Pepsi's Burma Connection

On April 23, 1996, PepsiCo announced that it had decided to sell its 40 percent stake in a bottling plant in Burma in part because of criticisms that by remaining in Burma the company was helping to support the repressive military regime that now ruled the country.[1] In a letter to a shareholder who had been one of many pressuring the company to get out of Burma, the company's corporate secretary wrote:

> When we first spoke about Burma I promised to stay in touch with you on the subject. In that spirit, I wanted to let you now about a change in our business there. We've decided to sell PepsiCo's minority stake in our franchise bottler and we expect to finalize the divestiture soon. As a result we will have no employees and no assets in the country.
>
> We're taking this action for a number of reasons, including the sentiment expressed by you and others about investing in Burma at this time. Having said that, let me reiterate our belief that free trade leads to free societies.[2]

The letter, however, made no mention of the fact that PepsiCo would continue to sell its syrup concentrate to the bottler in Burma and would continue to allow the bottler to sell Pepsi in Burma.

Burma is an Asian country with a population of 42 million and an area about the size of Texas, bounded by India, China, Thailand, and the ocean. The country is poor with a per capita gross domestic product of only $408, a high infant mortality rate (95 deaths for every 1000 live births), a low life expectancy (53 years for males and 56 for females), and inflation above 20 percent.

Burma gained its independence from British rule in 1948. In July 1988 as economic conditions declined, large-scale and bloody rioting broke out in the cities of Burma. In September 1988 the army under General U. Saw Maung assumed control and brutally repressed dissent, killing, it is believed, thousands of students and civilians. General Maung replaced the government with the State Law and Order Restoration Council (SLORC), a group of military officers. In 1990 the SLORC, believing it had the support of the people, called for a new government and allowed free elections, confident it would win. However, the overwhelming majority of seats in the proposed new government (80%) were won by the civilian opposition party led by Suu Kyi. Refusing to turn over power to a civilian government, the SLORC annulled the election, outlawed the opposition party, and arrested its leaders including Suu Kyi. The SLORC invited foreign private investors and companies to invest in Burma with the hopes of improving the economy.

PepsiCo was one of many American companies that responded favorably to the invitations of the SLORC. Others included apparel manufacturers such as Eddie Bauer, Liz Claiborne, Spiegel's, and Levi Strauss, shoe manufacturers such as Reebok, and oil companies such as Amoco, Unocal, and Texaco. The United States was the fifth largest foreign investor in Burma.

The country was attractive for several reasons. Not only was labor extremely cheap, but because the culture placed a high value on education, worker literacy rates were very high. The country's oil resources were an irresistible lure to the oil companies, and its many other untapped resources presented major opportunities. Burma not only offered a potentially large market, it also occupied a strategic location that could serve as a link to markets in China, India, and other countries in Southeast Asia. Also, with the military dictatorship to maintain law and order, the political environment was extremely stable.

The military, however, presented a problem. Many groups, including the U.S. Department of State, accused the SLORC of numerous human rights abuses. The U.S. Department of State reported:

> The Government's unacceptable record on human rights changed little in 1994. Burmese citizens continued to live subject at any time and without appeal to the arbitrary and sometimes brutal dictates of the military. The use of porters by the army—with all the attendant maltreatment, illness, and even death for those compelled to serve—remained a standard practice ... The Burmese military forced hundreds of thousands, if not millions, of ordinary Burmese (including women and children) to "contribute" their labor, often under harsh working conditions, to construction projects throughout the country. The forced resettlement of civilians also continued. Four hundred or more political prisoners remained in detention, including approximately 40 parliamentarians elected in 1990. ... The SLORC continued to restrict severely basic rights to free speech, association and assembly. In July and August the authorities arrested five persons for trying to smuggle out information on conditions in Burma to the outside world ... Throughout 1994, the Government continued to rule by decree and was not bound by any constitutional provisions guaranteeing fair public trials or any other rights ... The security services continued to clamp down on those who expressed opposition political views. ... Workers were not free to form [trade unions] and leaders of unofficial labor associations remained subject to arrest. Surplus labor conditions and lack of protection by government authorities continue to dictate substandard conditions for workers.[3]

Nevertheless, the management of PepsiCo was intrigued by the government's invitation to invest in Burma. In 1991 PepsiCo decided to enter a joint venture with Myanmar Golden Star Co., a Burmese company owned by a Burmese businessman named Thein Tun. Myanmar Golden Star would own 60 percent of the venture while PepsiCo would own 40 percent. The venture would set up a bottling plant with a 10-year license to bottle and distribute PepsiCo-owned products in Burma, including Pepsi Cola, 7 Up, and Miranda soft drinks.

The bottling venture did well. In 1995 PepsiCo reported that the revenues made by the Burma bottler totaled $20 million, of which PepsiCo's share was $8 million. The company expected that in 1996 revenues in Burma would increase by 25 percent. Pepsi products had become the main source of income for Thein Tun who was a very close friend of the generals who made up the SLORC. Tun's close ties with the military junta was one of the factors that had led PepsiCo to choose him as a partner.

Back in the United States, however, critics were questioning the ethics of doing business in Burma. On numerous campuses students were pressing universities to purge their portfolios of any companies doing business in Burma. Several cities had passed bans on city purchases of any goods or services from companies doing business in Burma. A network of students on about 100 campuses had launched a boycott of Pepsi products. Harvard students had pressured that university to refuse to give PepsiCo a contract (valued at $1 million) to sell Pepsi on campus. Company shareholders had submitted resolutions urging PepsiCo to leave Burma. The company had received hundreds of letters demanding that the company leave Burma.

Critics claimed that by doing business in Burma American companies were helping prop up the repressive military government of that county through taxes and other means. If foreign companies were to abandon Burma, the military would fail in its attempts to create a vibrant market economy. Declining economic conditions would pressure the military into instituting democratic reforms to attract foreign investment back into the country.

Moreover, many of the American companies in Burma engaged in a practice called *counter trade* that, according to critics, was associated with the forced labor that was now rampant in rural areas. Burmese money was worthless outside of the country, making it virtually impossible for an American company to transfer its profits out of Burma and into the United States. To get around this problem, many companies traded their Burmese profits for Burmese agricultural commodities. They would then export the agricultural commodities to countries outside of Burma, sell them there, and transfer those monies to the United States. PepsiCo had admitted to engaging in counter trade, as had many other companies. The problem with counter trade, critics claimed, was that forced labor was widely used throughout the agricultural sector, particularly on the many farms now controlled by the military. The military had confiscated much of the best farmland in Burma, evicted the farmers, and then forced them to return to provide slave labor to grow the crops that the military then harvested and sold, keeping the proceeds. A good portion of the agricultural commodities American companies purchased and sold abroad were thus likely to have been produced by forced labor.

PepsiCo and other companies, however, argued for a policy they called *constructive engagement*. The best way to get the military to institute reforms, they argued, was by staying in Burma and pressuring the military to change its ways. Improving economic conditions would develop a flourishing middle class that would bring about democracy. “Free trade leads to free societies” was a favorite slogan of PepsiCo and others.

In 1992, however, Levi Strauss had withdrawn from Burma, saying “it is not possible to do business in [Burma] without directly supporting the military government and its pervasive violations of human rights.” In 1994 Reebok and Liz Claiborne withdrew saying they could not do business in Burma until “significant improvements in human rights conditions” were enacted. In 1995 Eddie Bauer and Amoco pulled out citing growing opposition at home to company involvement in Burma.

The growing pressures being put on PepsiCo to leave Burma finally convinced the company in 1996 that it should divest itself of its holdings in the Burmese bottling plant. In April, the company sold its holdings in the plant to its partner, Thein Tun. But PepsiCo decided to continue to honor its 10-year license allowing the bottler to sell Pepsi in Burma, and to continue to provide the bottler with the necessary syrup used to mix Pepsi soft drinks. Critics objected that the half-way move meant that PepsiCo was still doing business in Burma and vowed to keep up the pressure on the company.

QUESTIONS

1. In your judgment did PepsiCo have a moral obligation to divest itself of all its Burmese assets? Explain your answer. Which approach to ethics—utilitarianism, rights, justice, caring, or virtue—is most appropriate for analyzing the events in this case?

2. In your judgment does PepsiCo have a moral obligation to now pull its products and brand name out of Burma? Explain your answer.

NOTES

1. “PepsiCo to Exit From Burma Bottling Joint-Venture,” *Bloomberg Business News*, 23 April, 1996.

2. Letter dated April 22, 1996, sent to Father Joseph La Mar of the Maryknoll Order, one of several shareholders petitioning Pepsico to leave Burma.

3. Department of State, Country Reports on Human Rights Practices for 1994, (Washington, DC: U.S. Government Printing Office, 1995), pp. 539–48.>