The Private Side of Global Governance

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Globalization is not new.1 People have exchanged ideas, goods and services across borders for centuries. The modern state system owes its development in part to the existence of firms that financed territorial and human conquest, settlement, infrastructure-building and development of financial services, communication and transportation links. What is different is the pace and density of contemporary globalization, and the changing normative consciousness of the stakes involved in this process.

The speed at which funds, ideas, goods, services and people cross borders dramatically accelerated in the late 20th century. Literally trillions of dollars in commerce take place daily, instantaneously via “real-time” electronic transfers of funds.2 Today, the annual earnings of the world’s largest companies dwarf the gross domestic product of many less-developed countries. Ideas about who benefits and loses in the process of interaction among states and firms have also begun to change, as income gaps between nations and among people within them widen.3

Karl Polanyi first warned of the risk of distorting the balance between social and market forces in the 1950s.4 Protestors who have massed outside meetings of public and private sector leaders—such as the World Trade Organization’s Third Ministerial at Seattle or the World Economic Forum at Davos, Switzerland—have echoed his concerns. This article explores the challenge of global economic governance in the 21st century. Although states and public institutions are likely to retain a key role in such governance, this article makes the case for new thinking about the role of non-state actors, such as, private businesses and nongovernmental organizations (NGOs)—actors on the private side.

There are several key terms used in developing this argument. Discussions of global governance have traditionally been state-centric, focused on the management of peace...
and development among states. They have focused on global rules, norms and institutions primarily developed by states and for states. This article departs from the state-centric focus and analyzes instead the role of business and civil society actors in global economic governance. The public sector is the governmental sector; it is the arena of the state. The private sector is the business or “for-profit” sector, and is the arena of the market.

Civil society is a very contested term. I define it here as the non-state, non-market sphere of human interaction. Civil society can include a wide range of actors—unions, churches or NGOs, like the Red Cross or Girl Scouts, to name a few. Some typologies include private sector actors within civil society, based on the argument that any entity that is not part of the state sector is part of civil society. However, here business is not included within the larger category of civil society.

The title of this article is thus a play on words: the “private side of global governance” centers on business—but the article also touches on themes related to how civil society actors interact with business, and discusses the shared challenges facing these non-state actors. The following concepts are integral to those challenges.

Representation is the process by which some individuals select others to take their place in formal decision-making. Who represents whom (and how adequately) in the process of decision-making on global economic issues is a key issue discussed in this article. Legitimacy means conforming behavior to recognized principles or accepted rules and standards. For global governance to be legitimate, Robert Keohane has argued, actors and institutions must “facilitate persuasion rather than coercion or reliance on sanctions as a means of influence...voluntary cooperation based on honest communication and rational persuasion provides the strongest guarantee of a legitimate process.”

Accountability is synonymous with responsibility—the ability to answer for one’s conduct and obligations. At the global level, accountability is “not necessarily electoral, so it is essential to explore other forms of it if we are to increase accountability in global governance.” Global economic decision-making is no exception. Finally, transparency, in the context of governance, refers both to a lack of corruption and to an overall degree of openness to actors outside a given institution.

Questions of representation, legitimacy, accountability and transparency are as significant for the companies that drive the process of globalization as they are for the public institutions traditionally charged with regulating trade and finance or disbursing development funding—such as the World Trade Organizations (WTO), the International Monetary Fund (IMF) or the World Bank. Citizens groups that criticize business or government for how contemporary globalization is unfolding also face questions about their own representativeness, legitimacy, accountability and transparency. All of these actors share an interest in a global economy that is at minimum stable and at best, equitable. This article explores the institutions, mechanisms and principles integral to the private side of global governance by taking up the following questions in turn:
How have international organizations traditionally managed relations with the private sector—and why and how are those relationships changing?

What might be the future normative framework for the private side of international organization?

**Post-World War II Institutional Architecture and Beyond**

International organizations were traditionally state-centric, with sovereignty as the central organizing principle. Those related to international economic decision-making are no exception, although the International Labour Organization (ILO), created in 1919, includes unions and business associations as members alongside states. However, other types of non-state actors do not have a formal role in debate there. The Bretton Woods Institutions—the World Bank and International Monetary Fund—as well as the United Nations Economic and Social Council (ECOSOC) are states-only membership organizations. Their distinct voting procedures (weighted by financial contribution in the Bretton Woods institutions versus one-nation-one-vote in ECOSOC) have meant that industrialized states have tended to favor the Bretton Woods bodies, while developing countries and their advocates have pushed to shift the locus of decision making to ECOSOC or the UN Conference on Trade and Development (UNCTAD).

The WTO, created in the late 1990s to manage global trade, continues in the traditional vein: it is state-centric and does not have a formal mechanism for involving civil society in debate, oversight or evaluation of its work. The need for an institution to manage global trade is evident: the volume of private capital flows (both foreign direct investment and portfolio flows) dwarfs public development funding by a ratio of 4 to 1. Restrictions on trade costs developing countries $100 billion a year—twice what they receive in aid. Investment remains concentrated within roughly a dozen developing countries, and it significantly impacts sectors previously protected or subsidized by states, rich or poor. Yet the WTO does not have an explicitly pro-development mandate.

Critics charge that decisions within the WTO are weighted in favor of the industrialized countries that control global market share. Many view it as the capstone in a decade of trade policymaking that has resulted in similarly lopsided agreements in favor of business interests—agreements that come at the expense of state autonomy and civil society interests. Others criticize the lack of environmental and social/labor standards attached to WTO policymaking. Many of these critics staunchly opposed the Multilateral Agreement on Investment drafted by the Organization for Economic Cooperation and Development (OECD) in the mid-1990s and were able to quash its passage. The WTO was able to dismiss such opposition—until the Third Ministerial meeting at Seattle, which was completely stalled in the wake of popular opposition in the streets and North/South divisions inside the negotiating halls.
The debate over “free and fair” trade is lengthy and evolving and will not be recapitulated here. However, it is useful to point out that many commentators conflate concerns over free trade with those over “globalization” writ large. The two are related, but distinct. Some have argued that globalization has irrevocably changed the nature of the international system. As they see it, the state has been eclipsed as the central unit of analysis and in fact, private firms, business organizations, civil society organizations and other non-state actors have rendered state-centric politics a thing of the past. However, others argue that states not only maintain a key role in shaping the global trade and commerce arena through national-level regulation, but also may be able to shore up welfare state institutions through alliances with labor and by creating buffers to the “market-generated inequalities of risk and wealth” that are central to globalization.

I raise these two sides of the “globalization debate” not to defend one or the other, but simply to point out that this is a time of institutional redefinition and renegotiation. Debates over the role of the state in economic globalization, and trade in particular, are central to this process. The reason such debates have taken on increased importance—and the reason they are the subject of nightly news and public protest—is because the stakes are higher. The very instantaneousness of global economic integration, which distinguishes today’s globalization from that of the 17th or 18th centuries, means the risks are higher.

The interests of rich and poor alike are at risk from local, regional, global economic instability and attendant social ills. The Mexican bailout of 1994, the Asian economic crisis of 1997 and its reverberations in Russia and Brazil, the Argentine economic implosion of 2001, all up the ante of global trade debates. Our interconnected financial system, media, popular culture and communications infrastructure (the cellular and internet revolutions) mean that average people want a voice in global economic decision-making. The tens of thousands who massed at the WTO’s Third Ministerial in Seattle were but one segment of a larger set of movements and networks involved in activism on global economic governance. Will international organizations be restructured to better manage the private side of international organization? If so, how?

A NEW ROLE FOR CIVIL SOCIETY

Over the past three decades, from the late 1960s onward, citizens demonstrated that they wanted a stake in writing history—rewriting existing laws, setting new precedents for participation and shaking up hierarchies. These pressures reverberated within international institutions, resulting in a significant increase in the number of NGOs accredited to (or by) the United Nations—along with subsequent struggles over who the mainstream NGOs represent, at the UN and beyond. The prevalence of civil society networks and their dynamic activism has marked the nature of global economic, political and social
Together, NGOs and their larger networks pushed UN member states to agree to host a series of conferences during the 1990s. The conferences addressed central themes in the post-Cold War era: environment (1992, Rio de Janeiro); population (1993, Cairo); human rights (1994, Vienna); social development (1995, Copenhagen); and gender (1995, Beijing). The impact of these conferences on soft law has been significant. The creation of conference declarations and corresponding “Programmes of Action” has enlarged the scope of customary international law and changed the nature of domestic, regional and international policy discourse. The conferences also gave civil society groups a venue to meet, greet, refine their demands and develop strategies for lobbying in UN settings, national legislatures back home and to corporations.23

These same empowered activists are demanding that decision-making on global economic issues in the 21st century be marked by a similarly participatory process. Are they doing so in vain? States may resist the involvement of NGOs in fiscal policymaking, but the growth of the global movement for corporate social responsibility has shown that activists can put their money where their mouths are, and are moving public policymakers and business leaders to do the same.

From Shareholders to Stakeholders: A Significant Shift

The challenge of balancing state, market and social interests is not new. However, it is increasingly complex. As the task of doing business in a global marketplace intensifies with ever more demanding consumers, corporations have made special efforts to move from an operating model based on shareholder value to one based on stakeholder value. Such a conceptual shift means that not only shareholders (those who own stock in a company) but also stakeholders (consumers and communities affected by corporate decisions) have comparable influence on private sector decision-making. Considerable constraints—both legal and procedural—make this shift difficult. Much still depends on a corporation’s voluntary demonstration of “good will,” but the stakeholder paradigm has been steadily gaining ground.24

Corporate divestiture from South Africa helped bring down the apartheid regime. So-called green investing has helped stimulate the creation of environmental management and auditing industry—along with a host of corresponding standards commonly accepted across national frontiers, such as the ISO 9000 or SA 8000 standards. In the United States alone, of all the money that is professionally managed, one out of every eight dollars is now “socially invested” in a portfolio vehicle that is screened using environmental or social criteria.25 Throughout the world, corporations have begun to change exploitative labor practices central to overseas contracting and manufacturing in the wake of consumer backlash against sweatshops. The “fair trade” movement continues to grow, with small-scale cooperatives and individual businesses in developing and industrialized countries alike, producing goods for a niche market of consumers who seek products made in
a holistic and responsible manner. The “micro-credit” industry, which began as a program to help poor people in Bangladesh obtain small loans, has burgeoned over the past two decades into an industry involving borrowers in scores of countries and some of the largest banks in the world.26

Within international organizations themselves, social entrepreneurism is the watchword. Private sector business leaders such as Ted Turner and Bill Gates have pushed states to meet multilateral budgetary commitments and to tackle the challenge of basic disease prevention that would otherwise have gone unmet. Corporations have contributed vaccine patents, supplies in-kind and corporate philanthropy funds to public/private partnerships for development worldwide—both to projects channeled through international organizations and to direct partnership efforts with NGOs.27

Skeptics worry that such good works are sheer influence peddling. They fear that the same corporations that partner with the UN or NGOs are actually seeking to buy access or legitimacy in order to rewrite the rules of global corporate governance. The controversy over the Secretary General’s Global Compact with the Private Sector is central to this heated debate.28 As long as regulation is still perceived as a “cost” by many businesses, critics argue, the race to the bottom will continue as companies seek lower wages and regulations in an effort to out-price the competition—responsible consumers notwithstanding.

Despite such skepticism, dialogue between business, government and members of civil society has continued. In fact, it intensified in the 1990s as public and private policymakers alike identified poverty and social exclusion as “security threats.”29 The challenge of providing “global public goods”30—such as protecting biodiversity or shoring up financial market stability—offered a starting point for dialogue. The terrorist attacks of 11 September 2001 drove home the value of a safer, more equitable world. Shared decision-making on global economic governance offers a foundation for shoring up our common welfare. Democracy starts at home, but the scope, and consequences, of global economic decisions often extend far beyond national borders. Are there shared norms that could guide joint thinking and action on these issues?

Normative Framework

Two core concepts will shape the future framework for decision-making on the private side of international organizations: democracy and rights. How these concepts are defined and implemented will determine who participates in global economic decision-making, and what the criteria are for making and distributing profit.

Democratic governance is a balancing act: participants have both rights and responsibilities. Representative government is based on the idea that citizens have a right to take part (directly or through their representatives) in collective decision-making as well as a responsibility to uphold the laws and contribute to the society of which they are part. Adam Przeworski defines democracy as institutionalized uncertainty: in a democracy, out-
comes cannot be determined ex ante nor reversed ex post.\textsuperscript{31}

The challenge is to extend some of the core principles of participatory democracy to the business and civil society arenas in ways that are both practical and appropriate.\textsuperscript{32} Corporations aren’t human beings, yet they operate in a social setting. People, in turn, aren’t citizens of corporations—so they don’t have an automatic seat at the corporate board table. But the uncertainty of the democratic process has begun to be factored into corporate planning. Locating projects, creating and removing jobs and sharing profits, among other corporate decisions, all influence social as well as business outcomes.

How should business leaders choose among the many stakeholders clamoring for a seat at the table? Which NGO, union or other group best represents the interests of the local community affected by a decision to build (or close) a plant, for example? The challenge of proving their legitimacy and accountability is as significant for civil society organizations as it is for corporations.

The notion of rights will be central to determining how global economic governance evolves beyond the profit motive. Property rights are among the best enforced, and corporations are expert at insisting on corresponding state guarantees. But what about other rights? The United Nations Declaration of Human Rights, the half-century old frontispiece of international human rights law, includes civil, political, economic, social and cultural rights. Throughout the Cold War, these rights were politicized. They fell into two “camps” just as nation states did. The West championed civil and political rights and the East championed economic, social and cultural ones. The end of the Cold War has helped narrow this gap, at least rhetorically. But there remains a considerable gap between rhetoric about economic rights and the shift in public or private institutions and practice.\textsuperscript{33}

Not surprisingly, international law remains stronger on the civil and political side and more dynamic. ILO conventions and a burgeoning host of corporate codes of conduct have served as useful benchmarks for measuring progress on civil and political rights aspects of labor rights—but less so on economic or social rights aspects. Human rights NGOs, in turn, have tended to focus on protecting civil and political rights abuses in the workplace, instead of promoting broader economic development and social justice aims. Will an equally strong framework for addressing economic and social rights concerns evolve in the future?

There are precedents for litigating against corporations across borders on civil and political offenses (the metaphorical stick used to improve corporate social performance).\textsuperscript{34} Voluntary performance standards offer carrots. But what, if any, comparable carrots or sticks exist to ensure responsible practices on the part of NGOs as they increasingly demand a role in global economic governance? Should the traditional institutions of global economic governance— institutions in the public arena, such as the World Bank, IMF or WTO—play a role in setting standards, litigation or sanctioning either businesses or NGOs? These questions beg the larger issue of whether public, private and civil society
actors will be adversaries or partners in the process of global economic governance as it continues to unfold.

The traditional “economic” role of institutions on the public side of global economic governance has been in meting out official economic development assistance—not managing or mediating private sector activity. But new definitions of development and human security have pushed public institutions into uncharted terrain. Economic development—defined by the UN Development Programme as the process of expanding human choice—is linked to the emergence of the human security paradigm. Military security alone can no longer guarantee safety or enhanced choices. Citizens of industrialized as well as developing countries face the dilemma of increasing gaps in equity and the unrest they breed. This is expressed in common crime, international terrorism, drug trafficking and environmental destruction. These conditions are bad for governments, bad for business, bad for NGOs and bad for the people they all serve.

The challenge is to find concrete ways to foster greater legitimacy, accountability and transparency on the part of all actors involved in decision-making on our global economic future. Ignoring the private side of global governance is no longer an option.


2 Jeffrey Frankel, “Globalization of the Economy,” in Governance in a Globalizing World, Joseph S. Nye and John D. Donahue, eds. (Washington, DC: Brookings Institution Press, 2000): 57. Notably, Frankel argues that contemporary economic globalization is actually not as extensive as it was in 1900 (despite a marked increase in the speed of exchange) nor is the process of global economic integration by any means complete.


8 Webster’s Ninth New Collegiate Dictionary, 50 and 1,005.

9 Keohane (2001): 9. Markets provide a key “dimension of non-electoral accountability. Since people do not bring equal wealth to the marketplace, markets are not democratic. But they do hold firms and other institutions with hard budget constraints accountable to their consumers and investors in ways that are often more rapid and effective than electoral democracy. Advocates of
principle-based change have learned to use markets on issues as diverse as promotion of infant formula in poor countries, environmental protection, and labor standards.


12 Robert Keohane and Joseph Nye argue “[t]he question is not – will globalization be governed – but rather, how will globalization be governed?...We believe that the nation-state is being supplemented by other actors – private and third sector [i.e., nongovernmental] – in a more complex geography...More nuanced approaches to transparency and accountability of both international institutions and networks will be an important part of understanding global governance...legitimacy will depend on the popular views that international governance practices are consistent with democratic norms” (emphasis the original). Robert O. Keohane and Joseph S. Nye, Jr., “Introduction,” in in Governance in a Globalizing World, Joseph S. Nye and John D. Donahue, eds. (Washington, DC: Brookings Institution Press, 2000): 1, 12, 37. For an innovative discussion of strategies for government, business and NGO collaboration in global economic governance, see David Detomasi, “International Institutions and the Case for Corporate Governance: Toward a Distributive Governance Framework?” Global Governance 8, no. 4 (October-December 2002): 421-442.


16 Ibid., 9.


27 The Foundation Center, a New York-based clearinghouse for information on public and private philanthropy, provides links from its website to a bibliography on trends in corporate philanthropy: http://fdncenter.org/research/inps/newacq/corp.html


32 As Keohane and Nye argue, a “fundamental problem of multilateral cooperation and democratic governance is how to increase transparency and accountability without subjecting all deals to deconstruction and unwinding.” See Keohane and Nye, in Nye and Donahue (2000): 29.
