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Philipp Aerni

Global Business in Local Culture

The Impact of Embedded Multinational Enterprises



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Preface

I was in my early teens when my teacher, a member of a radical Swiss left-wing party, encouraged me to ask critical questions about the foundations of our affluence in Switzerland. I agreed with him that our wealth must be related to the widespread poverty elsewhere. In other words, he convinced me that international trade and Foreign Direct Investment (FDI) must be a zero-sum game that merely benefits one party at the expense of another, reflecting the nature of capitalism as a system of exploitation. It also made me believe in our obligation to make up for the damage we cause elsewhere by giving generous financial support for overseas development assistance.

Only when I wrote my Master thesis in Geography in the mid-1990s on the problem of indebtedness of mountain farmers involved in commercial agriculture in Guatemala, I realized that the situation is more complex. Foreign aid is not necessarily the solution but can also be part of the problem, whereas FDI is not necessarily the problem but can also be part of the solution.

Yet, when I presented the findings of my field research to my thesis advisors in Geography and Economics back home, they were not impressed. They especially disliked the fact that, based on my prior inductive field research in Guatemala, I developed my own hypothesis on the circumstances that increase the risk of farm households to become indebted. I empirically tested this hypothesis through a representative farm household survey and data provided by the cooperative that supported the selected farmers. The results were not in line with the theories neither in development economics nor in human geography. I believed that the inconsistency between theory and empirical evidence on the ground was related to the fact that the theories were developed during the Cold War period, when ‘development cooperation’ still served a concrete purpose of foreign policy, namely to ensure that a client state in the Global South will not suddenly change sides in the global confrontation between the two superpowers, the United States and the Soviet Union, and their respective allies.

The situation in the 1990s was very different because the bipolar turned gradually into a multipolar world order. At the same time, the start of the digital revolution made it easier for low-income countries to catch up, provided that governments

created the necessary enabling environment to attract long-term investments from Multinational Enterprises (MNEs) that were also willing to embed themselves into the local economy. The digital revolution also made it easier for watch dog organisations to detect and publicize corporate abuse. The resulting global knowledge-based economy did not necessarily become more stable but it definitely contributed to the economic empowerment of many countries that previously belonged to the very poorest in the world. The economic rise made it possible for many of these emerging economies to not just compete with the established western economies and Japan, but also to pursue their own, economically more pragmatic type of development assistance through South-South Collaboration.

These changes in the real world economy did however hardly affect the curricula in social science disciplines such as economics or human geography. Economics continues to define itself as the science of the optimal allocation of scarce resources even though the resource ‘knowledge’, the foundation of today’s global knowledge economy, is not scarce. Unlike scarce material goods, knowledge is an intangible good that does not decrease but actually increases in value, the more it is used, as Paul Romer, nobel prize winner in economics in 2018, pointed out. Since entrepreneurs are the ones that make use of new knowledge to create innovations that help address scarcity problems, they play a crucial role in enabling sustainable change in the 21st century. Entrepreneurs remain however a black box in economics.

Human Geography, in return, may use a different jargon but continues to be guided by the baseline assumptions of Cold War theories that dealt with the cultural legacy of the former colonial rule to explain ‘underdevelopment’. Such theories tend to frame low-income economies per se as ‘vulnerable’ in the global system of economic exchange. To label its people ‘vulnerable’ has however the implicit consequence of denying them the role of active economic agents beyond their neighbourhoods. As passive victims of external economic shocks, they must be supported through effective resilience strategies recommended and funded by foreign experts. The result of these well-meant external interventions is often more economic dependence, not less.

So why do these theories remain so popular? Maybe because the assumption that economic globalization is either a zero-sum game or merely creates tiny efficiency gains through trade at the expense of large negative social and environmental externalities, sounds intuitively right. The economic historian and well-known critic of economic globalization Karl Polanyi, who coined the term ‘embeddedness’ in academic literature, described this negative effects of economic globalization for local people already in 1944 in his book ‘The Great Transformation’. His early warnings about the dangers of unbridled market forces for locally embedded economic systems resonate well with many contemporary social scientists concerned with Trumpian authoritarianism, the global systemic risks of capitalism, business and human rights, and social inequality.

Yet, once we recognize that global trade and FDI are not zero-sum games, like war, or, in most cases, the former military-backed neo-colonial rule, Polanyi’s anti-globalization narrative appears less adequate to explain the complex challenges we face in the 21st century. All the concerns are real, but they will not go away by

simply protesting or by advocating a return old models of social utopia that failed in practice. Instead, there is a need for adjusting and combining social science theories so that they become more responsive to today's global realities; they must build upon a contextual and dynamic understanding of sustainability in order to provide a fruitful theoretical foundation for sustainable collective action designed to not just minimize the external risks but also harness the external benefits of private sector investment for society and the environment.

The present book challenges the simple distinction made by Polanyi and his contemporary disciples between the 'desirable' local versus the 'undesirable' global. At the same time, it proposes an alternative interdisciplinary social science approach that draws on insights from economic sociology and business research. It illustrates under which institutional framework conditions, global business with a commitment to local embeddedness may become less of a risk and more of an opportunity to local economic empowerment and cultural renewal.

Yes, MNEs are free to choose where to invest, and they tend to pick locations where production costs are low. However, many of them are also aware that their investments do not take place in a vacuum. If MNEs only feel accountable to stakeholders elsewhere, they may eventually face a local legitimacy problem. In this context, a commitment to 'principled embeddedness' may help address external concerns about compliance with principles of responsible investment as well as local concerns about inclusive growth. An MNE may generate inclusive growth as a side-effect of its interest to embed itself into the local economy and culture. Its local engagement may also enable the MNE to gain local trust in the form of social capital, which increases its local acceptance and thus helps securing its license to operate.

However, embedding a global company in local business is fraught with cultural misunderstandings as well as economic risk and uncertainty, especially in low income countries. It may also require a significant amount of investment in the upgrading of local skills, capacities and infrastructure, as well as efforts to reconcile local cultural habits with the necessity to comply with the formal rules of global business. In this sense, MNEs alone may not have the means and the competences to succeed; they depend in this endeavour on local partners in government, civil society and the private sector. If these local stakeholders help the MNE succeed in this venture, they also contribute to a considerable amount of external social benefits that result from embedded FDI. These indirect benefits for the local people and their environment go far beyond of what is called 'spillovers' in economics. After all, an embedded MNE does not just bring material goods into the country of destination but also knowledge and know-how as well as access to global networks and capital. These non-tangible resources are an essential condition for inclusive and sustainable change, a central objective of the Sustainable Development Goals (SDGs) of the United Nations (UN). They are a driver of economic integration provided that society supports the selective hybridization of global business and local culture.

A major obstacle to more sustainable global economic integration is the defensive framing of sustainability in postmaterialist societies in general and academia in particular. It is expressed in the popular concern that global economic growth poses a mere threat to local sustainability and human rights. The UN

Guiding Principles on Business and Human Rights (UNGPs) illustrates this with its ‘do no harm’ requirement for MNEs. It ignores that MNEs may also have a potential to directly or indirectly enhance access to essential human rights such as right to food, water, shelter, education, health etc through their local investments. After all, they often represent economic powerhouses in the respective region that provide local jobs and enhance business opportunities for local entrepreneurs. The result is an increase in local income per capita, which automatically enhances access to essential goods and services. Yet, neither the UNGPs nor the OECD Guidelines for Multinational Enterprises, that have been translated into national action plans for business and human rights, suggest to balance the potential risks against the potential benefits in human right impact assessments of MNEs in low income countries.

The on-sided focus on risk avoidance results in a global compliance and due diligence bureaucracy mainly concerned with corporate reputation management. The focus on preventing risks tends to discourage investments in local entrepreneurship and innovation in high-risk economies in the Global South that would desperately need more investment. This is however of little concern to anti-globalization activists who envision the restoration of something better that they believe must have existed prior economic globalization. As media savvy ‘epistemic brokers’ their globally coordinated protest actions provide meaning and orientation by converting complex local stories of resistance into simplified and dramatic mythical accounts of ‘big business’ versus ‘the people’. By doing so, they often misrepresent the demand for inclusive growth that has mobilized local people in the first place. In other words, they deprive local people of their voices while claiming to represent their concerns. With their often divisive and inflammatory language they also discourage effective cooperation between civil society and the private sector, as envisioned by SDG 17 on the creation of a global partnership. The fact that many of these anti-globalization celebrities nevertheless obtain honorary doctorates from social science departments at prestigious universities, is another indication for the existence of a serious crisis of theory in the social sciences.

The book proposes to overcome the popular anti-globalization narrative by telling an alternative story of globalization. A story that is told by the local people in low income countries that have made an experience with global business. This experience may sometimes be positive, and sometimes negative, but it helps to reach a more differentiated view that also restores agency to the local people. Once their voices are heard in postmaterialist societies, it may initiate a reflection process that will also impact the willingness of academic, non-government and government institutions to abandon old but cherished stereotypes and instead embark on pragmatic collective action with the private sector.

The arguments and policy recommendations in this book about the impact of embedded MNEs, the facilitating role of development assistance and the potential of academic research and civil society to better contribute to the SDGs are based on insights from interdisciplinary social science research and illustrated by means of selected business case studies of MNEs operating in low-income countries. They highlight the challenges and opportunities of embedded MNEs and how they can

contribute to the achievement of the SDGs, if committed to responsible local investments and supported in their embeddedness strategy by local institutions.

The motivation to write this book is to a great extent rooted in my personal biography as a human being who believes in the moral obligation to ask critical questions, and as an interdisciplinary social science scholar who is alarmed about the trend in the social sciences to return to strictly disciplinary academic careers—even in times when the demand for interdisciplinary knowledge and field research is increasing in society worldwide.

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Acronyms

ACRE	Agriculture and Climate Risk Enterprise (ACRE)
AoA	Agreement on Agriculture
ATDF	Africa Technology Development Forum
B2B	Business to Business
B2C	Business to Consumer
BSCI	Business Social Compliance Initiative
CCRS	Center for Corporate Responsibility and Sustainability
CIME	OECD Committee on Investment and Multinational Enterprises
CORBANA	Corporación Bananera Nacional Corbana
COSA	Committee on Sustainable Agriculture
CSR	Corporate Social Responsibility
CTI	Swiss Federal Commission on Technology and Innovation
DA	Development Assistance
DFID	UK Department for International Development
ESG	Environment, Social, Governance
ETH	Swiss Federal Institute of Technology
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FOAG	Swiss Federal Office of Agriculture
GBF	Grain Bulking Facility
GDP	Gross Domestic Product
GI	Geographical Indication
GiZ	German Group for International Cooperation
GM	Genetically Modified
GMOs	Genetically Modified Organisms
GVC	Global Value Chains
ICIJ	International Consortium of Investigative Journalists
ICT	Information and Communication Technologies
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund

IP	Intellectual Property
ISO	International Organisation for Standardization
MDGs	Millennium Development Goals
MNC	Multinational Corporation
MNE	Multinational Enterprise
MRV	Measurement, Reporting, Verification
NBL	Nile Breweries Limited
NCPs	National Contact Points
NGO	Non-Government Organisation
NIMBY	Not In My Backyard
NRP	National Research Program
OECD	Organisation for Economic Co-operation and Development
ORT	Oral Rehydration Therapy
PPP	Public Private Partnership
R4D	Research for Development
RA	Rainforest Alliance
SAN	Sustainable Agriculture Network
SDC	Swiss Development Cooperation
SDGs	United Nations Sustainable Development Goals
SECO	Swiss State Secretariat for Economic Affairs
SMEs	Small-and medium-sized Enterprises
SNSF	Swiss National Science Foundation
TAP	Tropical Agriculture Platform
TFA	Trade Facilitation Agreement of the WTO
TFP	Total Factor Productivity
TRIPS	Trade-Related Aspects on Intellectual Property Rights
UNCTAD	United Nations Trade and Development Conference
UNDP	United Nations Development Programme
UNGP	United Nations Guiding Principles on Business and Human Rights
UP	Uttar Pradesh
USAID	United States Agency for International Development
UVAMA	Uganda Value Added Maize Alliance
VAC	Village Aggregation Centers
WEIRD	Western, educated, industrialized, rich and democratic
WHO	World Health Organisation
WTO	World Trade Organisation
WWF	World Wild Life Fund