

MULTILATERAL DIPLOMACY
AND THE
UNITED NATIONS TODAY

SECOND EDITION

Edited by

James P. Muldoon, Jr.

Jo Ann Fagot Aviel

Richard Reitano

and Earl Sullivan

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PRIVATE-SECTOR DIPLOMACY: THE ROLE OF BUSINESS IN INTERNATIONAL ECONOMIC AFFAIRS

Jeremy S. Taylor

*in Roth and
in: Roth and
Marshall in
Public Diplomacy*

Even after twenty-five years of experience with international business—first as a student of international affairs; then as a banker in global corporate finance; then as a partner in a data, research, and reporting firm in the leveraged markets; and finally as both the president of an executive search firm specializing in international financial markets and a consultant in an international practice—I still find the intricate and evolving relationship between business and society fascinating as well as challenging to master. Ascertaining the role of business in today's globalized, wired, networked society has become one of the most hotly debated issues of our time. Business leaders, policymakers, and civil society groups are engaged in a complex process of redrawing the boundaries of the public and private sectors and redefining relationships. The international political economy is in the midst of an incredible transition, and international business is a key player in the process.

PRIVATE-SECTOR DIPLOMACY

Although the role of business in society has been a subject of much debate since the creation of joint-stock companies in the eighteenth century, the intense scrutiny of global capitalism and transnational corporations in this era of globalization indicates a significant qualitative difference in the status of business in the global system. The "soft power" of the private sector in the world economy and world politics has clearly expanded. Globalization, in the broadest sense of the term, has elevated the profile and clout of international business within the burgeoning constellation of nonstate actors in contemporary international relations. International business can no longer downplay its political influence, ignore the social and ecological consequences of its activities, nor dismiss as irrelevant the responsibilities that naturally emanate from power.

The growing influence of businesspeople in international economic relations is reflected by the greater participation of private-sector leaders in international forums, private and public, that address regulatory or legal issues of market creation, international trade and finance, employment, and intellectual property and other global issues with broad environmental, social, and distributive implications. Since the mid-1990s, a whole new generation of international public policy forums, industry associations, and consultative bodies has been created that enable the private sector to advance their interests and increase influence in the international arena. Through international business associations such as the International Chamber of Commerce (ICC) and the World Business Council for Sustainable Development, international business has been able to "affect the outcomes of issues on the international agenda by inserting themselves at critical points in policy processes," to preempt "national and international legislation and regulation through adoption of self-regulation and standards-setting," and to deepen "already close relationships with national governments and regional and global institutions" (Hocking and Kelly 2002, 205 and 218). The conventional view of the role and responsibilities of business in society—simply to produce goods and services and to sell them for a profit—doesn't really fit the new global reality as national and local economies further integrate with the global market economy.

Ambrose Bierce once defined politics as the "strife of interests masquerading as a contest of principles"; so, might I add, is much of what appears as the global agenda for corporate citizenship and social responsibility. It is only in forums where these conflicting agendas and interests can be realistically addressed that progress, however incremental, is made. My purpose here is not to defend or justify the role that business plays in multilateral economic diplomacy and public policy. Leaders in the private sector have for hundreds of years been and still remain essential participants in economic and social development.

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tasks*

demonstrate how private-sector diplomats play vital roles in the economic, financial, political, legal, social, and strategic agendas of both the state and the international community.

It should be remembered that merchants were among the first diplomats, connecting peoples and economies as they ventured across frontiers in the pursuit of spices, gold, and other profitable commodities. Since the beginnings of civilization, merchants have traveled far and wide, plying their trade and often acting as emissaries of their rulers to foreign heads of state. It was an arrangement of convenience, as well as of mutual benefit. From the earliest times, merchants have been adept at coopting governments to act in their interest. Mercantilism was just such a partnership. Although mercantilism flourished in the seventeenth, eighteenth, and nineteenth centuries, there were earlier examples of mercantile policies. Venetians were seafaring commercial brokers who, in 1380, gained mastery of the seas by defeating the Genoese, the only other major European sea power. It was the commercial aspiration of the Venetian merchants to control the lucrative trade of the Adriatic that drove their government to war.

Likewise, centuries later the British and other Western merchants drove expansion of markets in China. They used their economic power and the seduction of expanding commercial opportunity to influence their governments to take military action against the Chinese in order to force open markets. The Opium Wars of 1839-1842 and 1856-1860 were the result. The first was a consequence of China's decision to outlaw the importation of opium by the merchants. The Chinese lost, and Western merchants won an expanded entree to China's markets. The second war furthered the interests of the West, legalized its highly profitable trade in opium, and expanded both its rights and its access. Indeed, there are many examples throughout history of merchants' convincing their governments to take military action on their behalf, thereby redefining both domestic and international economy in what has become known as gunboat diplomacy.

But to influence today's global economy is a much more complex enterprise for business. The infrastructure of trade policy, governmental and multilateral bureaucracy, and the complexity of international financial markets, not to mention the proliferation of interested parties (stakeholders), require leaders of international business to marshal more information utilizing more sophisticated skills than ever before. Indeed, the very survival of companies, industries, and countries depends on the abilities of their leaders to grasp today's global political and socioeconomic realities and to influence events in the world marketplace. Economic globalization has elevated the significance of decisions made and strategies formulated in corporate boardrooms and executive suites. The prosperity and stability of sovereign states and of the international economic system are increasingly

tied to the fortunes of and actions taken by private commercial and financial institutions.

Some of the largest international financial service institutions are spending more and more of their resources on evaluating and attempting to mitigate the risks associated with doing business, whether domestic or international. Credit risk, market risk, foreign exchange risk, counterparty risk, sovereign risk, and portfolio risk, to name just a few areas of potential exposure, require familiarity with a very broad range of issues. Business, like government, depends upon professionals with numerate capacity and the capability to compile and analyze information, which in itself requires sophisticated system interfaces, programming, and database management. The challenges facing those analysts in sourcing and analyzing that information, in an increasingly interdependent world, can be monumental. We have had some very sobering examples of the global repercussions that poor management and lax oversight can have on the global economy in the very recent past, for example, the 1997-1998 Asian financial crisis and the WorldCom and Enron scandals. Faulty accounting, specious reporting, and fraud by a number of major multinational corporations have severely affected global markets, eroded trust in accounting standards and management, and, as a result, diminished public confidence in business leadership, corporate governance, and social responsibility.

The fallout from corporate malfeasance of late has renewed the mistrust of big business among social justice, environmental, and community activists and development-oriented nongovernmental organizations, representing a diplomatic setback for those business leaders who have embraced the social responsibility agenda and have been at the forefront in building a new relationship with international organizations and erstwhile critics from the NGO community. "Many development organizations are deeply skeptical of the apparent conversion of business [to the development agenda], and fear that the fast-emerging fields of corporate social responsibility, public-private partnerships and the like is little more than a public relations exercise. Many still believe the only way to bring business into line is through the establishment of global rules, such as are being discussed in Geneva" (Turner 2004a, 2). Nevertheless, the globalization of economies, business enterprises, and financial markets is bringing about a convergence of the interests of government, business, and civil society in many parts of the world, and new and evolving forms of partnership are on the rise. This trend deepens the business community's participation in the diplomatic process of international economic affairs, particularly as governments rely more and more on markets to "regulate" the global economy and look to the private sector to strengthen the economic relationships between countries. With increasing stakeholder

pressure on international business to assume broader social, development, and environmental responsibilities, business executives are discovering that to successfully manage the diversity of stakeholder relationships they must have strong diplomatic skills.

Profile of Private-Sector Diplomacy

Diplomacy is the practice of building relationships. Businesspeople are often so goal-oriented and agenda-specific that they fail to respect the process of culturally specific relationship building, particularly with their business counterparts and the government officials of other countries, not to mention NGOs and social activists. They seem to have forgotten or simply don't know that relationship building in an international context often requires a very different set of sensitivities and skills, not to mention understanding of the unique practices of the culture they are attempting to build relationships in. They need a diplomatic architecture, a framework of standard practices, to function effectively in international forums and meetings. So, what are the skills, talents and sensitivities that produce an effective private-sector diplomat?

The description of the qualifications of a nineteenth-century diplomat in an excerpt from *Embassies and Foreign Courts: A History of Diplomacy*, published in 1855, entitled "Roving English Gentlemen," is both amusing and instructive.

They tell us with a grave and enchanting simplicity that the representatives of a great nation should know something more than how to dine and dance—to bow with becoming reverence, and to modulate his voice in such a manner that it may be heard without offence within the precincts of the court. They very justly set a proper value on the qualifications above mentioned; for a diplomatist can scarcely be useful in his office if he is not also a polished and genial gentleman—a happy mixture of the scholar, the philosopher, and the man of the world. They do not, however, subscribe to an opinion which has been of late years rather too prevalent in Britain—that accomplishment and the graces are alone sufficient recommendations for entrusting to any gentleman the most vital interests—the peace and honor of nations. They do not charitably reject the popular, and, in the main, useful theory as most popular theories are when we examine them fairly that an ambassador should be something of a beau-cavalier—agreeable, witty, gentle-mannered, a clubbable man, indeed; only they think that he should also possess some other qualities and attainments, and that the outward glitter should be the mere setting of the gem within. (*Embassies and Foreign Courts 1855, 38–39*)

This description reflects how the homogeneity of social etiquette and tradition provided the architecture of diplomacy at the time, reminding us that diplomacy is an art that requires a broad international perspective and a foundation of commonality. But today's realities demand a very different set of rules and requirements for the practice of diplomacy.

A "diplomat" in this era of globalization needs to be what Professor Donald G. Tewksbury, a former professor with Teacher's College at Columbia University, called a "mature international person." According to Tewksbury, a mature international person is:

- One who has examined objectively the strengths and weaknesses of his own culture.
- One who is eager to consider seriously what other peoples think of his culture.
- One who is not too sensitive about criticism of his own culture.
- One who is able in traveling, to identify with other peoples and to listen and learn from them.
- One who has experienced and passed beyond the stage of "cultural shock" in relation to cultures that differ sharply from his own.
- One who has personal and friendly relations with a number of persons from other countries on a long-term basis.
- One who has international friends in one's own specialized profession or occupation.
- One with whom persons from other countries can be frank and in whom they may have confidence.
- One who can discuss other cultures without bringing in name-calling, stereotyping and extreme categorization.
- One who does not wish to make over other peoples and cultures in his own image.
- One who is actively concerned with promoting the exchange of contributions between one's own and other countries.

- One who has at least an elementary familiarity with the family of languages and sees his own language as one member of this family.¹

In my opinion, these characteristics of a mature international person are part of the constitution of an effective diplomat today, whether in politics or business, and essential for building relationships of trust. But it is hard to find business leaders who have all or even some of these qualities, not to mention an awareness of their strengths or weaknesses in this regard. Most business school programs are not structured to develop the qualities of a "mature international person" within their students or to instruct business executives on how to handle the growing complexity of relationships in the global economy. As Jeffrey Garten, Dean of the Yale School of Management, points out:

As companies face challenges for which there are no consistent global laws or concrete standards—challenges relating to the environment, labor, business practices, corporate roles in education, and human rights—they must balance their fiduciary responsibility to shareholders in a highly competitive marketplace with considerations that include their own corporate and moral values, their roles in strengthening the society around them, and the rewards and risks to their reputation. The issues are horrendously complex, and virtually no CEO is trained to handle them. But one thing is certain: To make the best judgements, companies must develop cooperative strategies with home and host governments, international institutions, and nongovernmental organizations. . . . A new paradigm for business leadership requires rethinking the basics of business education. We must equip CEOs to manage their companies for short-term profitability but also for long-term value. They must learn to focus not only on the internal efficiencies of their companies but also on the external relationships and policies—including interaction with governments, international institutions, and nongovernmental organizations. Business executives must understand better their overall responsibilities when it comes to the system, values, and culture that drive their global enterprises. (Garten 2002, 15–16)

Emblematic of the changing notions of what constitutes the architecture of diplomacy is two private "diplomacy organizations": Diplomacy International and Diplomats Without Borders/Diplomates sans Frontières (DSF). The premise behind these organizations is the belief that "it is impossible to be a good political leader without having substantive economic and diplomacy skills. It is impossible to be a good business leader without sufficiently understanding international politics and being a good diplomat."

And it is equally impossible to be a good diplomat without understanding the world economy and international business.² Diplomacy International offers a range of practical "diplomatic" services to businesses, international organizations, and nongovernmental organizations, including information gathering, analysis and evaluation, negotiation and mediation assistance, protocol and advice on intercultural relations, and image building and public diplomacy. Likewise, Diplomats Without Borders, which was founded by a group of professionals from the fields of international trade and investment, corporate business, government diplomacy, banking and finance, and the military, defines private diplomacy as "the art and practice of negotiating, mediating, and managing relations between people in a private, nongovernmental capacity" and seeks "to broaden the practice of private diplomacy as a means of building bridges between governments, businesses, and non-governmental organizations (NGOs)."³ These organizations simply illustrate the growing importance of diplomatic skills for meeting the challenges of doing business.

Business and the Diplomacy of Sustainability

The concept of sustainable development has been in one form or another with us for three or four decades.⁴ In 1962, Rachel Carson published *Silent Spring*, which is regarded by many as the first significant cry for attention to the reckless human assault on the harmony of nature. This was followed by Paul Erlich's book *The Population Bomb*, published in 1968, which addressed the relationship between population, resource allocation, and the environment and the 1968 UNESCO Conference on the Biosphere. Both of these books were the first stirrings of what has become a much more integrated and comprehensive discussion of human survival and the human fiduciary responsibility to the planet and to other people. Then came Earth Day in 1970—the first significant large-scale call to action on the global threat to the environment—when some 20 million Americans participated in a nationwide teach-in on the problems confronting the natural environment. This awareness-raising event coupled with the books by Carson and Erlich and the biosphere conference made ecological and environmental issues and concerns the original pillars of the sustainable development movement and the first components of the movement to be addressed and acted upon globally. As John Muir, the naturalist, explorer, and writer, once mused, "When one tugs at a single thing in nature, he finds it attached to the rest of the world."

From the outset, the business community was an obvious target of environmentalists and development activists, who make up the base of the

sustainable development movement. The International Institute for Environment and Development (IIE), established in 1971, was among the first institutions to bring research to bear on the problem of making economic progress without degrading the natural resource base and to present the case for holding commercial interests responsible for their conduct. Over the next twenty years, the pressure on business over its impact on the environment and role in economic and social development intensified, spawning a new cottage industry of governmental and nongovernmental groups that were focused on corporate accountability and corporate social responsibility (CSR).

The business response to the pressure was initially combative and querulous. But as the sustainable development movement gained momentum in the 1980s, particularly after the report of the World Commission on Environment and Development, *Our Common Future* (the Brundtland Report), was released in 1987, the business community started to change its approach, seeking cooperation rather than confrontation. In a way, the sustainable development movement can be credited with shaping private-sector diplomacy and altering the perspectives within the international business community on the value of CSR. The breakthrough moment came in 1992 at the UN Conference on Environment and Development when the World Business Council on Sustainable Development (WBCSD) was formed to coordinate business input at this landmark event.

The WBCSD's vision of the business community's role in sustainable development was outlined in *Changing Course: A Global Business Perspective on Development and the Environment*, which was published by the WBCSD in 1992 in time for the Earth Summit in Rio. Now, a dozen years later, the WBCSD has grown significantly from its original 50 business leaders to an international organization with "170 international companies drawn from 35 countries and more than 20 major industrial sectors, involving some 1,000 business leaders globally," and the "vision of business contributions to sustainable development are now well-established within the WBCSD, and spread through extensive member involvement, stakeholder consultations and research reports tackling the most pressing sustainability issues affecting today's corporate world."⁵ The sustainability issue has become a focal point for the more prominent international business associations like the International Chamber of Commerce and the World Economic Forum and has a permanent place on the international business agenda. The International Institute for Sustainable Development (IISD) argues that "by adopting sustainable practices, companies can gain an edge, increase their market share, and boost shareholder value" and that "business has entered into a new phase in which sustainable business performance is regarded as a global competitive advantage; a catalyst for inno-

vation; a way to capture new market and financing opportunities."⁶ This view is supported by other influential research organizations such as the International Business Leadership Forum (IBLF) and Business for Social Responsibility (BSR). This outlook within the international business community is gaining some traction (though it is still a minority who have truly embraced the sustainability agenda), compelling many business leaders to become involved in public policy discussions on the international level.

Over the 1990s, the part played by business in the diplomacy of sustainability grew. This is evidenced by the proliferation of public-private partnerships and international initiatives. One example of this trend is the UN's Global Compact:

Kofi Annan, UN Secretary General, launched in 2000 the Global Compact, acknowledging the power of global enterprise, but inviting it to enter into a partnership to promote nine core human rights, environmental and labor goals. . . . Over the intervening period it has attracted more than 1,400 participants, making it the largest such grouping in the world. In essence, the compact is a forum for business leaders and civil society groups to discuss how to promote its standards, and asks companies to assess their impact in their annual reports. It is a voluntary organization which does not attempt to set rules, make judgments, or promote its members. (Turner 2004c, 4)

Likewise, the Global Policy Dialogues on issues related to globalization convened under UN auspices have brought together business interests, with UN agencies, labor, NGOs, and other interests to produce solutions.

Of course there are myriad international initiatives—for example, public-private partnerships, global public policy networks, and corporate citizenship and corporate social responsibility programs—that promote both opportunity and communication between business and other societal actors. Some of the more prominent proponents of business leadership in such initiatives include the World Economic Forum, the International Chamber of Commerce, the World Business Council for Sustainable Development, the United Nations Global Compact, the International Institute for Sustainable Development, and the International Business Leaders Forum. However, it must be recognized that only those companies that find that their financial survival depends on playing the citizenship and the sustainability cards will actually play them. Profit, after all, is what companies owe their investors. The highest-profile industries, such as the oil companies and the pharmaceuticals, tend to be among the most scrutinized for their citizenship roles given the important public policy challenges we face

today, and therefore, they have been forced to take corporate social responsibility and sustainable development seriously. Other industries and firms are involved more for PR than for reasons of substantive concern. So, in the final analysis, the success of corporate social responsibility and citizenship will only come on the back of enforced legal sanctions or its irrefutable link to profitability. Signing on to international initiatives accomplishes nothing on its own, so all the lip service to CSR remains largely that.

Nonetheless, business participation in so-called multisector partnerships side by side with international agencies, governments, and NGOs to overcome poverty, disease, inequality, and environmental degradation around the world is growing. These partnerships are "catalytic" strategies in which [both governmental and nongovernmental] actors bring to a policy milieu a differing mix of resources without which neither can their objectives be sustained nor a diplomatic conflict resolved. In turn, this demands the development of appropriate strategies and structures—formal, informal, or a hybrid mix—through which communications can be maintained and successful outcomes pursued" (Hocking and Kelly 2002, 208). It is exposure to and participation in these organizations and the interaction with other organizations involved in international initiatives that produces the private-sector diplomat.

Conclusion

Private-sector diplomacy dictates that business executives play an active role in world affairs. Indeed, all leaders in business must now by definition act on a global stage and practice the art of diplomacy. Diplomacy is the vehicle through which the private sector's role in the emerging global society will be defined and private-sector interests articulated. It is no longer an option for corporate leaders to ignore or deny the importance of social and environmental issues to their companies' bottom line and shareholder value. "If companies do not take account of emerging social, environmental and other trends, they are taking on big risks and could also be missing out on opportunities for growth" (Turner 2004b, 3). Just as commercial interests drove the diplomatic functions of the early European states, those in commercial practice today must develop the awareness, skills, and commitment to the institutions and visions of our time, as well as actively participate in the great questions of the day in helping to drive focus on our commonality of purpose. It is good business, good diplomacy, and, most important, good global citizenship.

Notes

1. This list is from a handout for one of Professor Tewksbury's courses in the 1960s.
2. From the website of Diplomacy International at [www.diplomacyinternational.com].
3. From the website of Diplomats Without Borders [www.diplomatwithoutborders.org].
4. See the "Sustainable Development Timeline" compiled by the International Institute for Sustainable Development [www.iisd.org/timeline].
5. From the history section of the WBCSD website [www.wbcsd.ch].
6. From the IISD website [www.iisd.org].

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