

BUSINESS POWER

**IN Global
Performance**

Doris Fuchs

BUSINESS POWER IN GLOBAL GOVERNANCE

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BOULDER
LONDON

Published in the United States of America in 2007 by
Lynne Rienner Publishers, Inc.
1800 30th Street, Boulder, Colorado 80301
www.rienner.com

and in the United Kingdom by
Lynne Rienner Publishers, Inc.
3 Henrietta Street, Covent Garden, London WC2E 8LU

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Library of Congress Cataloging-in-Publication Data

Fuchs, Doris A.

Business power in global governance / Doris Fuchs.
p. cm.

Includes bibliographical references and index.

ISBN 978-1-58826-492-3 (hardcover : alk. paper) — ISBN 978-1-58826-468-8
(pbk. : alk. paper)

1. International business enterprises—Political aspects.
2. Globalization. 3. Corporate power. 4. Business and politics. I. Title.
HD2755.5.F827 2007
338.8'81—dc22

2007004528

British Cataloguing in Publication Data

A Cataloguing in Publication record for this book
is available from the British Library.

Printed and bound in the United States of America



The paper used in this publication meets the requirements
of the American National Standard for Permanence of
Paper for Printed Library Materials Z39.48-1992.

5 4 3 2 1

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Preface

Electoral representation and the existence of checks and balances on political power are core principles of democracy. In the era of globalization and global governance, however, the nature of the political game is changing. Important political decisions increasingly are being made at levels other than the national one, and by actors other than governments. Do checks and balances still function in this new game? Or have new powerful actors arisen and processes developed whose influence circumvents them?

The critical globalization literature frequently has claimed that transnational corporations (TNCs) are such actors. However, these claims have tended to remain rather broad and unspecific. Are TNCs really these all-powerful political actors in today's world? And if so, how do they exercise their power? These are the questions I had in mind when setting out to write this book.

Only on the basis of answers to these questions can we seriously discuss the need for and desirable design of new checks and balances in support of democratic legitimacy and social justice. As I hope the analysis presented in this book shows, such a discussion is urgently needed. While not omnipotent and, in fact, vulnerable in some respects, TNCs have gained political power in a range of dimensions and are exercising influence via a wide variety of political activities that traditional checks and balances fail to control. The balance of interests in the political arena clearly does not exist anymore and requires targeted intervention to be restored, if government of the people, by the people, and for the people is to be assured.

* * *

The argument presented in this book owes a great deal to many people, in terms of both inspiration and guidance. My thinking on corporate power in global governance has been particularly influenced by discussions and research collaborations with Jennifer Clapp, Claire Cutler, Matthias Finger, Virginia Haufler, Agni Kalfagianni, Markus Lederer, David Levy, Sylvia Lorek, Daniel Mazmanian, Andreas Nölke, Louis Pauly, Tom Princen, and Klaus Dieter Wolf. Moreover, Maarten Arentsen, Ulrich Beck, Andreas Busch, Edgar Grande, Friedrich Kratochwil, Renate Mayntz, Frank Schimmelfennig, and Stefan Schirm commented on earlier versions of the manuscript and gave valuable advice. Special thanks are due to Philipp Forstner for excellent editorial assistance. Finally, I am grateful to Marilyn Grobschmidt at Lynne Rienner Publishers for her enthusiasm and unrelenting support in the completion of the manuscript, as well as to two anonymous reviewers for their insightful comments. All remaining errors are, of course, my responsibility.

—Doris Fuchs

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1

Exploring the Role of Business in Global Governance

Global Governance, Business, and the Question of Power

It has been a little more than ten years now since *global governance* assumed a prominent spot on the international agenda, spurred by the euphoria at the end of the Cold War and hopes of more cooperation and harmony in global problem solving. In the early 1990s the “Commission on Global Governance” met to deliberate the future of world politics. Simultaneously, the academic community started to explore the topic. In 1992 James Rosenau and Ernst-Otto Czempiel published *Governance Without Government*, a scholarly treatment of a new type of global politics in a globalizing world no longer separated by an iron curtain and with new political actors on the scene. Since then, global governance has become a paradigm in analyses of the organization of the international system and global problem-solving. Under this paradigm, scholars and practitioners discuss changes in political actors, issues, practices, and perspectives. Most important, they highlight the rise in political decisionmaking by nonstate, supranational, and subnational actors, in particular civil society, international governmental organizations (IGOs), and transnational corporations¹ (TNCs), and explore the contribution these actors can make to global problem-solving.

In spite of a flurry of research and debate, however, global governance today remains a vague and controversial concept. Scholars and practitioners agree about little except that new actors are participating in political decisionmaking. Even the extent of the actual and poten-

tial contribution of these actors and the remaining actual and potential contribution of traditional political actors, specifically the state, are subject to serious disagreement. More problematic, however, is that a substantial share of contributions to the global governance debate, especially early on, failed to pay sufficient attention to the role of power, the “key concept” in political science (Lasswell and Kaplan 1950). Focusing on participatory global rule-making, they forgot to ask questions about who rules, how, and in whose interest. Clearly, these questions have to be of pivotal importance for anybody interested in the implications of global governance for democracy, social justice, and global sustainable development.

The need to ask questions about power and the implications of the pursuit of private interests for global governance are particularly apparent in the case of TNCs. An increasing number of publications in the popular and academic literature perceive a shift in power toward TNCs due to globalization. Scholars, activists, and politicians charge that corporations have become extremely powerful actors and are increasingly able to shape governance at national and supranational levels. At the same time, the desirability of the contribution of business actors in general and TNCs in particular to governance cannot always be taken for granted. On the one hand, the notion of corporate citizenship and the environmental and social responsibility of business actors is gaining ground. On the other hand, however, scandals and catastrophes caused by business actors from Seveso and Bhopal to the Exxon Valdez, Enron, and WorldCom suggest that the economic and political activities of business actors still need to be embedded in an appropriate regulatory framework. TNCs, in particular, may be simultaneously the “principal agent and architect” and the major “villain” and “beneficiary” of globalization and global governance (Drache 2001, 6).

Meanwhile, TNCs have grown in number and, more dramatically, in size. UNCTAD (2000) reports the existence of approximately 63,000 TNCs with 700,000 foreign affiliates. Moreover, TNCs command financial and human resources of a magnitude previously unknown. The last wave of mergers that started in the late twentieth century has led to the development of new economic units with gigantic budgets and staff sizes.

Despite these developments and concerns about their political implications, however, there has been surprisingly little systematic research on the role of business in general and TNCs in particular in global governance. Only recently, more power-oriented and broader inquiries into the role of TNCs in global politics have started to

appear (Levy and Newell 2005; May 2006a). In addition, the literature has highlighted a variety of “new” forms of political activities by business, including self-regulation, the role of rating agencies, public-private and private-private partnerships (PPPs), and the privatization of areas traditionally considered the task of public actors, such as security. In this context, scholars have drawn attention to the development of “private authority” in the international system.

Yet a comprehensive and systematic understanding of the political activities employed by businesses with respect to global governance and their meaning and development in terms of business’s political power is missing. This fact is also surprising, since assumptions about the power of business frequently inform arguments about the role of other actors in global governance, in particular the state and civil society. This lack of information on the “big picture” with respect to business’s political power is partly a function of methodological problems, of course. Numerous case studies on the topic exist. While these provide a wealth of case-specific detail, however, they tend to offer little reliable information on overarching trends. In contrast, quantitative assessments in this field frequently rely on macro-level data that do not allow the identification of the complex dynamics of the underlying political processes. In consequence, we still lack important insights on broader developments with respect to the role of business in global governance.

The present analysis responds to this lack of information. Its primary objective is to provide an encompassing yet lucid picture of the role of business in global governance and to thereby better understand its role as a political actor. In the pursuit of this objective, the study explores the broad range of political activities by businesses, including lobbying and campaign finance activities, rule-setting activities as well as influence deriving from structural dependencies, and efforts to influence governance-relevant norms and ideas. The analysis is thereby able to consider actor-specific, structural, and systemic dimensions of business’s power and its material and ideational sources. Adopting a comprehensive conceptualization of global governance, the analysis takes into account activities at the national, transnational, and supranational levels (Messner and Nuscheler 1996a, 2003).

In pursuit of its research objectives, the analysis takes the following two steps. First, it develops a systematic and comprehensive framework locating the various political activities of business in global governance in a typology of power. Second, it applies this framework to evidence on trends in the respective political activities of business since the 1970s, that is, since the arrival of “globaliza-

tion” on the scientific and political agendas. It is thus able to identify interesting developments in the different dimensions of the political power of business in the context of globalization and global governance. Together the two steps of the analysis allow a new perspective on the role of business in global governance—a perspective that draws attention to the reach and variety of political activities by business and explores their meaning and development.

The findings show that business clearly has become a pivotal political actor and highlight the need to consider it as such. At the same time, the theoretical framework provides differentiated insights regarding the facets of the role of this political actor in global governance and the most noteworthy as well as controversial trends. Specifically, the analysis suggests the following: we can identify a quantitative increase in the efforts of business to exercise instrumental power at the national level, as well as the expansion of such efforts to the transnational and supranational levels. The extent to which this growth in activities translates into a growth in influence is difficult to assess, however. We can further notice dynamics promising an increase in the agenda-setting power of business actors deriving from their ability to move capital. Yet, the empirical evidence on this agenda-setting power is not unambiguous. In contrast, we can clearly identify a substantial increase in business’s rule-setting power. Finally, we can recognize a noticeable rise in the efforts of business to exercise discursive power, a dimension of power in which business has acquired a privileged but contested position in the overall political game.

In sum, the analysis demonstrates that claims about a lack of significant influence of business on politics advanced by a small but persistent group of scholars and practitioners need to be met with skepticism. At the same time, however, undifferentiated claims of corporations ruling the world, advanced by a continuously growing group of writers, fail to capture the complexities of current developments in the role of business in global governance. Unfortunately, we need to engage in the much more intricate and burdensome scrutiny of different developments in the political activities and power of business.

The Approach

Due to the nature of the topic at hand, the present analysis as a scholarly endeavor straddles a variety of disciplines and approaches.

Political science, business management, economics, sociology, and communication science all have something to contribute to the inquiry. Within political science, scholars in international relations (IR), in particular international political economy (IPE), political theory, comparative politics, and public policy, all have analyzed questions related to the research objective. In consequence, the analysis draws on a wide range of literature and approaches.

In the same manner, the analysis is both a theoretical and empirical effort. It draws on theoretical concepts to establish an appropriate foundation and framework for its inquiry, but it does not develop a new theoretical concept of power. Likewise, the inquiry draws on empirical evidence based on a systematic assessment of the relevant literature but does not itself test hypotheses based on statistical analyses or case studies. Rather, it develops a conceptual framework for analyses of the role of business in global governance and applies it to the theoretical and empirical literature on global governance and the influence of business on politics to suggest trends in this role. With this secondary-level analytic approach, the analysis responds to the weakness of the empirical global governance literature highlighted previously: the lacking perspective on the “big picture.” Its starting point is the conviction that in order to gain a new level of understanding, it is necessary to first take a step back and create and then apply a framework that allows a systematic and yet comprehensive appraisal of developments in the political activities of business. We can then reconsider research findings in the light of a new perspective on their meaning and relevance.

The interest in the big picture also suggests the adoption of a bird’s-eye perspective on the role of business in global governance, which emphasizes common trends rather than country-, field-, or case-specific differences. Such differences do exist (Hall and Soskice 2001). However, the analysis starts from the assumption that overarching developments in political activities by business as well as in opportunities for the pursuit of these activities can be identified. This is partly the case because of the increasing adaptability of firms to their host economies and the common determinants of business’s political activities in terms of economic opportunities and threats (Hansen and Mitchell 2001; Levy and Newell 2000). The ability to identify common trends is also a function of a growing convergence in institutional settings fostered by globalization. National models are increasingly adjusting by dissolving and replacing traditional institutions with new ones and developing institutional hybrids, especially

in sectors oriented toward international competition (Lütz 2003; Seeleib-Kaiser 1999). Thus, scholars find evidence of a convergence of corporate governance models toward an “information-based shareholder economy,” for example (Bieling and Steinhilber 2000; Streeck and Höppner 2003).

Admittedly, generalizations about the role of business in global governance are more justified for industrialized countries largely integrated into the global economy and with broad similarities in institutional settings than for developing countries without sufficient integration or comparable political systems and regulatory frameworks. In addition, generalizations about this role apply more to large business actors operating in markets with a high degree of international competition than for small businesses in local markets. While the discussion is framed in general terms, then, the reader needs to be aware that the analysis speaks more (although not exclusively) to the situation in industrialized countries and to the role of large business actors and associations.

In addition, despite efforts to approach the subject as comprehensively as possible, the analysis cannot provide an assessment of all the business activities that are of potential political relevance. Thus, it will not consider business influence on law via courts or issues of corruption and related illegal behavior by business representatives. Moreover, the book will not consider the simultaneous employment of politicians as consultants to business actors, which may be legal though perhaps illegitimate in the public eye.

Finally, the analysis starts from the assumption that business is embedded in an institutional setting and socioeconomic and political context of both a material and nonmaterial nature and thus not an entirely autonomous player. At the same time, the approach recognizes that business plays an active role in the (re)structuring of that setting. This bi-directional dynamic is reflected in the influence of globalization on the political capacities of business and competing actors and their influence on the occurrence and shape of globalization, and it also becomes particularly relevant with respect to the discursive power of business (see Chapter 6). In the literature, this perspective has come to be associated with the label *structuration*:

From this perspective, the course of social history results from mutually constituting agent choices and structural dispositions. ... On the one hand, structural forces largely establish the range of options that are available to actors in a given historical context. Structures also generally encourage agents to take certain steps

rather than others. At the same time, however, structures depend on an accumulation of actor decisions for their creation and subsequent perpetuation. Indeed, at moments of structural instability and flux, agents can have considerable influence in reshaping the social order. (Scholte 2000a, 91f)

Business actors, then, pursue an instrumental logic but are also subject to environmental influences and the logic of appropriateness.

The Structure of the Book

The analysis starts by establishing the empirical and conceptual setting in which the “story” unfolds: globalization and global governance. Corporate power in global governance cannot be understood without the changes in political and socioeconomic contexts brought about by globalization and global governance. If one wants to believe popular discourse and a large share of scholarly work, globalization has fundamental implications for the opportunities and constraints faced by (political) actors. Global governance, in turn, captures the changes in political practices and their conceptualization in which today’s political activities of business are embedded today. Thus, Chapter 2 explores the nature, causes, and consequences of globalization and links globalization to global governance by juxtaposing views of global governance as an answer to globalization and as a consequence of globalization. In addition, the chapter explores the concept of global governance in depth and reveals the frequent neglect of questions of power in global governance research as well as their causes. On the basis of this analysis, the chapter highlights the urgent need for inquiries into the specific roles of the various actors in global governance, specifically the power they can bring to bear in the global governance “game” and the channels through which they exercise it.

Narrowing the focus to the role of business in global governance, Chapter 3 develops the conceptual framework for an examination of the political power of business and the channels through which it is being exercised. The chapter starts with a brief survey of some of the cornerstones of the research tradition on the political power of business in general and corporations in particular. The chapter then turns to the question of assessments of businesses’ political power and highlights the inadequacy of the indicators traditionally used in the popular literature. As an alternative, the chapter presents instrumen-

tal, structural, and discursive perspectives of power and links them to old and new forms of political activities by business.

Chapter 4 analyzes developments in the instrumental power of business. Business exercises this power primarily via lobbying and campaign and party finance activities. At the national level, the chapter examines developments in business's political mobilization as well as changes in the access granted to business actors by politicians and bureaucrats. Moreover, it inquires into the relationship between resources and the successful exercise of instrumental power. At the supranational level, the chapter analyzes the expansion of lobbying activities by business to new targets and strategies. Specifically, it explores lobbying activities at regional and global governmental institutions, highlighting developments in business's instrumental power within the European Union (EU), for example. Here, too, the chapter considers not only changes in business strategies but also the role of access conditions, transaction costs, and the nature of competition among various interest groups. On the basis of these analyses, the chapter delineates complex developments in the exercise of instrumental power by business and emphasizes the need for global governance research to take these activities into account.

Chapter 5 turns to developments in the structural power of business. Scholars and practitioners have traditionally considered this power in the context of the ability of multinationally operating corporations to reward and punish policy choices by governments by moving investments and jobs. The chapter examines how this structural power of multinational corporations (MNCs) has developed considering changes in international financial regulation and competition for investment, as well as in the organization of production processes. Most important, however, Chapter 5 inquires into changes in the nature of the structural power of business as such. Specifically, it examines to what extent this structural power has expanded from a more passive agenda-setting power to an active rule-setting power. In this context, the chapter draws attention to the various forms of new political activities by business, such as self-regulation, PPPs, and quasi-regulation, that is, indirect rule-setting activities by specific business actors such as rating agencies, linking each to opportunities and constraints for the agenda- and rule-setting power of business.

Chapter 6, then, addresses business's exercise of power via the use and shaping of ideas—its discursive power, which is the least researched of the dimensions of business power in global governance. The chapter starts by discussing the privatization trend as a signal of

the acquisition of political authority by business. After all, the literature on global governance and private authority considers privatization as providing an expansion in the political activities of business to the extent that business is taking over tasks previously provided by governments. From there, the chapter looks at the sources of this acquisition of political authority, in particular the causes of business's gaining of legitimacy as a political actor. Exploring the strengths and weaknesses of the discursive power of business, the chapter discusses the interaction of discursive power with the other dimensions of power, its vulnerability as well as the limits imposed on agency by systemic determinants of discursive power. In the end, the analysis suggests that the discursive power of business is significantly increasing, although it is far from uncontested.

Finally, Chapter 7 summarizes the analysis and discusses its implications for politics and policy as well as future research. It starts by reviewing the main argument and findings. It next ponders the implications of the core results for the general understanding of the role of business in global governance. Subsequently, the chapter extends the discussion of implications to broader political and scientific questions. Here, the chapter highlights implications for regulatory frameworks as well as for business's political self-understanding and responsibility. On the research side, the chapter points out analytical and empirical questions that can be identified as particularly worthy of further inquiry on the basis of the present analysis. The chapter concludes with a brief outlook.

Concluding Thoughts

The question of the political role of business and its implications is located in highly controversial terrain. Any study pursuing an inquiry in this field has to tread very lightly and still is likely to be accused of ideological bias. The present analysis aims at taking a balanced approach. While coming down on the side of a substantial influence of business on politics, it does not claim that business in general or TNCs in particular have complete control over the world or win every political contest. In fact, in the case of highly visible and contested short-term political struggles, civil society may well be the decisive voice. Moreover, the fate of individual business actors is subject to global competition and at the mercy of the decisions of consumers and investors, in particular institutional investors.