thirds of the world FDI inflows in 2004 (UNCTAD, 2005, p 8).\(^3\)

Considering these sums, it is reasonable to believe that FDI have an enormous impact on the world economy and thereby also on the political structure. In their arguments, Stopford and Strange stay relatively general and much of what they advocate appears as a prima facie case for scepticism about orthodox ways of thinking upon international relations. They literally leave an invitation for further research; not least since they have left a number of questions to be answered. We want to take note of the chapter The Way Forward in which Stopford and Strange address issues for further research.

While their theoretical prepositions stem from structural changes in the international political economy, we will conduct a case study on the bargaining process that took place in Trollhättan and Rüsselsheim, and thus in Sweden and in Germany. As far as we know, an extensive case study on the New Diplomacy has

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\(^3\) In appendix 1 we present a graph of how FDI inflows have preceded from 1980 to 2004.
not yet been conducted. As noted above, we believe that we will be able to address many new points to the theoretical framework of Stopford and Strange.

We argue that structural changes have altered the international political economy and that these changes have created a new type of diplomatic game. Our first question is: *How have the structural changes in the international political economy altered states’ behaviour?* By studying the specific case of Trollhättan and Rüsselsheim, which reflects the general arguments put forward by Stopford and Strange, we ask ourselves: *What happened when GM announced that their European production of midsize cars would be relocated into one of these auto plants?* Further questions we aim to answer are:

- What actors were involved in the bargaining process for GM’s production contract?
- Why did these actors get involved in the negotiations?
- What did these actors do, what leverage did they have and how can we understand the *Trollhättan Package*?
- What are the theoretical conclusions we can make from our case study?

1.4 Delimitations of the study

As a cause of the complexity in simultaneously studying and analysing all actors involved in the Trollhättan-Rüsselsheim Affair, we have decided to focus on the Swedish state and GM. A reason for why we cannot go into all the relations with equal depth is that we are limited in time and financial means. In order to make a sufficient analysis of the German relations, we would have to spend considerable time in Germany and at this moment we do not have that possibility. However, this does not mean that we will neglect the actions taken place in Germany or the international relations between different actors in the two countries. To the best of our ability we aim to describe and analyse these relations, even if that means that there will be a discrepancy in analytical depth depending on which country we are analysing. It is necessary to keep in mind that we believe that all actors have played a role in the final decision taken by GM.

1.5 Structure of the study

In the remainder of this introductory chapter we describe and discuss our methodological approach. The following chapter is an exposition of the preconditions and the actions taken by the different actors involved in our case. In our third chapter we describe the theoretical background on which our analysis is built upon. In chapter four, we present and analyse our empirical findings and

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4 The *Trollhättan Package* (Trollhättanpakketet) was a set of actions taken by the Swedish government in order to strengthen Trollhättan’s position in the bargaining process.
relate them to our theory. In this way, we aim to continuously give the reader theoretical feedback throughout our analysis. In our fifth and final chapter we conclude and discuss our overall findings and give further feedback to the theoretical framework with which we began. Finally, we address some interesting questions for further research on state-firm bargaining.

1.6 Method and Material

Our choice to conduct a case study has to be seen in the light of what previous research has discovered on our topic, but at the same time, not be limited by it. As we have already discussed, there has not been much research on state-firm bargaining. The only extensive study that we have found is that of Stopford and Strange. As far as we know, no study has applied their theoretical framework on a specific case. We believe that a case study can both test and build upon existing theories about state-firm bargaining. This is a nomothetic aim which is in accordance with the research ideal of Esaiasson et al. (2003, p 25). Making this aim central in our research question, our study balances on the fine line between what Eckstein would call a “disciplined-configurative study” and a “Heuristic case study” (1975, p 99ff). Eckstein agrees with the logics of Verba: “The unique explanation of a particular case can rest on a general hypothesis” (1975, p 99) but continues “if the interpretations of a case are general laws correctly applied to the case, the interpretation may be valid or invalid, depending on whether the laws are valid” (ibid., p 100). Even if this implies the importance of theory, it does not reveal everything about the relationship between the general theory and particular case interpretations. King, Keohane and Verba quite strikingly translate this relationship into words:

Generalization, however, does not eliminate the importance of the particular. In fact, the very purpose of moving from the particular to the general is to improve our understanding of both (Esaiasson et al., 2003, p 25).

The theory can only be valid if it permits strict deductions to be made. Eckstein puts it: “…provided that the application is truly ‘disciplined,’ i.e., designed to show that valid theory compels a particular case interpretation and rules out others” (1975, p 103). We agree that theory needs to compel a certain interpretation for more than one case in order to be valid. Being aware of that strict “discipline” is seldom the case (Eckstein, 1975, p 104), we will not be able to falsify the theory with one case, or yet a few cases. However, this does not mean that a single case study is meaningless. If the theory compels with our application, it strengthens the validity of the theory. If it does not compel, hopefully we will be able to identify why and thereby add new issues that has to be considered in the theory building process.

Eckstein acknowledges that even if the purpose of the “disciplined-configurative study” is not explicitly theory developing, this often becomes the ad hoc result anyway (ibid.). However, due to the lack of previously conducted case
studies on state to firm bargaining, we do have theory developing ambitions. It is in this sense that we are on the verge of tipping over to being a “heuristic case study” (ibid.). When choosing only one case to study, one has to be aware of the problematic with observer bias, meaning that we as researchers only see what we want to see. In this sense, falsifying the theory must be seen as a success and strengthens the presence of intersubjectivity (compare to Eckstein, 1975, p 124f).

Hence, we should not despair if our empirical findings do not correspond to our theoretical framework. On the contrary, this is probably more positive than negative and will result in giving us more blocs for theory building. Should our empiric compel with our theory, it strengthens the validity of the theory as argued above.

1.6.1 Generalizations

As mentioned above, our aim is for the results of this study to be nomothetic. By this we mean that from the findings we make in our particular case, we seek to extract theoretical propositions that can be generalized and thereby develop the already existing theory. These theoretical developments should then be applicable to other state-firm bargaining processes and outcomes.

As we will discuss in our theory, the kind of state-firm bargaining that we are interested in is the one between developed countries where the comparative advantages are relatively similar. The theory we use and the theoretical findings that we make are not meant to be applied on cases where such advantages differ substantially, e.g. in north-south bargaining.

1.6.2 Material

The media cover on the Trollhättan-Rüsselsheim Affair has been thorough and when commencing this study, our primary source of information was a wide range of Swedish and German newspaper articles. Even if newspapers are not the most reliable of sources, we believe that it has been to our advantage that most of the major newspapers have covered the main events in the bargaining process. Even though we are aware that these articles might be biased, the fact that we have compared the same events in different newspapers strengthens the reliability of the information that we have retrieved from these sources.

The newspapers’ information has been particularly useful when following the proceedings of bargaining process. However, for our analysis, we have primarily used the interviews that we conducted with actors involved in the creation of the Trollhättan Package. When choosing interviewees, we tried to be as open minded and diverse as possible and at the same time, we wished to interview persons that had extensive knowledge about the Trollhättan-Russelsheim Affair. Hence, we had to seek persons that had been involved at a relatively high level. We have contacted potential interviewees from all major actors involved in the bargaining process. We will present the interviewees and describe how the interviews
preceded below but first we would like to address what we did not accomplish and how it has affected our study. It is a clear weakness to the validity of this study that we have not received any response from GM officials. We have tried to reach several Saab Automobile and GM officials in Sweden, both in Stockholm and in Trollhättan but with no response or wish to participate in our study. On the other hand, even though we will never know the long time strategic plan of GM, the secondary material found in newspapers and that we have retrieved from our interviews have given us excellent material to work with. Furthermore, it is understandable but not to our advantage that we have used only secondary sources when analysing the behaviour of the German actors. As it turned out, one of our interviewees, Paul Åkerlund, knew a great deal about the German unions which have also been the most active German participant in the bargaining process.

1.6.3 Interviewing: method and process

As mentioned above, we highly value the interviews that we have made. The interviews allowed us to rethink and once again process the material that we have found in different newspapers.

It was important for us to see the research-process as a communicative relation and hence, the researcher as participant in a two way communication. The technique we have used for our interviews is called semi-structured. The advantage with the semi-structured technique is that it allows the interviewer to probe beyond the answers given and thereby to extract more information about the topics, to seek clarification and to elaborate on the given answers (May, 1997, p 111). As this type of interview allows people to answer in their own words, the pursuit of objectivity requires that the interviewer keeps a distance to the interviewee (ibid., p 115).

Tim May set up three conditions that must be fulfilled for a successful interview (ibid., p 116). The first one is accessibility. This refers to whether the person being interviewed has access to the information the interviewer seeks. The second condition is cognition and refers to that the person being interviewed understands what is required of him/her. This might lead her to answer in a way that she thinks is satisfying to the interviewer. The third condition is motivation. The interviewer must make the subjects feel that they are participating and that their answers are valued. It is therefore important to maintain a high level of interest throughout the whole interview. We have used a variation of direct and interpretative questions in order to fulfil these conditions (Esaiasson et al, 2003, p 291). Below, we describe in more detail how our interviews proceeded.

1.6.4 Our interviews

For this study, we made three interviews. The interviews were made in Swedish and when we quote what has been said in these interviews we use our own translation into English. When necessary, we have used direct translation in order
to avoid any misinterpretations. We believe that the incorrect language is vindicated by the purpose of accuracy.

Our first interview was made with Bengt Wennerstein, Deputy Director at the Swedish Ministry of Industry, Employment and Communication, one of the more influential administrators in the creation of the Trollhättan Package. Before our meeting with Wennerstein we had described our study to him. We had also e-mailed him the main questions of the topics that we intended to discuss. The interview took place at Wennerstein’s office which perhaps was not ideal regarding reliability. Preferably the interview should have been done in a more neutral environment. We agreed to record about half of the interview and than we continued the conversation without recording it. Even though Wennerstein had to take one short telephone call, the interview proceeded very smoothly.

Our second interview was with the Trollhättan municipal commissioner Gert-Inge Andersson whom we met at a conference centre outside Trollhättan. Andersson has a dual role. As the head of the municipality, he is the one that has the largest potential to influence persons who in their turn can influence the decision makers on the national level. He is also perhaps the most influential person at the local level and has a responsibility to make sure local actions are being taken as well. The interview was recorded and everything went well.

Our third interview was made with Paul Åkerlund who is Chairman of Metallklubben at Saab Automobile in Trollhättan. We met in his office at the Saab Automobile auto plant in Trollhättan. Everything went well with the exception of a telephone call, which lasted for five to ten minutes and disturbed the interview a little bit.

In sum, we are very satisfied with the three personal interviews. That we were able to meet them in person strengthens the reliability of the interviews. As there is a risk that the interviewees are some what more conservative in what they say when being recorded, the fact that we recorded the interviews can be regarded as negative for their reliability. After having made and revised the interviews, we do not feel that such constraints have been substantial. However, this is not something of which we can be certain and we have to consider this fact when applying the material retrieved on our study.

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5 The Metallklubben at Saab Automobile is one of the labour union Metall’s specific subdivisions. These are located at different locations across the country.
2 GM, Trollhättan and Rüsselsheim

2.1 The situation of GM today

General Motors Corporation was founded in 1908 and became the world’s largest automaker in 1931 (GM, 2005, company profile). As a part of an expansion scheme, Adam Opel AG, based in Rüsselsheim, was acquired by GM in 1929 and received a key member role in the General Motors family (GM, 2005, history). Many years later in 1989, GM purchased 50 percent of the Swedish automaker Saab Automobile. By the year 2000 GM increased its equity in Saab Automobile to 100 percent (ibid.). Today, even if the company has remained the world’s largest automaker in terms of turnover, GM is in crisis. Its American market share has shrunk from 40 percent in 1982 to 26.1 percent in 2005 and the total stock value of for example Toyota is three times higher than that of GM (Fonda, 2005, p 37). GM has gone through decades of downsizing and their costs for laid off workers and retirement schemes are sky high (ibid., p 39). Desperate to save money and bound by unfavourable contracts with the labour union United Auto Workers (UAW), the hands of GM are relatively more tied in North America compared to in Europe (ibid., p 37).

2.2 GM in Sweden and Germany

On September 2nd 2004 the management of General Motors (GM) announced that they were going to, starting in 2008, consolidate their production of midsize cars in Europe to one of the assembly plants in either Trollhättan or Rüsselsheim (Johansson, 2004). This consolidation of production was but one of several measures taken by the management of GM to combat a history of losses in Europe, a situation that had shown no signs of improving (Lundin, 2004:1). Saab Automobile alone had been struggling with financial losses for nine out of the last ten years (DI, 2005:1). To prevent further losses, GM issued a crisis plan that would have far reaching implications for the whole of Europe. The workforce at the time would be cut with about 12 000 jobs, from 63 000 to about 51 000 employees. Half of these layoffs would be directed at the Opel facilities in Germany (Hall, 2004:1). Excess capacity of the European branch of GM, low demand, increased competition from Japanese automobile-firms and a history of financial losses all contributed to the decision (Johansson, 2004). One reason for making the decision between the plants Trollhättan and Rüsselsheim was that they were producing cars using the same Epsilon platform (Åkerlund, 2005).
Looking at the European sales figures of 2004, more than 70 000 Saabs were sold compared to 1.5 million Opels (GM Europe, 2005, sales by GM models).\(^6\) Furthermore, total GM sales for the same year amounted to 39 110 cars in Sweden compared to 374 920 cars in Germany (ibid., sales volume).\(^7\) If we include the sales in nearby neighbour countries, the favourable results of Germany increase even more. More than having a better location than Trollhättan, GM had recently invested nearly € 750 million in the Rüsselsheim plant, making it one of the most modern auto plants in the world (Hall, 2004:2). Furthermore, the Rüsselsheim plant had an excess capacity which if used would fulfil GM’s demands of producing 200 000 cars annually.

2.3 What happened after GM's announcement?

When GM announced their plans to consolidate their production, different affected parties reacted immediately. GM’s announcement effectively put employers in a position where the future of their enterprises was called into question. Faced with such a risk, Opel and Saab Automobile initiated negotiations with their different employees’ organizations. Demands were issued that would increase effectiveness and thus make each respective assembly plant the better choice for the future production of midsize cars (Öberg and Danilelsson, 2004). The Swedish employers organisation Teknikföretagen’s chief negotiator Karl Olof Stenquist described the situation as “extremely serious” and that they were currently “working together with the labour unions in order to demonstrate the attractiveness of the Swedish business branch and to show how it can be improved further” (ibid.). The Vice President of Saab Automobile, Peter Augstsson commented on the decision saying that:

[T]his is not an international match between Sweden and Germany, it is not even a European Championship. This is about us showing that we can be more efficient and as good as the best of GM’s European auto plants (ibid.).

Among the measures to improve efficiency for the Swedish assembly plant were demands for longer and more flexible working hours, reduced overtime pay and a decision to decrease the high sick-leave. These were factors that according to Saab Automobile's management were major contributors to the low production capacity in Trollhättan (Öberg, 2004; Sandberg, 2004; Sandström, 2004). In Germany, the management of Opel put forward similar demands to their employees in all auto plants operated by the brand. In Rüsselsheim, were Opel had previously struggled with low sales and earnings, increased pressure was put on employees to accept significant changes in employment terms. To increase production and effective-ness, Opel's management had earlier put forward demands that the work week had to be increased to 40 hours, a significant shift

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\(^6\) In appendix 2 we present statistics of GM’s 2004 sales by models.
\(^7\) In appendix 3 we present statistics of GM’s 2004 sales by countries.
upwards compared to the traditional 35 hour week in Germany (Die Welt, 2004:1). The respective states were also engaged in the matter and promised to assist in different ways such as investing in infrastructure and education (Wennerstein, 2005).

In the end, based on cost advantages amounting to about SEK 2 billions, Rüsselsheim was given the midsize car production contract. GM did however also decide that both auto plants would remain in production and that Trollhättan would be the production base for a new European Cadillac. Whether the Trollhättan plant will produce Saabs or not in the future is however still not finally decided (Andersson, 2005; Åkerlund, 2005). As it looks now, Trollhättan’s production contract stretches over the year 2010 but what happens after that is not yet known (DI, 2005:2).
3 Theory

3.1 Opposing views in the debate of MNCs

Today, most observers in the debate of MNCs recognize that these powerful corporations, their far-flung subsidiaries and their global alliances have, during the last couple of decades, been major features of contemporary international affairs (Gilpin, 2001, p 294). As technology innovation has become a crucial ingredient to success, access to R&D follow such patterns thus becoming evermore important to MNCs. For states, their positions in the international political economy seem to be decided by to which extent they can govern access to knowledge and technology and governments can clearly play an important role by stimulating technological growth (Singleton, 2001, p 212). However, the debate continues regarding the extent to which corporate giants have affected the organisational nature of the political economy and the relative significance of the nation-state in its functioning.

3.1.1 The rise of the MNC – The fall of the state

Kenichi Ohmae, the Japanese business consultant, is a strong proponent of the thesis that MNCs have become powerful independent actors, rivalling and even outstripping nation-states in importance (Ohmae, 1990). Ohmae argues that due to extensive out-sourcing, integration of production and other corporate activities on a global basis, the nature of the firm has drastically changed. He and many others believe that as MNCs make their production- and other decisions without special reference to their home country, the world’s corporations are shredding their national identities and becoming true citizens of the world (Ohmae, 1990). The pace of technological changes, escalating costs of R&D and increased importance of scale economies and scope have all encouraged the growth of corporate alliances, thus undermining the significance of national boundaries. This is especially important for high-tech sectors such as aerospace, electronics and automobiles (ibid.).

3.1.2 A state centric view

In an opposed view, one would argue that the nation-state is still the principal actor in economic affairs. With few exceptions, a firm’s primary market is still its home market and regarding the firm’s decision making process, the policies of the
home government weigh heavier than those of host governments (Gilpin, 2001, p 297). Paul Doremus and his colleagues illustrate in their study how domestic roots such as historical experience of the home country, differing economic ideologies and the structure of the home country’s economy usually remain the main determinants of the MNCs’ behaviour (Doremus et al., 1998). Even though his main points differ from those of Doremus et al., Michael Porter is also a prominent supporter of a state centric view. Porter argue that the world economy is organized in clusters of industrial excellence that are nation based (1990). By exemplifying with the Japanese electronics conglomerate Matsushita, he believes that the competitiveness of these national clusters is determined by local factors and national policies. National specialization, strong national firms in specific industries and differentials in national wealth all indicate the continued importance of national economies (ibid.).

3.1.3 Towards a New Diplomacy

In the view of Ohmae’s borderless world, MNCs play a more important role compared to the opposing state-centric view. We do not aim to show that one view is better than the other. Our approach does however reveal that we want to challenge the “traditional” state-centric view. We want to show that there is interaction between the international competitiveness of local firms and government policy (Stopford and Strange, 1991, p 8). We believe countries now compete for scarce managerial resources more by providing a favourable investment climate rather than simply relying on factor cost advantages. We also believe that the way General Motors and the Swedish and German governments acted constitutes evidence that as states seek access to scarce resources and control over wealth and power, business firms can in some respects make states rival each other (ibid., p 10; Singleton, 2001, p 211).

3.2 The New Diplomacy as a model

In order to grasp the dimensions of the new international diplomacy, Stopford and Strange created a simple model (figure 3.1) in which they included the major actors involved (1991, p 22). We will reuse Stopford’s and Strange’s model as it provides a tool with which we can illustrate the way different actors in international relations shape the agenda.
In accordance to the New Diplomacy, figure 3.1 illustrates a triad of relationships. One side of the triangle represents competition among firms for shares of the global marketplace. Another represents the agenda of bargaining between firms and states. The third represents competition among states. The three sides of the triangle are connected by interlocking bargains and it is these bargains that shape the operating rules of the New Diplomacy. Depending on shifts in the political economy, the relative importance of the three sides can change. As an example, changes in policies by the WTO, the web of bi- and multi-lateral treaties that regulate domestic policies towards trade and that have international repercussions, can upset the current dominant structure of the three sides. We will describe below how international diplomacy has shifted from competition for more territory to competition for wealth. Both types of competition are means for states to gain power. As a result of the shift towards the latter, MNCs can now more directly influence inter-governmental relations. Hence, we argue that MNCs have received an enhanced role in the game of international diplomacy. Stopford and Strange argue that it is too complex to study the triad of relationships simultaneously and in accordance with their view, we would like to reemphasize that in this study we focus on the relationship between states and firms.
3.3 The New Diplomacy – state-firm bargaining

3.3.1 New rules

The key concept in state-firm bargaining is the growing interaction between states and firms, a relation that is sometimes cooperative and sometimes adversarial. As Stopford and Strange put it:

Growing interdependence […] now means that the rivalry between states and the rivalry between firms for a secure place in the world economy have become much fiercer, far more intense (1991, p 1).

As we have noted above, the primary influence on the behaviour of states and firms are structural changes on the global level. The last 20-30 years have brought about significant changes in both the political and economic arenas. From a political perspective, the fall of the former Eastern block, led by the Soviet Union, and the end of the Cold War resulted in that many countries started to seek a change towards more liberal and democratic forms of government. What became clear during this transformation was that there was no hegemonic power, no consensus, among the western states on how to assist in the reforms taken in both the former eastern block and in many developing countries (Stopford and Strange, 1991, p 205). The lack of a general strategy sent a clear message to firms: firms from both East and West would have to use corporate diplomacy to receive the best deals possible. This new type of bargaining has resulted in that both firms and states seek to create alliances with each other resulting in that the traditional scope of the diplomatic game has expanded. Even if traditional actors such as foreign ministers and embassies still matter in international negotiations, other ministries, political institutions and representatives from the business world have received an enhanced role in the New Diplomacy (ibid., p 21, p 205).

From an economic perspective, deregulations of financial markets have decreased the number of available options of economic policies for governments (ibid., p 206). Furthermore, an increase in national deregulations and privatization policies has made national economies even more exposed to external influences. While governments are bound by their territorial space, “the domestic” is no longer an exclusive right to the national government. There is no certainty that firms currently situated in the country, thus contributing to the aggregated wealth, will remain there. Industrial policies have been placed at the top of the political agenda.

Stopford and Strange argue that political shifts on a global level, information technology and deregulations of financial markets have linked together agendas that were previously kept separate (ibid., p 206f). MNCs take a more upfront interest in trade and government policies such as trade agreements and property rights. As a result, international regimes such as the WTO and even the EU have received an enhanced role setting the rules for what states can do. The latter has
had an important role in Europe for a long time but is constantly expanding, thus affecting more people.  

3.3.2 A new link between wealth and power

The second premise holds that in a world where national boarders are diminishing, governments now need to accord greater priority to the accumulation of wealth-creating resources (ibid., p 209). In the classical view of international relations, governments pursue power as a mean of securing their independence. The focus of this perspective is on states’ ability to defend themselves against military capabilities of other states. Wealth is primarily needed to supply the state with resources to fund military assets.

With the deregulation of markets and hence, with growing interdependence, many argue that this is no longer the case and that states now define security in different – or at least broader – terms (Stopford and Strange, 1991, p 209). Security policy becomes a question of protecting the state from both internal and external threats. Whereas military power is still needed to control the latter, wealth is needed to insure the former. In order to insure political stability, cohesion and survival, states need to pursue present and future sources of wealth. Thus, state power can not only be measured in military assets but also need to include access to wealth creating resources such as access to technology and knowledge.

3.3.3 The search for wealth – The rise of the New Diplomacy

The third and last premise is that politicians are aware of the new rules that govern the game of international diplomacy. With the increase in power of MNCs, politicians have to regard them not as secondary actors, as the classical view of international relations hold, but as equals and potential allies (ibid., p 211). Both states and firms compete for the world market shares as a means to create wealth and survival. The relationship between states and firms in this relationship is mutually reinforcing:

The state needs the production for the world market to be located on its territory, no matter who is organising it, the firm needs the production for the world market to be under its ultimate control no matter where it is located (ibid., p 212).

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8 Even though these regulatory frameworks are very important for the understanding of investments, a deeper investigation of how they affect government policies fall outside this thesis. Put in our context, how Trade-related investment measures (TRIMs) and trade related intellectual property rights (TRIPs) are used by governments to set agendas constitute interesting topics for further research.

9 The view we give on military is perhaps somewhat shortcoming. In Sweden, for instance, most of the military is no longer trained to defend direct invasions, as was the case during the Cold War. Today, the Swedish military is trained and used in international operations led by the EU or the UN. The purpose with such operations are however to achieve military stability and can thereby be linked to control of external threats.
When these interests coincide, states and firms enter if not a friendly relationship, then a tolerant one where each acknowledges the mutual benefit of working together. As implied above, the cooperation can turn into a state of conflict if the firm decides that it prefers another location for production and can enable the relocation by overcoming exit barriers, or when states seek to restrict the firm’s control over production and profits. In order to avoid conflict, the choice of partners is a central matter in contemporary international relations. With wealth as the main objective, states and firms need to choose partners that can supply both present and future streams of benefits. For states, the question is if the firm allowed into their territory will deliver the promised future benefits and remain competitive enough to survive on the global market. Failure on the global market on the behalf of the firm will, needless to say, cost the host state both present and future incomes and wealth. It is also a question of to what extent the firm will adapt to the demands of the state to accommodate local policies (Stopford and Strange, 1991, p 213). Conversely, the firm needs to consider whether or not the possible host state can and will deliver a favourable investment climate, or maybe even invest in for example R&D itself.

This new international diplomacy implies that the quest for wealth now overshadows traditional security concerns in importance. Classically inclined international relation theorists will still argue that foreign- and defence policies of states still constitute the most crucial aspects within international relations. However, the increased mobility and bargaining power of capital holders make a strong case against the assumption that states take precedence over all other actors in the international system. Thus, researchers of international relations need to shift their focus from classical security focused policies to studying other ministries and institutions (ibid., p 212). It is among these actors that decisions of a country’s attractiveness as a location for MNCs are taken and it is also here present and future alliances between the host state and foreign firm will be negotiated forward (ibid.).

3.3.4 The question of power

The outcome of bargaining in the real world - as distinct from bargaining in game theory models - depends on who holds the whip hand, on who has the balance of bargaining power (Stopford and Strange, 1991, p 214).

As with any theory in international relations, the question of power is ultimately the one that needs to be answered. If MNCs have become as important actors as states, what consequences does that have for the distribution of power in the international system? In the view of Stopford and Strange, the answer is that states as a group have lost bargaining power relative to MNCs as their possibilities for collective action have diminished (ibid, p 215). The intensified global competition among states has led to a decrease in the states’ bargaining power, whereas the same does not hold true for the changes in global competition among firms. The reason lies in the nature of the competition. Stopford and Strange argues that such competition is of two kinds: one is for access to factors of production; the other is
for control over the profits and rents derived from selling the service or product on
the world market (ibid.).

Global changes have altered the importance of the factors that are controlled
by the state relative to the factors controlled by firms. Consequently, the relative
importance of resources such as land and labour has diminished in their role of
determining competitiveness, while factors such as capital and technology have
risen (ibid., p 215). This is a shift that enables firms to strike specific deals with
governments, and even if governments still retain the power of formulating their
general policies, both foreign and domestic, they have to take greater
consideration to MNCs when forming these policies. Hence, the shift in factor
importance does not imply that governments have lost total control of the policy
making process. Depending on the aptitude of MNCs to act collectively and to
what means of power they possess, governments will be more or less constrained
by these corporate giants (Stopford and Strange, 1991, p 215f).
4 The Trollhättan-Rüsselsheim Affair

4.1 Initial conditions in the bargaining game

When GM announced their plans to consolidate their European production of midsized cars to either Trollhättan or Rüsselsheim, the preconditions were quite different for the two assembly plants. Rüsselsheim is located centrally in Europe with excellent connections by road, rail and air. Hence, Rüsselsheim is well connected to the European market while Trollhättan on the other hand is located in Northern Europe, only having about 20 percent of the market in its immediate locality (Wennerstein, 2005). Furthermore, the traffic connections between Trollhättan and Gothenburg, the largest regional centre, were inadequate. The closest route, road 45, was under-dimensioned and the railway was only single tracked. In Gothenburg, access to the city’s port was also insufficient. A second dimension is that the Rüsselsheim plant had an overcapacity that corresponded to the demands of GM. In other words, the Rüsselsheim assembly plant would be able to produce 200 000 cars annually without having to make any substantial investments. To enable the assembly plant in Trollhättan to produce that amount of cars, investments had to be made. Another question was the cost of wages. The total wage costs per person in the Rüsselsheim auto plant amounted to almost 50 percent more compared to the one in Trollhättan (Aronsson, 2004:1). This was Rüsselsheim’s weakest point.

GM recognised excess capacity and low productivity as the main reasons for GM Europe’s history of financial losses. The chairman of GM Europe, Fritz Henderson, said that the “[s]ituation is unacceptable” (DN, 2004) and that the assembly plants in Trollhättan and Rüsselsheim had the highest excess capacity of all GM owned factories in Europe (ibid). To prevent further losses, GM issued a crisis plan that would have far reaching implications for the whole of Europe. The workforce at the time would be cut approximately 12 000, from 63 000 to about 51 000. Half of these would be directed at the Opel facilities in Germany (Hall 2004:2). GM had done what they could do in order to save money and it was now up to each assembly plant to further contribute to GM's saving plans. The Vice President of GM Europe, Carl-Peter Foster, said that they had to bring down the business to a competitive cost level (Die Welt, 2004:2; DI, 2004). More specifically, he targeted the higher-than-average wages of Opel, stating that it was impossible to maintain the current wage-level in the highly competitive European market: “Was ich sehen will, ist eine massive Reduzierung in der Lohn abrechung” (Dalan, 2004).

Looking at GM’s most acute problems with excess capacity and low productivity, Rüsselsheim seemed to be initially better off since they could
without any major investments live up to GM’s demands in production volumes. As we see it, the incitements were larger for Trollhättan and Sweden to actively do something to change these conditions. However, Trollhättan’s competitive advantage in wage costs was not insignificant when analysing the bargaining process.

4.2 International meetings

There was no government proposal or joint actions taken by the Swedish and German governments. […] Pagrotsky met his German counterpart to establish the fact that their auto industries were being reviewed […] and that they were going to play with open cards.

This is how Bengt Wennerstein, Deputy Director at the Swedish Ministry of Industry, Employment and Communication, expresses his view upon the meetings Swedish government officials have had with their German counterparts (2005). Additionally, the Trollhättan municipal commissioner Gert-Inge Andersson met with Stefan Gieltowski, the mayor in Rüsselsheim, with the purpose of showing a united front (Andersson, 2005). They felt that this was not a fight between two cities, as media wanted to paint it, but an economical decision taken by GM (ibid.). According to himself, Andersson felt that the alternative, the two regions not agreeing on this point and maybe even trying to defame each other, would only have favoured GM (ibid.).

It was not only politicians who met internationally. The unions Metall and IG Metall have been cooperating during the past ten years (Åkerlund, 2005). Paul Åkerlund, Chairman of Metallklubben at Saab Automobile in Trollhättan, and his associates contacted the union representatives in Rüsselsheim at an early stage, well before September 2nd, to discuss the situation. On October 1st they met in Copenhagen and signed an agreement, which according to Åkerlund set the rules for what the unions were allowed to do in order to strengthen their bargaining position (ibid.):

[…] we did locally, together with in this case Metall and IG Metall, agree that it is extremely important that we do not let the employers tactics prevail, that we follow certain rules and that we keep each other informed of what is happening. The ambition is that none of the plants shall be closed down.

In an official statement the German union reinforced that they would not take part in any form of social or tax dumping (IG Metall, 2004):

Wir werden nicht bei die Büchse der Pandora für ein Sozial- und Steuerdumping öffnen, bei dem wir am Ende alle die Verlierer wären.
4.2.1 Deciding the rules of the game

What we have described above, we interpret as international negotiations. These negotiations might not fit into international inter-state negotiations as a bargaining between states, but rather as negotiations to decide what rules to play by when a new player, in this case GM, has joined the bargaining process. As is shown, the way we analyse the state extends beyond the Ministry of Foreign Affairs. Representatives from other ministries and also politicians from different levels of the state have participated in these international negotiations. Hence, as Stopford and Strange argue, it is important to broaden the definition of the state. Moreover, in our case the unions have played a significant role also striking international agreements and deciding which rules to play by.10

When looking at existing theoretical findings, the cooperation of the unions in Trollhättan and Rüsselsheim is somewhat surprising. The economical researcher William Cooke has compared cross border cooperation among unions with the prisoner’s dilemma (2005). He argues that differences in union policies across countries make cooperation difficult and furthermore, that unions, just like states, compete for the investments of MNCs and thereby for jobs (ibid., p 284). To some extent he might be right but our case shows the opposite. In our case, Metall and IG Metall were able to cooperate even though their respective national deals were different, thus giving the unions different means to use in order to “charm” GM (Åkerlund, 2005).

4.3 The creation of the Trollhättan Package

In the end of June 2004, the Metall representative at the Trollhättan auto plant, Paul Åkerlund, heard rumours about GM’s plans to consolidate the production of midsize cars into one of the plants in Trollhättan or Rüsselsheim (Åkerlund, 2005). After a discussion with his colleagues they decided to use all the contacts available and then inform the Swedish government of GM’s intentions (ibid.). The Ministry of Industry, Employment and Communication, was handed the responsibility to act for Trollhättan and thereby for Sweden. Bengt Wennerstein was informed about the situation on the 13th of August 2004 and visited Trollhättan two days later. As we have already mentioned, the official announcement from GM was made on September 2nd the same year and as Åkerlund expresses it (2005):

10 In our particular case a long tradition of corporatism has characterised both the Swedish and German industrial societies. We will give some thought to it but we will not go into a deeper discussion of this tradition. A study on the unions’ role in the Trollhättan-Rüsselsheim Affaire has been done by Ingela Nilsson Spelet mellan Trollhättan och Rüsselsheim. En fallstudie om globaliseringsens påverkan på fackföreningar and was published in 2005 by the Department of Political Science at Lund University.
When GM made it official, both Metall and the Prime Minister himself […] was very well informed. The time between 1st of July and to when it became public was extremely valuable and used to gather the forces. There is no doubt that the Government took this very seriously […].

This was taken seriously by the government on account of the 6 300 jobs at the Saab Automobile assembly plant and another estimated 17 000 jobs that would be lost in Trollhättan and its surroundings if GM would decide to relocate the production of midsize cars to Rüsselsheim (Andersson, Bosse, 2004). The closing of the Saab Automobile factory would thus not only affect Saab Automobile but other firms in the region, such as suppliers, research centres and many other jobs created by Saab Automobile’s presence. Fear of what could happen with the region, which already had an unemployment rate around 11 percent (ibid.), caused both regional and national politicians to rally in order to support the region. At the time, the Swedish Minister for Industry and Trade, Leif Pagrotisky, stated that:

[Even] though the decision is ultimately made based on what happens in the company, it is important to see what we on behalf of the government and municipality can do. We will leave no stone unturned” (Öinert, 2004).

Pagrotisky did also meet the European management of GM and the picture he was given was a general one: how their production plan looked, their view of the market and what they considered as necessary changes in order to restructure their business. They informed him that Rüsselsheim and Trollhättan were part of a restructuring process in which they were choosing between two productions plants (Wennerstein, 2005).

The Swedish Prime Minister, Göran Persson, was also involved in the process. Two weeks after GM’s announcement Persson expressed that he meant to have a meeting with GM to discuss the future of Saab Automobile and a month later the meeting took place. Before the meeting Persson said that he intended to “listen to their way of reasoning and then react” (Aronsson, 2004:2). One week after Persson’s visit in Detroit, a set of actions named the Trollhättan package was presented to the public. By analysing the two production sites’ initial positions, we draw upon what Wennerstein says about how the Swedish government looked upon the situation.

[We] knew there had to be investments in Trollhättan in order to increase the capacity to 200 000 cars, and that there was no need for such investment in Rüsselsheim. We knew there was capacity available in Rüsselsheim but not in Trollhättan, and we knew that there was a well functioning airport, railroad network and road network around Rüsselsheim. This was one of issues that came up in this process and [we] concluded that road 45 had a key role (2005).

The package was aimed specifically at improving the situation in Trollhättan and contained three components: investments in infrastructure, labour market measures and investments in R&D (Wennerstein, 2005). The package was budgeted to more than SEK 10 billion which were divided between these posts
In Germany the federal government practiced a “politics of the cold hand” at first, insisting that the negotiations were an issue between GM and the workers council (Die Welt, 2004:1). However, Regional politicians were much more active. The Prime Minister of Hessen, Roland Koch, stated that he and the state government would personally work together with the employees at Opel to secure GM’s production contract in Rüsselsheim (ibid.). The words of Alois Rhiel, the Hessen Minister of Economics, further reinforced Koch’s promise:

Wir müssen alles daran setzen, um die Stärke des Standorts Rüsselsheim und der Mitarbeiter im Opel-Werk den Entscheidungsträgern deutlich zu machen (Die Welt, 2004:3).

At a later stage, the Federal Minister of Economic Affairs, Wolfgang Clement, changed his opinion and in an official statement from the Bundesministerium für Wirtschaft und Arbeit he promised to give funds to the Bundes-agentur für Arbeit in order to train labour if so needed and thereby strengthen the position of Rüsselsheim’s auto plant (2004).

4.3.1 State-firm bargaining – Constraints in national policy making

The creation of the Trollhättan package should be viewed in the context of the triangular diplomacy which we have accounted for above. Essentially, the Trollhättan package is the outcome of state-firm bargaining. But as state-firm bargaining is the nexus of international treaties affecting the balance of power; the lasting effectiveness of the deal is determined by the success or failure in bargaining on all three sides of the triangle simultaneously (Stopford and Strange, 1991, p 23). Any analysis has to be based on the constraints of the actors involved and their positions relative to each other. As argued above, Trollhättan finds itself with lower leverage compared to Rüsselsheim; lower production capacity, relatively bad infrastructure and larger relative distance to the rest of the European market. Even though wages are lower in Trollhättan, the production facility was in a worse bargaining position compared to Rüsselsheim. The bargaining position of Trollhättan was recognized by both Wennerstein and Gert-Inge Andersson, the latter saying that: "for Swedish industry and for Swedish production over all [the fact is that] Sweden is not in the centre of Europe, nor in the centre of the world” (2005).

As stated, the solution was to invest in the region in order to increase the leverage, or bargaining power, of Trollhättan. However, such investments are not simply a matter of transferring capital. Stopford and Strange argue that as a result of changes in the political economy, states’ power is decidedly constrained when they try to influence where and how international production takes place (1991, p

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11 We believe that it is important to consider that the federal government was run by Schröder and his Socialist party and the Hessen federal state government was run by Christian Democrats. We do not know to which extent this mattered but it is certainly possible to believe that Clement’s initial position was affected by this difference.
14). If there is no way that states can direct production, then they can only bargain. To which degree states are constrained do not only depend on the global structure described in our theory, but by rules and conventions of international regimes. Hence, in the EU the possible bargain options will be further limited by the European Community (EC) rules on state aid to the business sector. These rules effectively prevent direct market interventions that would give specific firms advantages that they would otherwise not enjoy (EU Commission, 2005, State Aid). As Bengt Wennerstein puts it (2005):

The only thing the government can do is to make it as good as possible to live, manufacture and produce in Sweden; good taxes, a good working environment, good roads, a well trained workforce – all that constitutes a breeding ground to make people regard Sweden as a good country to live and produce in [...] What are the limitations set by the EC’s rules for competition and state aid? These rules constitute the framework within which we can work.

However, the rules do not rule out government support to a region or a nation as a whole. Governments can give a general state aid if its effects are to the benefit of the entire business environment, or at least a larger part of an industrial sector. State aid is, in the view of Stopford and Strange, essentially a part of a “broad set of goals for the future […] often embodied in a series of national plans” (1991, p 98). These goals form the basis for the macro-level policies toward industry which in the Trollhättan Package took form as investments in infrastructure and in R&D (Wennerstein, 2005).

4.3.2 Where state and business meet

In order to implement macro-level policies, states need to identify what the needs of the target industry are. In the context of the hands-on approach of the Swedish government, this means a “continuous dialogue with the industry in which [the government] inquire about the state of affairs for the […] industry” (Wennerstein, 2005). The dialogue between industry and government is, in the words of Gert-Inge Andersson, “of great importance, [to discuss] what the needs are for survival and growth” (2005). Although such a dialogue commonly involves several parties from the entire industry, in the case of Trollhättan the dialogue was more limited. Here, it was mainly held between representatives from the government, unions and the management of Saab Automobile and GM. The topic of discussion was how the different parties “viewed their situation and what problem areas there were” (Wennerstein, 2005). In part, the result of this dialogue was a recognition of in what areas the region could be strengthened. Bearing in mind the position of Trollhättan relative Rüsselsheim, the state aid from the Swedish government, as mentioned above, focused on R&D and infrastructure. Both these areas were part of a move to benefit the entire automobile manufacture industry (Wennerstein, 2005). In their dialogue with the industry, the Swedish Ministry of Industry, Employment and Communication pinpointed what policy to adopt in the area of R&D:
There was a review [...] of what areas of research the industry wished for, what they wanted to give priority to, and that was production technology, that we should be able to manufacture smarter (Wennerstein, 2005).

What we have described here illustrates how international diplomacy includes different government ministries and the executives of firms, both local and multinational. Hence, it exemplifies the need for diplomacy between states and firms. A basic law of economics stipulates that in order to remain on the world market, firms need to produce as efficiently as possible in order to remain competitive. States, as argued above, need production in their search for present and future wealth. Recognition of this simple fact drives states and firms together in an alliance to secure their position in the international system. If the key to success is more efficient production, then the state will adopt a policy with this aim. According to Andersson, production technology is a key area of research if firms want to remain competitive on the international market (2005):

Our companies say that in order to sell our products on the international market in the future, we have to produce more today, but using less people. So it is incredible important for Swedish industry that resources are put into how to do things smarter.

Other important parts of the Trollhättan package were improvements in infrastructure and especially the reconstruction of Road 45 between Trollhättan and Gothenburg. According to Wennerstein the discussion about the capacity and infrastructure around Rüsselsheim led the Ministry of Industry, Employment and Communication to realize that Road 45 had a key role in the region (2005). Andersson captures the importance of infrastructure for the region, saying that “there is a clear connection between growth and good infrastructure” (2005). Wennerstein reinforces this point by making clear that infrastructure not only is needed to serve a market elsewhere but also in order for distributors to serve a company with different assembly parts (2005). Although an expansion of the infrastructure surrounding Trollhättan had already been a part of the government policy for the region, the announcement of GM had increased the speed of this expansion. When the Trollhättan Package was shaped, there were no financial means budgeted to rebuild road 45. In order to complete the contents of the package by 2010, the Ministry of Industry, Employment and Communication was forced to redistribute some 1,8 billion SEK (ibid.). In practice, this meant that several already planned infrastructure improvement projects was scoured with the purpose to see which of these that could be postponed and thereby amass the resources needed for completion of road 45 by the given date.
4.4 A new way for states to work?

We believe that the creation of the Trollhättan package illustrates two things: firstly, in several aspects it strengthens the validity of the work that Stopford and Strange did 15 years ago. Secondly, and according to the picture Strange and Stopford paints, it shows the importance for states to be able to make focused efforts, targeted at specific business sectors. In chapter five we will give more theoretical feedback to our empirical findings. Here, we will highlight this second finding by giving specific attention to the way the Swedish government organized itself and how it to some extent has worked after the Trollhättan-Rüsselsheim Affair. The arguments we make here will be somewhat more speculative than previously. We do however believe that the point we will make justifies these loser arguments and that this is one of the most important findings that we have made.

Stopford and Strange argue that more players are involved in international affairs. Different ministries regularly engage in international negotiations with their counterparts whether it is on a bilateral basis, in the EU or in the WTO. Also domestically, different policy spheres are affected by others. If GM would have left Sweden, that would not only have had effects for the Ministry of Industry, Employment and Communication but also for other ministries and institutions. Among many affected actors in our study were the Ministry of Finance, the Ministry of Sustainable Development and Vinnova. The range of actors involved in our case implies that decisions such as the Trollhättan Package need to pass through many departments before it can be ratified. Gert-Inge Andersson says that this solution would never have been possible unless the six departments involved would have been organised under the leadership of Undersecretary of State Sven-Eric Söder (2005). We believe, and as the creation of the Trollhättan Package demonstrates, that states need to be able to work more focused towards certain segments of the society. This requires that the state can organise specific “projects groups” and that participants from all sides of the involved actors, both public and private, are included in these groups. In this way, a lot of bureaucratic administration can be overcome and decisions can be taken faster and thereby more effectively. If the same project group is in charge of the implementation of their decisions, they will already have knowledge about what needs to be done and much time and work can be saved.

What we have just described is in accordance with what Stopford and Strange sees as a necessary change within governments. The time spent on bureaucratic procedures might not constitute a major dilemma for governments, but time is always of relevance for firm managers who need to maximize production in the shortest time possible (1991, p 221). However, while Stopford’s and Strange’s work only presented arguments that states needed to be more effective, our case demonstrates a possible way for states to increase their efficiency.
In the specific case of the Trollhättan Package, many of the normally bureaucratic procedures were overcome with the exception of the aid to R&D, in which the specific details were decided by the government agency Vinnova (Wennerstein, 2005). The only critique that Gert-Inge Andersson had to anything concerning the Trollhättan Package was that it had been hard to access the specific money appointed to R&D and he considered this process to be too bureaucratic (2005). We believe this illustrates how sending decisions between different ministries and agencies can lead to inefficiencies. In our case, giving Vinnova the responsibility to distribute the money appointed to R&D has led to complications in the implementation process. We cannot find similar evidence when looking at the decision making process; this could however be because this process was handled within the project group.

In sum, when decisions need to be taken under a limited amount of time, the way states are organised today might not be sufficient, meaning that departments are often separated and work quite independently without taking into consideration the work of other departments. Finally, our point is strengthened by the fact that the method of organising the creation of the Trollhättan Package has to some extent set an example for the Swedish government when it has developed specific strategic plans for other important industry sectors (Wennerstein, 2005; Östros, 2005).

4.5 Summing up – What were the results for the different players involved?

Trollhättan was clearly in a weaker position than Rüsselsheim when this affair started. Since Trollhättan and Saab Automobile are large contributors to one of Sweden’s core industries, there would probably have been major negative consequences if the production was to disappear from Saab Automobile’s auto plant. The Trollhättan Package reflects what the Swedish government could do within the limits of European law and what it found necessary to do in order to strengthen its bargaining position. The parts of the package that were implemented were primarily designed to improve the infrastructure in and around Trollhättan and thereby to increase accessibility to the auto plant. Equally important was the parts of the package that contained investments in R&D, an area in which high technological companies budget a great deal of their expenditures. The proposed third shift did not become a reality so neither did the proposed labour market measures that were aimed to support it.

In our eyes, the package did erase some of the weaknesses Trollhättan had compared to Rüsselsheim, but what we believe is even more important is the way in which the Swedish administration responded to GM. In a relatively short period of time, the Swedish state managed to coordinate different actors at various levels and ultimately created an effective set of measures that strengthened Trollhättan’s position. The Trollhättan Package was a signal from the Swedish government to
GM, showing the latter that Sweden was willing to make sacrifices in order to keep them in Sweden.

The Swedish government chose to respond actively to GM’s strategy. In contrast, the German federal government chose to do very little. A reason for why it may appear as we have side stepped the German discussion is that there were not any active measures taken place in Germany. Considering their initial conditions, it seems like the German government believed that their position in the bargaining process was so strong that they need not take any active measures.

The German union IG Metall was in a quite opposite position to the state. The GM management had implied that something had to be done to lower the costs of wages in Germany. However, the successful cooperation with Swedish Metall tied the hands of IG Metall and in the end there were no major changes for the workers. Whether the cooperation between the two unions was unexpected for GM remains to be said. The “losses” for the unions were only marginal and if GM’s purpose was to put pressure on the unions, their tactics failed. However, the investments of the Swedish state gave GM a more attractive auto plant in Trollhättan. In addition, they received substantial gains in terms of investments in R&D from the Swedish government. Especially the investments directed at production technology are likely to bring spill over effects to other GM auto plants.
5 Conclusions

Our purpose with this study was to test and develop the theories created by John Stopford and Susan Strange. We decided to conduct a case study of an event, or rather a process that we call the Trollhättan-Rüsselsheim Affair and which we thought reflected the predictions Stopford and Strange made 15 years ago. We argued that a case study, even if it cannot establish or falsify a theory by itself, can be useful both in understanding the particular case and in the theory building process.

The first and probably most important finding in our study of the actions taken around the Trollhättan-Rüsselsheim Affair strengthen the notion that firms and states do negotiate for shares of world wealth. As the negotiations proceeded, all three dimensions of the bargaining process – state-state, state-firm and to some extent firm-firm – seem to have been in play. Moreover, the diversity of actors participating in these negotiations confirms the need to define a state broader than the traditional view suggests. In our particular case, the labour unions Metall and IG Metall have played a large role. That they were able to organise themselves across the national boarders is somewhat surprising and could constitute an interesting topic for further research.

In broad terms, Stopford and Strange believe that states and firms are mutually dependent of each other and that they seek long lasting coalitions with each other. In their search it is very important to find the right partner, both for states and for firms. The way in which the Swedish state responded to GM was a powerful sign that they were a trustworthy partner, willing to prioritise the designing of the countries industrial policies. Sweden can not be considered to be a risk for GM in terms of wanting to take control over GM’s profits. Furthermore, with investments in R&D, the Swedish state contributed to strengthen GM’s factors of production. GM, on the other hand, did by giving a time limited production contract to Trollhättan perhaps not leave the best signal for long lasting cooperation. However, with their investments in Sweden, they continue to be one of the more important actors in one of Sweden’s core industries for now.

We have also shown, precisely as the theory of state-firm bargaining predicts, how states have lost power due to diminishing value of their production factors. An interesting subject for further research would be to investigate to what extent states would be able to challenge this problem. In our case, the Swedish state did so by contributing with investments to R&D thus creating substantial advantages for any firm that can gain access to these investments. On the one hand, this shows how states have to take great consideration to the will of influential firms as they form their general policies. On the other hand, it shows that states still can retain powerful weapons in the bargaining process. Hence, maybe states have not lost as much power as many believe.
Our findings put forward evidence of needed amendments to our theory regarding states’ role as a provider of a fruitful investment climate. What we have found suggests that in order to increase their attractiveness for firms, states can actually provide with investments themselves. Since firms then want to have continued access to the states’ investments, an additional effect could be that firms become more tied to the state and thus, more dependent of it.

The last subject that we would like to address as an interesting one for further research is how states can become more effective. We have shown that time matters and that states need to be able to be active and create attractive policies in a short amount of time. In order to meet these demands, Sweden created a project group that handled the actions around Trollhättan. Sweden is however a small country with a relatively small administration. Perhaps these are preconditions that made it possible to include relevant actors in a project group, but all countries may not be able to organise in this manner.

5.1 Closing remarks

In the end, GM never had anything to lose from doing as they did; they could only gain. This is the position that big MNCs are in and we should probably not be surprised if the way GM acted becomes more common in the future. However, this is not to say that states are powerless. Even though they are bound by their territory, states do still possess powerful means relative to MNCs. One of these means is the diversity of areas that the state can influence. If states themselves become owners of R&D, they enhance their chances of becoming more interesting for MNCs.

Susan Strange herself is critical towards the notion of a general theory. Still, our study presents evidence that the theoretical prepositions she and her colleague shaped 15 years ago are applicable in a general sense today. The findings in our case study suggest that central issues for states that want to create attractive locations for MNCs, will on the one hand be investments in R&D and infrastructure and on the other hand their internal organisation and will to act. Our case displays how states must give considerable attention to the design of their industrial policies. In order to understand how states can tackle an ever growing international society, much more research on the subject is needed. We have merely scraped the surface of this extremely complex matter and we did it with the help of John Stopford and Susan Strange. Hopefully, our study confirms that the topic of state-firm relations is important in the discipline of International Political Economy. Hopefully, our study will inspire more researchers to follow the lead of Stopford and Strange.
Appendix 1

FDI inflows, global and by groups of economies, 1980-2004
(Billions of dollars)

Source: www.unctad.org/fdistatistics
## Appendix 2

### GM Sales by Model

New Registrations in 2004

<table>
<thead>
<tr>
<th>Model</th>
<th>Units (rounded figures)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opel/Vauxhall</strong></td>
<td></td>
</tr>
<tr>
<td>Agila</td>
<td>55,520</td>
</tr>
<tr>
<td>Corsa</td>
<td>383,030</td>
</tr>
<tr>
<td>Meriva</td>
<td>205,120</td>
</tr>
<tr>
<td>Tigra Twin Top</td>
<td>7,530</td>
</tr>
<tr>
<td>Astra</td>
<td>414,840</td>
</tr>
<tr>
<td>Astra Coupé and Convertible</td>
<td>13,480</td>
</tr>
<tr>
<td>Zafira</td>
<td>193,510</td>
</tr>
<tr>
<td>Vectra / Signum</td>
<td>197,550</td>
</tr>
<tr>
<td>Speedster / VX220</td>
<td>950</td>
</tr>
<tr>
<td>Omega</td>
<td>2,280</td>
</tr>
<tr>
<td>Monaro (Vauxhall only)</td>
<td>200</td>
</tr>
<tr>
<td>Frontera</td>
<td>3,760</td>
</tr>
<tr>
<td>Combo</td>
<td>65,970</td>
</tr>
<tr>
<td>Vivaro</td>
<td>56,740</td>
</tr>
<tr>
<td>Movano</td>
<td>17,910</td>
</tr>
<tr>
<td>Other Opel/Vauxhall</td>
<td>220</td>
</tr>
</tbody>
</table>

| **Saab**                     |                         |
| 9-3 Sport Sedan              | 40,950                  |
| 9-3 Convertible              | 11,730                  |
| 9-5                          | 29,000                  |

Source: [www.gmeurope.com](http://www.gmeurope.com)
In 2004, GM achieved its highest market shares in Europe in Hungary (17.8 percent) and Croatia (16.3 percent). Growth was particularly fast in Russia (+ 123 percent) and Turkey (+ 100 percent).

<table>
<thead>
<tr>
<th>GM</th>
<th>Opel</th>
<th>Saab</th>
<th>Daewoo/</th>
<th>Other GM</th>
<th>Total GM</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Chevrolet</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
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<td>units</td>
<td>units</td>
<td>units</td>
<td>units</td>
<td>%</td>
</tr>
<tr>
<td><strong>Europe</strong></td>
<td>(rounded and preliminary registration figures)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Albania</td>
<td>100</td>
<td>---</td>
<td>20</td>
<td>---</td>
<td>120</td>
<td>14.4%</td>
</tr>
<tr>
<td>Austria</td>
<td>30,250</td>
<td>510</td>
<td>2,510</td>
<td>170</td>
<td>33,440</td>
<td>9.5%</td>
</tr>
<tr>
<td>Belgium &amp; Lux.</td>
<td>58,180</td>
<td>3,440</td>
<td>5,490</td>
<td>250</td>
<td>67,360</td>
<td>11.1%</td>
</tr>
<tr>
<td>Bosnia/Hercegovina</td>
<td>470</td>
<td>---</td>
<td>80</td>
<td>---</td>
<td>550</td>
<td>5.8%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>2070</td>
<td>20</td>
<td>550</td>
<td>---</td>
<td>2,640</td>
<td>10.3%</td>
</tr>
<tr>
<td>Croatia</td>
<td>10,900</td>
<td>40</td>
<td>1,740</td>
<td>10</td>
<td>12,690</td>
<td>16.3%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>5,600</td>
<td>50</td>
<td>2,510</td>
<td>---</td>
<td>8,160</td>
<td>4.8%</td>
</tr>
<tr>
<td>Denmark</td>
<td>7,650</td>
<td>670</td>
<td>2,230</td>
<td>110</td>
<td>10,660</td>
<td>6.2%</td>
</tr>
<tr>
<td>Estonia</td>
<td>850</td>
<td>100</td>
<td>140</td>
<td>20</td>
<td>1,110</td>
<td>5.7%</td>
</tr>
<tr>
<td>Finland</td>
<td>6,970</td>
<td>1,500</td>
<td>2,260</td>
<td>150</td>
<td>10,880</td>
<td>6.6%</td>
</tr>
<tr>
<td>France</td>
<td>120,710</td>
<td>3,300</td>
<td>7,910</td>
<td>280</td>
<td>132,200</td>
<td>5.3%</td>
</tr>
<tr>
<td>Germany</td>
<td>351,960</td>
<td>4,990</td>
<td>16,620</td>
<td>1,350</td>
<td>374,920</td>
<td>10.6%</td>
</tr>
<tr>
<td>Greece</td>
<td>24,110</td>
<td>1,190</td>
<td>6,660</td>
<td>60</td>
<td>32,020</td>
<td>10.1%</td>
</tr>
<tr>
<td>Hungary</td>
<td>27,230</td>
<td>300</td>
<td>14,610</td>
<td>20</td>
<td>42,160</td>
<td>17.8%</td>
</tr>
<tr>
<td>Ireland</td>
<td>12,520</td>
<td>1,280</td>
<td>1,570</td>
<td>---</td>
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<td>8.2%</td>
</tr>
<tr>
<td>Italy</td>
<td>176,870</td>
<td>4,290</td>
<td>30,090</td>
<td>120</td>
<td>211,370</td>
<td>8.4%</td>
</tr>
<tr>
<td>Latvia</td>
<td>660</td>
<td>50</td>
<td>210</td>
<td>10</td>
<td>930</td>
<td>6.6%</td>
</tr>
<tr>
<td>Lithuania</td>
<td>620</td>
<td>30</td>
<td>170</td>
<td>---</td>
<td>820</td>
<td>6.0%</td>
</tr>
<tr>
<td>Macedonia</td>
<td>660</td>
<td>---</td>
<td>670</td>
<td>---</td>
<td>1,330</td>
<td>13.4%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>59,650</td>
<td>3,850</td>
<td>9,340</td>
<td>660</td>
<td>73,500</td>
<td>12.6%</td>
</tr>
<tr>
<td>Norway</td>
<td>9,020</td>
<td>2,950</td>
<td>390</td>
<td>1,090</td>
<td>13,450</td>
<td>8.7%</td>
</tr>
<tr>
<td>Poland</td>
<td>33,280</td>
<td>140</td>
<td>3,610</td>
<td>---</td>
<td>37,130</td>
<td>10.1%</td>
</tr>
<tr>
<td>Portugal</td>
<td>29,040</td>
<td>430</td>
<td>1,240</td>
<td>---</td>
<td>30,710</td>
<td>11.2%</td>
</tr>
<tr>
<td>Romania</td>
<td>3,320</td>
<td>60</td>
<td>2,050</td>
<td>30</td>
<td>5,460</td>
<td>3.0%</td>
</tr>
<tr>
<td>Russia</td>
<td>9,160</td>
<td>340 4)</td>
<td>55,460</td>
<td>1,370</td>
<td>66,330</td>
<td>4.4%</td>
</tr>
<tr>
<td>Serbia/Montenegro</td>
<td>1,810</td>
<td>10</td>
<td>1,340</td>
<td>---</td>
<td>3,160</td>
<td>8.8%</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>4,120</td>
<td>10</td>
<td>1,850</td>
<td>---</td>
<td>5,980</td>
<td>8.5%</td>
</tr>
<tr>
<td>Slovenia</td>
<td>6,850</td>
<td>50</td>
<td>1,640</td>
<td>10</td>
<td>8,550</td>
<td>11.9%</td>
</tr>
<tr>
<td>Spain</td>
<td>152,320</td>
<td>4,430</td>
<td>29,500</td>
<td>300</td>
<td>186,550</td>
<td>9.9%</td>
</tr>
<tr>
<td>Sweden</td>
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<td>25,090</td>
<td>2,060</td>
<td>1,200</td>
<td>39,130</td>
<td>13.0%</td>
</tr>
<tr>
<td>Switzerland 3)</td>
<td>24,450</td>
<td>2,140</td>
<td>2,730</td>
<td>570</td>
<td>29,980</td>
<td>10.1%</td>
</tr>
<tr>
<td>Turkey</td>
<td>58,050</td>
<td>50</td>
<td>9,800</td>
<td>---</td>
<td>67,900</td>
<td>9.2%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>373,540</td>
<td>20,290</td>
<td>17,590</td>
<td>---</td>
<td>411,420</td>
<td>13.9%</td>
</tr>
<tr>
<td>Other Europe</td>
<td>5,760</td>
<td>130</td>
<td>8,760</td>
<td>---</td>
<td>14,650</td>
<td>5.3%</td>
</tr>
<tr>
<td><strong>Total Vehicles</strong></td>
<td>1,619,600</td>
<td>81,710</td>
<td>243,380</td>
<td>7,750</td>
<td>1,952,440</td>
<td>9.5%</td>
</tr>
</tbody>
</table>

| **Total Europe** | | | | | | |
| **Passenger Cars** | 1,471,090 | 81,600 | 243,330 | 5,300 | 1,801,320 | 10.3% |
| **Commercial Vehicles** | 148,510 | 110 | 50 | 2,450 | 151,120 | 4.9% |
| **Total Vehicles** | 1,619,600 | 81,710 | 243,380 | 7,750 | 1,952,440 | 9.5% |

1) incl. Monaco, 2) incl. San Marino/Vatican, 3) incl. Liechtenstein, 4) incl. 54,000 Chevrolet Niva built by GM-AVTOVAZ

*Vauxhall

Source: www.gmeurope.com


Newspaper articles


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