

# The market or the public domain?

Global governance and the  
asymmetry of power

Edited by Daniel Drache



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# 13 Global markets and social legitimacy

## The case of the 'global compact'

*Georg Kell and John Ruggie*

### Introduction

The international economic order constructed by the West after World War II reflected a highly advantageous configuration of factors that produced a generation of sustained economic expansion. The world distribution of economic power favoured an open and non-discriminatory approach to organizing international economic relations. There was broad ideological consensus regarding the role of the state in ensuring domestic employment, price stability and social safety nets. A commensurate body of economic analysis and policy prescriptions existed that enabled the state to act on these preferences. The major corporate actors were national in scope and international economic relations largely comprised arms-length transactions among separate and distinct national economies. As a result, point-of-entry barriers to economic transactions constituted meaningful tools of economic policy. The prevailing form of nationalism was the civic not ethnic kind, which facilitated international economic cooperation and, in the case of western Europe, the process of supranational integration. A set of international organizations was put in place that expressed and supported the post-war compromise of embedded liberalism, as it has been called (Ruggie 1982), most importantly the Bretton Woods institutions, the GATT and the United Nations.

Much has changed in the past half century to erode the efficacy of this set of understandings and arrangements. However, no factor has been as consequential as the expanding and intensifying process of globalization (Ruggie 1996). At bottom, globalization has increasingly disconnected one single element – networks of production and finance – from what had been an overall system of institutional relations, and sent it off on its own spatial and temporal trajectory. This has produced two disequilibria in the world political economy, which will persist unless and until the strictly economic sphere is embedded once more in broader frameworks of shared values and institutionalized practices.

The first is between the strictly economic sphere, and the broader frameworks of shared values and practices within which the economic sphere has been embedded at the national level. The second imbalance is in international governance structures. There *has* been a significant expansion of global

economic rule-making over the past decade. But it has been aimed largely at creating the institutional bases for the functioning of global markets. The rights of global corporate actors have been secured, for example, and considerable efforts have gone into the creation of corresponding rules for the global trading regime – such as TRIPS (Agreement on Trade-Related Aspects of Intellectual Property Rights) and TRIMS (Agreement on Trade-Related Investment Measures). These rules have been codified and means provided for their enforcement. But these expressions of rule-making have *not* been matched by comparable efforts on behalf of other global concerns, such as the environment, human rights or poverty or for that matter food safety and international cartels. In fact, in some instances, previous commitments in these areas have been weakened – e.g. ODA (Official Development Assistance).<sup>1</sup>

The major capitalist countries have the domestic and institutional capacity to protect themselves from the worst negative effects of this imbalance. But the rest of the world is far more vulnerable, and this vulnerability has been exacerbated by the neo-liberal orthodoxies – the so-called Washington consensus. Large parts of Africa have become economically marginalized. Our reading of history suggests that imbalances of this sort are not long sustainable. Indeed, the embedded liberalism compromise itself was an innovative response to precisely these kinds of imbalances at the *national* level, which had caused the system to blow up in the 1930s.

A key challenge for the international community, therefore, is to devise for the *global* economy the kind of institutional equilibrium that existed in the post-war *international* economic order. Calls for a new Bretton Woods or for a new economic architecture reflect this quest, although they show little sign of significant progress. We focus here on the longer-term interplay between two sets of key actors in the global economy, transnational corporations (TNCs) and transnational non-government organizations (NGOs), and we do so from the institutional venue of the United Nations.<sup>2</sup>

Civil society actors are increasingly targeting TNCs and the trading system as leverage by means of which to pursue broader social and environmental concerns. We contend that this dynamic interplay provides great potential for attempts to bridge the imbalance between economic globalization and the governance structures that it has left behind.

One modest instance of this claim is the Global Compact, initiated by United Nations Secretary-General Kofi Annan at the Davos World Economic Forum in January 1999, challenging the international business community to help the United Nations implement universal values in the areas of human rights, environment and labour.<sup>3</sup> The initiative has been well received by the corporate community and, at minimum, gives added momentum to the growing recognition that markets require shared values and institutionalized practices if they are to survive and thrive. In this chapter, we first describe briefly the component parts of the global compact; we then offer an account of its positive reception; and finally we draw some conclusions from the case.

## The global compact

The Global Compact challenges individual corporations and representative business associations to demonstrate good global corporate citizenship by embracing nine principles in the areas of environment, labour and human rights, and by advocating for stronger United Nations organizations in those and related areas. The nine principles are derived from the Universal Declaration of Human Rights (UDHR), the Rio Declaration of the United Nations Conference of Environment and Development (UNCED) held in 1992, and the four fundamental principles and rights at work adopted at the World Economic and Social Summit (WESS) in Copenhagen in 1997 and reaffirmed by the International Labour Organization (ILO) in 1999. The areas and principles chosen are those that are most relevant at the corporate level *and* at the global rule-making level, while at the same time rooted in solid international commitments and even treaty obligations. The ILO, OHCHR (Office of the High Commission for Human Rights) and UNEP (United Nations Environmental Programme) are partner agencies within the UN itself.

The Compact is pitched at both the micro- and the macro-level. While recognizing that governments have the main responsibility for implementing universal values, a novel feature of the Compact is that corporations are asked to embrace these values directly, in their own sphere of operation. Specifically, they are asked to incorporate them into their mission statements and to translate them into concrete corporate management practices. A key tool to facilitate the adoption, implementation and dissemination of these commitments is a website ([www.un.org/partners/business/globcomp.htm](http://www.un.org/partners/business/globcomp.htm)), constructed with the help of corporations, business associations, the partner agencies and NGOs. The website showcases good corporate practices and eventually best practices and it features commentaries by NGOs.

The Global Compact is not designed as a code of conduct. Instead, it is meant to serve as a framework of reference and dialogue to stimulate best practices and to bring about convergence in corporate practices around universally shared values. Of course, it is possible for the Compact to evolve into an instrument of greater precision if and as conditions warrant.

Challenging TNCs, in particular, to become good corporate citizens that accept responsibility commensurate with the power and rights they enjoy ensures that corporations from developing countries are not punished for lacking the capacity to behave in the same way (Bhagwati 1998). At the macro-level, or the level of global rule-making, the Global Compact tries to enlist the business community in an advocacy role on behalf of the UN. At the global rule-making level, a significantly strengthened United Nations, in terms of authority and resources, would fill an important governance gap. One that has been the source of tension and has threatened to undermine multilateralism, as was witnessed at the Third Ministerial Meeting of the World Trade Organization in December 1999. A United Nations capable of effectively addressing environmental, labour and human rights concerns, in short, would also help ensure a sustained commitment to the global trade regime.

There are positive indications that the international business community is responding to the challenge. The International Chamber of Commerce (ICC), on 5 July 1999, adopted a statement arguing for a stronger UN as the most sensible way forward. The ICC also pledged to work with UN agencies to implement the Global Compact at the corporate level.<sup>4</sup> Individual corporations have lent their support and have assisted in the construction of the website, as have leading NGOs in the areas covered by the Compact.

If the Global Compact were to succeed, it would have accomplished two things. The United Nations would have enlisted the corporate sector to help close the gap between the strictly economic sphere and the broader social agendas that exists at the global level today, which the corporate sector itself created. The UN would also have gained corporate backing for a more robust UN role in human rights, environment and labour standards, thereby responding to the imbalance in global governance structures mentioned above.

On the side of the business community, success will depend in no small measure on the capacity of global business associations to mobilize sufficient advocacy support for strengthening global governance structures in the environment, development, human rights and labour. Only business associations can circumvent the collective action problems faced by individual firms. In the absence of aggregate corporate representation, collective responsibilities can neither be formulated nor implemented. The international community should have a keen interest in promoting representative business associations.

At the corporate level, the question is whether a sufficient critical number of moral first movers will articulate a commitment to embrace social responsibilities, and whether they have the power to establish dominant industry-wide corporate social purposes. A closely related question is whether TNCs will continue to respond to multiple pressures on an *ad hoc* basis or whether their response will converge around universal values. The plethora of voluntary initiatives and codes, including labelling schemes, that have emerged over the past years at the corporate, sectoral and national level have several shortcomings. They are selective in content due to the absence of uniform definitions; many lack transparency and provide for inadequate representation of their supposed beneficiaries; and it is not clear to whom they are accountable.<sup>5</sup> As these shortcomings become apparent, pressure for arrangements based on more stable global platforms may increase.

The answers to these questions have a great deal to do with how the dynamic tension that exists today between TNCs and NGOs is played out. We turn now to that subject.

### **The dynamics of change**

The relationship between market and society at the global level is slowly being reshaped. The main protagonists are TNCs, and NGOs and the struggle involves two complementary sets of concerns. First, it is a struggle over prevailing social expectations about the role of corporations, especially large

TNCs: is the business of business merely business, or is it something more? Second, it is a struggle over the global trade regime, specifically the extent to which it should accommodate a variety of social agendas. Human rights, labour standards and the environment feature prominently in both instances. Let us take a brief look at the two sets of actors and the issues at stake.

The rise of TNCs in the wake of lower barriers to trade and investment has been widely documented. Foreign direct investment (FDI) flows have steadily increased over the past decades, both in absolute terms and in relation to trade and output. The activities of TNCs have also become more truly transnational as the share of employment, turnover and profit, generated in foreign markets, has grown.<sup>6</sup> At the same time, TNC strategies to take advantage of broadened market access have generated new approaches to integrated manufacturing networks and marketing strategies that put a premium on global image and branding.

The role of NGOs in the international arena has only recently attracted serious attention and is not yet well understood. NGOs have long been active in international affairs, including at the United Nations (Kane 1998). However, in recent years their impact has significantly expanded. With the award of the 1997 Nobel Peace Prize to the International Campaign to Ban Landmines came widespread acknowledgement of their growing political influence. Their subsequent role in bringing to a halt the OECD sponsored negotiations on a Multilateral Agreement on Investment (MAI) was further evidence of their powers of persuasion (Henderson 1999).

The effectiveness of NGOs has much to do with their ability to use the Internet to tap into broader social movements and gain media attention. Relying on hi-tech, low-cost means of grass-roots advocacy around single issues, they have demonstrated the effectiveness of decentralized and flexible structures combined with non-formalized communication and decision making.<sup>7</sup> Some NGOs have transnationalized their structures, in a manner comparable to TNCs.<sup>8</sup>

### **Corporate social responsibility**

The changing relationship between society and the corporate community is illustrated by prevailing expectations about corporate social responsibility (CSR) (Friedman 1984; Donaldson and Dunfee 1994).<sup>9</sup> While the use of stakeholder pressure to influence the behaviour of corporations is as old as business itself, the meaning of CSR has changed dramatically over the past decade. As recently as 1990, the interaction between business and society remained largely confined to local or national scenes, and the conventional view that the major responsibility of business is to produce goods and services and to sell them for a profit was not seriously questioned.

As liberalization has expanded business opportunities and generated global corporate networks, the bargaining balance in many societies has shifted in favour of the private sector, and in developing countries particularly to TNCs.<sup>10</sup>

But this shift, in turn, has provoked attempts by civil society actors and others to orchestrate counter-measures. Unlike the static responses triggered by the first wave of significant transnationalization in the early 1970s however, today's countervailing movements have focused on the social responsibility of corporations, and on ways to alter corporate behaviour through public exposure. Effective use of communications technology and the willingness of the international media to carry stories about corporate misdeeds have greatly increased public focus on corporations.<sup>11</sup>

The interaction between NGOs and TNCs around the issue of CSR is highly dynamic and evolving rapidly.<sup>12</sup> But two distinct approaches are taking shape (Sethi 1994b). At one end of the spectrum, numerous NGOs continue to pursue confrontational approaches, applying a wide range of campaign tools such as provocation, consumer boycotts, litigation and direct protest (Cramb 1999). At the other end, a growing number of NGOs including the most transnational, such as Amnesty International, Human Rights Watch, WWF and others, have entered strategic partnerships with TNCs, recognizing that corporate change leaders can become effective role models or advocates for broader societal concerns.

These partnerships are in an early stage of development, and a neutral broker such as a government agency or business NGO often sponsors them.<sup>13</sup> Some TNCs are developing 'stakeholder policies', thus trying to cope with the increasing influence and business-orientation of NGOs. These novel forms of business-NGO dialogue have already brought about significant changes in selected areas, especially corporate environmental practices. It remains to be seen whether these experiments will evolve into lasting structures for bridging social and business interests.

Corporations, on the other hand, have had to learn that globalization strategies, particularly global branding, have created not only new opportunities but also vulnerabilities (Wild 1998).<sup>14</sup> Protecting image and brand names quickly evolved as a major challenge that had to be met if globalization strategies were to succeed.

The need to protect the corporate image has fostered an array of corporate responses, ranging from private sector initiatives at the firm and industry level, to private/public partnership approaches, as well as a renewed interest in regional and international sectoral initiatives (ILO 1999a). Depending on their vulnerability towards public scrutiny, together with the environment and the degree of exposure in which they operate, a few TNCs have publicly broken rank with conventional views and embraced concerns for human rights, the environment and labour in their mission statements, management practices and annual reporting (Cramb and Corzine 1998).<sup>15</sup>

Transnationals are subject not only to external pressure but also to internal needs. Many have begun to confront the challenge of how to integrate, into one global corporate culture, the increasing number of diverse national cultures of their officers and employees. Success or failure can have a direct impact on the bottom line. The corporate interest in business ethics and good citizenship

is, in part, a reflection of this concern. In essence, corporations that take transnationalization seriously, in corporate staffing and governance, have slowly moved toward the articulation of ever-broader sets of values. Values which are not otherwise essential to their contracting or market functioning, but are an attempt to define the cultural bonds that hold the company together (The Conference Board 1999; Environics International Ltd *et al.* 1999).

The corporate propensity to respond to civil society concerns and the degree to which these responses are internalized in corporate practices also depends on their market power. Only under conditions of imperfect markets can individual executives afford to guide corporations toward greater ethical norms (Sethi 1994a).

Overall TNC responses remain highly uneven. A small but growing number have taken a public stand on ethical issues. It is unclear though whether this is a temporary experiment that remains limited to a relatively small number of leading global corporations – mostly active in consumer products and natural resources – or whether it heralds a dominant future trend. Even where innovative responses have been taken, corporations show varying degrees of translating good will declarations into actual management practices, corporate performance and reporting (Watts 1998).

### The trade debate

At the global rule-making level, the relationship between trade, on the one hand, and social, environmental or human rights issues on the other, has emerged as a flash-point of controversy between commercial interests and civil society groups, mostly of developed countries – as the whole world saw at Seattle. Over the past few decades, successive waves of lower trade and investment barriers have made very apparent the effects of different national policies. Calls for a level playing field and for minimum standards to avoid a race to the bottom have become louder and varying coalitions have been formed to pressure governments to use trade as a means to enforce higher standards or directly change the trading rules to accommodate social agendas.

Those who oppose linking trade with other concerns have argued that this would put too much stress on the trading system, thereby rendering it ineffective; and that it would not solve the problems at hand because the trading system is not designed to solve labour, environmental and human rights issues. Moreover, opponents are deeply concerned that seeking to impose such standards through the trade regime would be an open invitation to exploit them for protectionist purposes, to the grave disadvantages of the developing countries and the trade regime as a whole. Instead, developing countries argue, higher standards in areas such as environment can only be achieved through the process of accumulating skills, capital and technology. Higher standards in areas such as the environment cannot be imposed they argue but can only be achieved through an incremental process of accumulating skills, capital and technology.

Interestingly, the views of developing countries are increasingly converging with those of TNCs – and outward oriented corporations of any size, forming a potentially powerful policy coalition that has not yet been fully realized.<sup>16</sup>

The conflict over trade rules was evident in the debates following the conclusion of the Uruguay Round. A compromise declaration was reached at the first WTO Ministerial meeting in December 1996, where it was confirmed that the ILO was the competent body to deal with labour issues, and where a decision was taken to keep environmental issues merely under review within the WTO framework. This was only a temporary lull, however. As preparations for the Third Ministerial Meeting of the WTO gained momentum, conflicts around these issues became more intense again.<sup>17</sup>

As pressure by civil society actors has intensified, various attempts have been made to appease their concerns by increasing the transparency of the WTO and by searching for compromises.<sup>18</sup> President Clinton, for example, proposed in an ILO speech to 'build a link' with labour (Clinton 1999). Renato Ruggiero, as Director General of the WTO, stressed the need for balancing global governance structures, culminating in his proposal for a World Environment Organization (Ruggiero 1999).

The Third Ministerial Meeting of the WTO, in Seattle in early December, 1999 thrust civil society movements into the public consciousness. Their common denominator was the use of trade to advance a host of other issues. With 30,000 protesters and about 20,000 labour union members marching in the street, the Seattle event demonstrated vividly how trade and large corporations have become the target of citizens' groups.

The collapse of the Seattle talks and the failure to agree on another round of trade liberalization was not the result of pressure from the street however. The talks had to be suspended because trade negotiators failed to bridge conflicting views, especially in the area of agriculture where the EU tried hard to deflect pressure to reduce farm subsidies. Yet, the demonstrations and the movements preceding them, especially in the US, had their impact. In an interview after the Seattle talks, the European Union's trade commissioner Pascal Lamy went on record blaming the collapse of the Seattle talks on the pressure of looming US presidential elections and President Clinton's call, in Seattle, for labour standards to be included in trade agreements.<sup>19</sup> In the same vein, India's chief representative at Seattle said that President Clinton's remark about labour standards 'made all the developing countries and least-developed countries harden their views. It created such a furore that they all felt the danger ahead.'<sup>20</sup>

The Seattle experience showed that civil society groups are increasingly powerful at the corporate, national and international levels and that inter-governmental organizations such as the WTO have yet to learn how to respond. The fact that over 90 per cent of the NGOs that attended the Third Ministerial Meeting in Seattle came from OECD countries indicates a strong northern bias. The voices of the people of the developing countries remain unheard, and in those cases where developing countries' NGOs do participate they are often subsidiaries of NGOs hosted in OECD countries.

The Seattle meeting confirmed once again that opponents of trade liberalization represent highly heterogeneous groups with different motivations. The spectrum of protesters included: a small anarchist minority, a large number of single issue groups concerned with the environment, health and human rights, trade unions who fear that structural adjustments due to market openness are not offset by positive effects of increased competition, and powerful economic interests that seek government protection in areas such as steel and textiles. Numerous activists took up the call to rally against exploitation and environmental destruction in developing countries, while at the same time ignoring the basic fact that trade remains the most viable path to escape poverty and that developed countries continue denying poor countries market access in areas where they stand a chance to compete. Protesters readily took up the slogans of the American Federation of Labour–Congress of Industrial Organizations (AFL–CIO). But were apparently not influenced by development oriented NGOs, who understand that poverty is the main cause of child labour and environmental destruction in poor economies and that trade and investment have, overall, positive and mutually reinforcing consequences for human rights, development and the environment. This apparent hypocrisy led many observers and commentators to refer to developing countries as the real losers of Seattle.

### **What the debate on CSR and trade have in common**

The interaction between TNCs and NGOs at the corporate level and the controversies around global trade reveal a number of consequential tendencies. First, contrary to conflicts between markets and society during the 1960s and 1970s, for example, the controversial debates around the UN Code of Conduct for TNCs, the issue at stake today is not in the main ideological. Opponents of globalization do not advocate an alternative ideology. While they seem united in their intention to oppose markets, most of them thrive because of economic good times and their operations and networking hinge critically on the free access to information technology. Openness and transparency are the leitmotifs of open markets. Indeed, most transnational NGOs take positions against TNCs and trade not because they inherently oppose their legitimacy or functional efficacy. They do so primarily because it promises to leverage their own specific interests and concerns. This strategic positioning is greatly facilitated by the fact that the trade regime is not static in its relation to society, nor does it represent a concrete thing. The trade regime is intersubjective in character and reflects the shared meanings and understandings attributed to it by the relevant actors (Ruggie 1998). As a result, issues can always be characterized in more than one way. In situations of choice, the act of characterization itself can be strategic in the sense that the actors select a characterization not on the basis of objective facts but on the positional implications of one formulation over the other (Wolfe 1999).

If such strategic positioning is a central feature of current debates, this carries considerable risks, especially in circumstances where it overlaps with real

economic interests in protection-seeking industries or other interests. The most likely losers are those that are not party to the game – consumers everywhere and developing countries in particular.

However, while environmental and human rights NGOs may be motivated strategically in the debates around trade and TNCs, their position is given added moral weight by the imbalance in current global governance structures. There is a stark contrast between the available institutional mechanisms to define and enforce global rules that advance the economic interests of TNCs and the under-funded and relatively weak UN agencies charged with advancing the causes of the environment, development, human rights and labour. And at the United Nations, there is a wide gap between the ambitious goals and broad commitments embodied in various United Nations conferences on social issues and the degree to which governments are willing to honour such commitments.<sup>21</sup>

Finally, there are some signs that elements in the global corporate community are themselves increasingly concerned by the unsustainability of the current imbalance in global governance structures. There is recognition that global markets no less than national ones need to be embedded in broader frameworks of social values and practices if they are to survive and thrive (ICC 1998a, 1998b, 1999).<sup>22</sup> As a result, they have begun to look to the United Nations to play a larger role in setting norms and standards that express not merely the functional values of direct interest to business, but also broader global social issues. At Seattle, Kofi Annan invited participants to view the United Nations as a part of the solution to the problem with which they were grappling (Annan 1999).

## Conclusion

Globalization may be a fact of life, but it remains highly fragile. Embedding global market forces in shared values and institutionalized practices, and bridging the gaps in global governance structures are among the most important challenges faced by policy-makers and corporate leaders alike. The future of globalization may hang in the balance. This challenge has to be met at the micro-level, where we believe the move towards articulating and acting upon universal values offers a viable approach. And it has to be solved at the level of global rule-making, where we believe strengthening the role of the United Nations has a productive role to play. The Global Compact is intended as a contribution to both, though by its very nature and scope, it can only make a modest contribution. Let us draw some conclusions from the case.

One can readily appreciate why corporations would be attracted to the Global Compact. It offers one stop shopping in the three critical areas of greatest external pressure, human rights, environment and labour standards, thereby reducing their transaction costs. It offers the legitimacy of having corporations sign off on to something sponsored by the Secretary-General – and, far more important, the legitimacy of acting on universally agreed to prin-

principles that are enshrined in covenants and declarations. Given the corporate sector fears that the trade regime will become saddled with environmental and social standards and collapse under their weight, a stronger UN in these areas is far preferable.

The NGO community is divided over the approach. The smaller and/or more radical single-issue NGOs believe that the United Nations has entered into a Faustian bargain at best. But the larger and more transnationalized NGOs have concluded that a strategy of 'constructive engagement' will yield better results than confrontation, and they are cooperating with the United Nations. At the same time, it is no doubt true that without the threat of confrontation, engagement would be less likely to succeed. The developing countries have yet to take a position. They fully support efforts to keep the trade regime free of additional conditionalities and barriers. But they are also worried that working with TNCs to improve their practices could become a Trojan horse to put pressure on the governments of those countries. And if we succeed in our endeavour, the imbalance in global governance structures will be somewhat attenuated.

The experience of working together on the Global Compact has also brought greater coherence to the United Nations entities active in this domain. The hope is that connected behaviour will accomplish far more than fragmented action. Thus, the Global Compact may signal that the United Nations may become a more salient player in the post-Seattle game of forging new instruments through which to manage the consequences of globalization.

## Notes

The views expressed herein are those of the authors and are not intended to implicate the United Nations in any manner.

- 1 For example, Official Development Assistance (ODA) from Development Assistance Committee (DAC) Member countries fell by 21 per cent from 1992 to 1997; as a proportion of their combined national income, it fell by one third. These are the largest declines since the inception of the DAC in 1961 (Organization for Economic Cooperation and Development 1999).
- 2 NGOs are broadly defined here as any non-profit voluntary citizens' group that is constituted at the local, national or international level.
- 3 See <http://www.un.org/partners/business/> (accessed 23.04.01).
- 4 The ICC has already endorsed the notion that a stronger UN in the areas of labour, human rights and the environment is the most sensible way forward to secure open markets.
- 5 See ILO (1999b) for a comprehensive overview.
- 6 Since 1990, the average transnationality index of the top 100 TNCs has increased from 51 per cent to 55 per cent, largely a result of the growing internationalization of assets especially between 1993 and 1996.
- 7 See Peter Wahl on [www.igc.org/globalpolicy/ngos/issues/wahl.htm](http://www.igc.org/globalpolicy/ngos/issues/wahl.htm) (accessed 23.04.01) for a good review of recent trends. Also see Abe Katz, chairman of the US Business Council, who devoted his farewell speech to the issue of how NGOs are using the Internet to slow down liberalization (Lucetini 1998).
- 8 In particular, environmental NGOs such as WWF (World Wildlife Fund) and Greenpeace, but also AI (Amnesty International), Human Rights Watch and many others.

- 9 CSR can be understood as the conditions under which society grants private corporations the right to pursue the maximization of profits. This social contract between a corporation and its host society implies legal requirements or can be understood to include implicit assumptions and expectations. See United Nations Conference on Trade and Development (UNCTAD 1999) for a good overview of the social responsibility of TNCs.
- 10 Sales of leading TNCs exceed GDP of regional giants such as Thailand and South Africa (UNDP 1999: 32).
- 11 These groups have targeted ('naming and shaming') high-profile corporations such as Nike, Shell and Rio Tinto.
- 12 For a good discussion forum see [www.mailbase.ac.uk/lists/business-ngo-relations/](http://www.mailbase.ac.uk/lists/business-ngo-relations/) (accessed 23.04.01).
- 13 Examples include the UK ethical trading initiative, the development of national ethics codes in Canada and Norway and the work of the World Bank on best practices in the extracting industry. Many other initiatives are sponsored by business NGOs such as the WBCSD (World Business Council for Sustainable Development) and the PWBLF (Prince of Wales Business Leaders Forum).
- 14 Large corporations no longer advertise their products by the country of origin (e.g. 'made in Japan') but establish global brand names and corporate images. These intangible assets have become important in establishing a global presence and by some estimates make up as much as 40 per cent of the market value of corporations.
- 15 BP and Shell, two front-runners in this movement, caused considerable bewilderment in the business community when they included human rights and sustainable development on their annual report.
- 16 This is evident when comparing policy statements of the International Chamber of Commerce and of developing countries. The convergence has gradually proceeded over the past few years, to a point where positions are sometimes virtually indistinguishable.
- 17 Large demonstrations in Geneva in 1998 showed that the WTO and big business have become a target of social movements of all sorts.
- 18 A dialogue forum on development and the environment was held in March, see <http://www.wto.org/wto/index.htm> (accessed 23.04.01), for arrangements that have been made that allows NGOs to attend some debates.
- 19 See Buckley (1999).
- 20 Reported by Celia W. Dugger (1999).
- 21 The follow-up process to UNCED exemplifies this trend. Indications are that 'Copenhagen+5' will be comparably sobering.
- 22 There is an interesting difference between the financial community, especially Wall Street, which continues to oppose any regulation of global markets, and corporations that actually invest long-term productive capital. The rift became obvious during the peak of the Asian Financial crisis, with the latter warning about the need for at least some regulation of financial markets.

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# 14 Democratizing globalism

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Critics of neo-liberalism have been slow to develop cogent alternative perspectives, and have found themselves defending outdated models of classical liberal internationalism based on centralized sovereign states. Too often they neglect the significant changes in the form and functions of the state, or the public sphere more generally, which have resulted from widespread experiences of state failure. This includes not only the collapse of state socialism, but also crises and radical reforms of developed capitalist states, including US regulated corporatism, European-style social-democratic welfare states, and the developmental states of Japan and the Asian tigers. The reasons have been equally diverse, and have involved a mixture of political and economic factors. Nevertheless, these processes can be seen to have much in common, involving a transition to post-industrial capitalism, or what has been called the Information Age (Castells 1998).

## **Socio-economic restructuring and democratization**

Remodelling the 'public' sphere of politics is part of a broader process of social and economic restructuring, including its relationship to the 'private' sphere of economic activity. At the same time, major transformations have also been occurring in the forms of organization of so-called private enterprise, that is to say the business economy dominated by the giant corporation. Large-scale mass manufacturing has been reorganized, and the centralized bureaucratic firm has become the 'lean and mean' corporation, concentrating on its core competencies, but operating within a web of strategic alliances, supplier chains, and financial and governmental networks (Harrison 1994).

These changes have in many ways been driven by social pressures from below: widespread revolts against autocratic power in the family and the factory, the classroom and the boardroom. These generally entail a rejection of authoritarian domination and the power to control truth embodied in tradition, involving demands for increased personal freedom and dignity, equality (notably, between women and men), and the ending of coercion (Giddens 1999). Rather than the desire for economic liberalization bringing about political democratization, as suggested by triumphant liberalism, it has been the