

A CLASH OF IDEOLOGIES: COMPANIES SQUEEZED BETWEEN AUTOCRATIC AND DEMOCRATIC REGIMES

By Atle Midttun

For decades, multinational companies have stepped up their efforts to embrace corporate responsibility. They have done so under a Western-led global agenda based on market liberalism and liberal values. However, the rise of China as a major economic powerhouse, in alliance with an increasingly fascistic Russia, has marked an authoritarian counterpoint, not only to the Western dominance of global commerce, but also to Western liberal democracy and its civic-driven corporate responsibility in an increasingly vehement *clash of ideologies*.

How can multinational businesses tackle this situation? Will they have to reduce corporate responsibility/sustainability to a limited common minimum? Will the ideological resentment across the authoritarian-democratic divide lead to stronger market segmentation? Or, to consider a third option, are there opportunities for a strategic reconfiguration that allows companies to operate more flexibly on both sides of the divide?

Corporate responsibility under the Liberal-Western era

The doctrine of Corporate Social Responsibility (CSR) emerged at the turn of the century as an attempt to fill the void, of an under-socialized neoliberal global economy. An extensive CSR literature postulated the business case for prosocial and environmentally benign corporate behaviour; business-driven social and environmental self-regulation, in other words. Too good to be true, one might argue, as businesses increasingly orchestrates supply chains across the globe, including developing countries with weak economic, social, and environmental regulation.

The business case for CR becomes somewhat more credible, however, when civic mobilization is brought into the equation. Human rights groups, tax justice networks, transparency organizations, labor unions, and a whole host of environmental groups often pressure industry to take on board social and environmental agendas, under the threat of media-exposure. This is what the Australian political scientist John Keane (2013) has called “monitory democracy”, a channel for direct-democratic mobilization running alongside formal parliamentary democracy. Thriving on social media and abundant channels of information, monitory democratic mobilization targets business directly, but also puts pressure on parliamentary politics in order to enhance its ambitions to practice corporate responsibility. Many CSOs/NGOs are themselves multinationals, relatively unconstrained by territorial boundaries, and can therefore facilitate governance outreach into the wider global arena.

Corporate Responsibility Under Emerging Bipolar Rivalry

In the second decade of the 21st century, however, the West started losing its hegemony to a rising Chinese economic powerhouse. It is also challenged by Russia and other authoritarian states. This development has affected corporate responsibility, which has been caught in the clash between democratic and autocratic ideologies.

CSR was transported to China in the 1990s mainly through global supply chains as the nation triggered rapid industrialization through export-led growth. However, the Chinese authorities were right from the start, skeptical towards Western-dominated international standards. This skepticism has been somewhat tempered through China’s own development needs and environmental challenges. But while allowing for some civic critique with respect to environmental issues, China has remained strongly restrictive with respect to human rights, and often retaliated sharply when human right issues are brought up in Chinese industry.

In spite of Chinese adoption of Western CSR rhetoric, therefore, post-liberal competitive globalization across the democratic/authoritarian divide, offers hurdles at all levels. In the formal governance arena, parliamentary or electoral democracy collides with authoritarian rule. In the informal civic domain, monitory democracy competes with authoritarian, top-down civic mobilization.

At the global level, they both jockey for influence over the normative agenda of international institutions and the global public debate. Businesses that operate globally may thereby come under cross-pressure from both contradictory legislation and civic expectations.

The following cases across apparel, ICT and energy, illustrate how these dilemmas play out in concrete settings.

H&M – Collision between Democratic and Autocratic Values

H & M Hennes & Mauritz AB, or the H&M Group is a multinational clothing company based in Sweden that focuses on fast-fashion clothing for men, women, teenagers, and children. It is the second largest international clothing retailer, behind Inditex. A large part of the company's cotton sourcing and sub-supplies comes from China, and China has also become one of H&M's largest retail markets. The problem is that there are reports about forced labour by Uyghurs and other Turkic or Muslim-majority peoples in the cotton supply chain, the latest signed by the UN High Commissioner for Human Rights.

In a classical monitory democracy style, a broad coalition of civil society organizations, trade unions and investor groups mobilized in 2020 to call for an end to forced labor in the Uyghur region. The coalition sought ethical commitments from brands and retailers like H&M while referring to their obligations under the UN Guiding Principles of Business and Human Rights.

The first reaction from the apparel industry was to express concern about the discrimination of the Uyghur minority, but to assure everyone that they were not involved in any wrongdoing. Nevertheless, H&M later admitted that it had cut ties with a Chinese supplier over accusations of "forced labour". Furthermore, in October 2020, five auditing firms had to give up inspecting labor abuses in Xinjiang because of the government ban on visitors. This weakened credibility of the control of suppliers to the apparel industry. Indicative of deep problems, the apparel industry's own *Better Cotton Initiative* pulled out of certification.

The Chinese reaction has been a combination of rejection, partial accommodation and counter-mobilization both in formal political, industrial strategic and in a semi-monitory, semi-democratic mode. In an attempt to calm the international opinion, China launched its own sustainable cotton standard, as part of the country's backlash against western criticism over the alleged use of forced labor. However, the controversy flared up in 2021 as European countries imposed sanctions on officials in China with ties to the Xinjiang Uyghur repression. China retaliated through official political channels, but also through an orchestrated consumer rebellion with strong nationalist overtones. A social media post by the Communist Youth League triggered Chinese mobilization on the Weibo microblogging platform.

The Chinese counter-mobilization had economic consequences. At least three major Chinese e-commerce platforms—Pinduoduo, JD.com and Tmall—withdrawed H&M products from sale. China went from being ranked No. 5 on H&M's sales list in 2020, to being outside the company's top 10 for the third quarter of 2021. Facing the grim consequences in its Chinese market operations, H&M, along with other Western apparel-colleagues, took a very humble position. In March 2021 the company issued a plea, asking Chinese consumers to return. It also withdrew its previous concerns about Uyghur worker conditions.

The human rights abuses in the heart of their Chinese cotton sourcing areas have put Western apparel brands like H&M in a real dilemma. If they fail to purge Xinjiang cotton from their supply chains, the apparel companies are confronted by Western-style monitory democracy, possible customer punishment in Western markets, plus political reactions both in the USA and the EU.

On the other hand, the mere suggestion of a pullout from Xinjiang has triggered massive Chinese reactions, with severe consequences for sales in the world's largest growth market. China's evolution as an industrial nation has made it far more difficult for Western brand companies to dictate the terms of trade along human rights' dimensions.

H&M's approach has been cautious low-key adjustments that refrain from principled positions on Western values, and rest on maintaining a low profile. Another feature of the H&M approach has been to retreat to classic philanthropy, more in line with Chinese expectations. Furthermore, the H&M Group has also made use of its sub-brands to reduce confrontation with Chinese customers. They have therefore recently launched "Arket" and "Other Story" in China.

Huawei: Security Issues Across the Democratic-Autocratic Divide

The Huawei case illustrates how the clash of ideologies also challenges multinationals from authoritarian countries in their attempts to establish in democratic markets.

After spectacular growth in the Chinese home-market following its foundation 1987, Huawei evolved into a leading global information and communications technology provider. It positioned itself globally and established long-term and stable cooperative relationships with world-leading operators such as Vodafone, BT, Telefonica, FT/Orange and China. In addition, the company scaled up to be a core competitor with Samsung and Apple in the mobile telephony market.

Having been crucial in Western 4G telecoms markets, Huawei positioned itself for a leading role in the rollout of 5G. However strong state control over industry, and a culture of massive censorship of its domestic population in China, has made it difficult for Huawei to profile itself as a trustworthy communication provider in democratic countries. In addition, there is industrial rivalry as the US, EU and China compete for hegemony in lucrative communications markets.

In the first round, Huawei's smartphone business - once on its way to challenging Apple and Samsung in Europe - suffered from U.S. sanctions. Under president Trump Huawei's devices were cut off from Android, the Google-owned operating systems in 2019.

Under President Biden, pressure on Huawei increased further and spread to Europe. In October 2021, the European Commission issued a warning against using Huawei technology to underpin 5G networks, which has been followed by many EU countries, and the U.K. government reaffirmed its requirement to strip Huawei equipment from British telecoms' infrastructure.

Other democratic countries - like Canada, Japan and Australia - also banned Huawei on 5G on the grounds of security. Putin's invasion of Ukraine has contributed to consolidating many Western countries' opposition to Huawei. An exception is Hungary, that stands out with broad agreement for Huawei to develop 5G and smart city networks in the country.

The reaction to Chinese development of the Western 5G was at first limited and ambivalent, but the invasion of Ukraine by Russia, a close ally of China, was an eye-opener for many, to how easily authoritarian regimes disregard international law, and how they may weaponize their industry to serve their geopolitical ambitions.

Putin's War in Ukraine

The ultimate challenge of the democratic-authoritarian divide comes with war, as illustrated by the current Russian invasion of Ukraine.

Putin's attack on Ukraine in February 2022 triggered a strong pressure on Western companies to exit Russia: Firstly, through monitory democracy, as public sentiment against the Russian aggression grew, and global companies saw themselves incurring large reputational costs if they continued their Russian operations. Secondly, through pressure from investors. And thirdly, through sanctions from Western governments which affected companies' Russian operations.

One of the moves made by Russia to counter Western weapons delivery to boost Ukraine's self-defense was to weaponize energy. Having positioned itself as the major gas-supplier to Europe, Russia had control of a vital resource for undermining the European economy and social welfare.

Companies like Gazprom and Rosneft, that had taken on board Western style corporate responsibility and published sustainability reports, were compelled to undermine European energy supply on behalf of their Russian state owners. The resulting high price of gas, has affected household

budgets across Europe and driven up costs for manufacturing firms. Yet the EU has managed in record time to wean itself off Russian supplies and re-establish more normal gas prices.

When the collision between authoritarian and democratic regimes escalates into war and heavy sanctions, business implications are massive. That said, some of the negative effects have been balanced by positive developments: Western oil & gas companies that have exited their Russian assets have incurred losses but have been more than compensated by the higher hydrocarbon prices provoked by the war. The price rise for hydrocarbons has likewise recompensed the Russian energy industry from some of the volume-losses due to Russia's energy blockade of Europe.

Discussion

As the above cases show, the West no longer unilaterally defines the global market and business agenda, including the shaping of CSR. Liberal ideals are challenged by authoritarian and nationalist values. The age of liberal globalization is now being substituted by a divisive globalization in the shadow of ideological clashes between democratic and autocratic regimes. This rivalry differs from the previous 'cold war' skirmishes between the Western and the Communist blocks, where political controversy was paralleled by economic segmentation. In the 21st century, the authoritarian regimes have embraced capitalism. But they have done so on their own terms, and in line with their growing economic and technological power.

A New Risk Situation

Investments and trade across the democratic-autocratic fault lines put global companies at greater risk and CSR/Sustainability easily becomes contentious, particularly when it comes to human rights. This was the case with H&M that faced rejection in China while responding to civic human rights challenges in the West; it was the case with Huawei which was discredited as a provider of core infrastructure in democratic societies because of its base in an authoritarian country with massive censorship and ban on Western social media. The divide peaked commercially with stranded assets in Russia, and weaponization of energy and finance. Such examples show how political value conflicts may entail economic value-destruction.

Company Strategies

Multinational companies have several strategic options to meet the challenges of the democratic-authoritarian divide. They may segment markets and operate dominantly in one ideological sphere. The result of the Russian invasion in Ukraine, and the weaponizing of energy, as well as financial transactions, has been to force Russia to sell within authoritarian markets, and sympathetic collaborators. Huawei has also expanded strongly in several non-Western markets, where security risk issues have not been raised.

Another avenue is to downplay ideology and challenges to industry and engage in philanthropy, such as sponsoring culture, or making donations to good social causes as a main CSR approach. This allows the company to zoom in on local preferences and to build societal and commercial goodwill through its CSR approach, without provocations.

And finally, there is the option to trade 'under the ideological radar' of civic and political concern by profiling sub-brands when the mother company is under fire. Like much of the apparel industry, H&M has had the advantage of controlling several sub-brands, that have avoided the stigma of the mother company in the Chinese market.

Civic Mobilization

The democratic-authoritarian divide is not only a question of politics and business, but also of civic engagement. Western civil society organizations went after H&M for human rights abuses in their supply chain in China in a classical monitory democracy style, exploiting Western democratic freedoms of organization and expression through free media. But civic outrage against global business was also

stirred by authoritarian leaders, through internet campaigns and mobilization of the Communist Party's youth league. Western NGOs will have to develop novel strategies to maintain their agenda of chasing corporate responsibility in a world with stronger authoritarian control.

Guarded complexity

Stuck in the middle, global business will have to develop a new repertoire of commercial bargaining and strategic configurations to cater for rising risks and security concerns across the autocratic-democratic divide. The standard agenda of Corporate Social Responsibility, based as it is on the human rights component, needs to be reimagined and adjusted to a clash of ideologies: a tall order not just for Western companies but for Western monitory democracy as well.

Given the ideological clash between authoritarian and democratic countries, there are good arguments for moving towards a more selective globalization. This would involve prioritized free-trading among like-minded countries and their companies, and engaging in more strategically scrutinized trade across the democratic – authoritarian fault line. In the prioritized trading within the like-minded actors, conventional liberal trade could continue and so could monitory democratic push for corporate responsibility. However, over the fault line, transactions must be strategically vetted, and here the West could pick up a few lessons from authoritarian China to secure national control with foreign companies. This includes demand for controlling ownership by the host nation - China's standard practice - in addition to more intense monitoring of sensitive sectors, such as IT, education, publishing, telecommunication, mining, and numerous others on China's "negative list"¹.

Corporate responsibility across the democratic-authoritarian divide remains difficult. While there is increasing support for industry to include ecological concerns, as climate effects grow more serious in many authoritarian countries, human rights and liberal freedoms remain highly contentious. Western style monitory democracy – that has pushed much of the Western CSR agenda - is forbidden in authoritarian states. Human rights concerns can therefore hardly come from within authoritarian based business. Only by incorporating corporate responsibility and human rights in the strategic vetting for access to Western markets, would they have a chance to be taken seriously.

This article is based on research financed by The Research Council of Norway under the AFINO project:

<https://www.ntnu.edu/afino/>

¹ <https://www.hawksford.com/knowledge-hub/china-business-guides/china-negative-list-for-foreign-investment-access#:~:text=What%20is%20the%20'Negative%20List,investment%20is%20prohibited%20or%20restricted.>