

Business Ethics
Prof. Susmita Mukhopadhyay
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur

Lecture – 50
Globalization and business-government relations

Now, we will be discussing about the business government relation with respect to the context of globalization. As you have seen like in the from the previous discussion globalization means detail to realization. So, when you are talking of detail to realization. So, with respect to regulation also like, there is no clear demarcations and relaxations are there. So, may be loss of one particular country is not very well framed regarding certain issues. So, these problems are also there.

So, when you talking of globalization, so we understand like there is a traditional context in how the business environment reach the businesses functioning and also there is a changed context in which the business is functioning. So, and the expectations in these two context and the roles of the business and government in these two context are different and the powers enjoyed by the, relative power enjoyed positions by the government in the business in these two context are different. So, here when you are discussing globalization and business government relations we are trying to focus on these issues.

(Refer Slide Time: 02:16)

Globalization and business-government relations

- **Globalization defined as** “the progressive eroding of the relevance of territorial bases for social, economic, and political activities, processes, and relations”
- British political scientist Anthony McGrew has described this in terms of a transition from a traditional to a global context, which he calls ‘the post-Westphalian’ setting (Held and McGrew 2000)

So, we define globalization; as the progressive eroding of the relevance of the territorial bases for social, economic, and political activities processes and relations. So, it talks about a transition from a traditional to a global context. So, British political scientist Anthony McGraw he is described this at a transition from Westphalian setting to a post Westphalian setting.

(Refer Slide Time: 03:10)



From the national to the global context

- When globalisation deterritorializes social, economic and political action, the significance of these nation states is weakened.
- This transition is summarized as:
 - Society
 - Holder of political power
 - Manifestation of political activity
 - Addressee of regulation
 - Intensity of regulation
 - Democratic control of political power

So, there are different changes happening in different and areas like with respect to the, what is the nature of the society? Who is the holder of the political power? How is the manifestation of the political activity done? Who is the addressee of the regulation? What is the intensity of the regulations? And what are the democratic control of the political power?

(Refer Slide Time: 03:49)



	National context (Westphalian setting)	Globalized context (Post-Westphalian setting)
Society	Nation	World Society
Holder of political power	Monopoly by national governments	Multitude of governmental, civil society, and private actors
Manifestation of political activity	National regulation (laws)	Systems of transnational negotiations (e.g. EU directives, codes of conduct)
Addressee of regulation	Social actors (e.g. domestic companies, citizens)	Nation states (e.g. EU member states) Private transnational actors (e.g. MNCs)
Intensity of regulation	Decreasing (e.g. deregulation, privatisation)	Increasing
Democratic control of political power	Higher	Lower

So, we will be discussing this two scenarios where we see like there is a Westphalian setting and a post Westphalian setting. So, with respect to society we find, in the Westphalian setting it is the nation, but the nature of the society the globalized context it becomes like a world society, where the is a whole world is one society. Holder of political power, it is like the national context it is the monopoly by the national government. So, not in Westphalian setting, there is a like distribution of the political powers between the multitude of governmental civil society and private actors because it is a world society, n number of nations have come together with their own settings of governmental society and private actor.

So, it is a multitude of governmental civil society and private actors. When it is a manifestation of political activity it is a national context in the Westphalian setting, it is generally the national regulations or laws. So, when we are talking of the world society and there is a multitude of governmental civil society and private actors. So obviously, it comes like in that a system of transnational negotiations these becomes very important.

So, what is the negotiations reached regarding certain may be universal goals, that required to be followed, whether some compact has been signed or not which the countries, who are trade relationship with one another are going to follow or not? So, it talks of like systems of transnational negotiations course of conduct. So, the addressees of the regulations to whom the regulations are directed are like social actors means the

domestic companies and the citizens of that particular nation. So, that is for the Westphalian context. For the post Westphalian context it is the nation states, that is the European member states. Examples are, the MNCs on whom these regulations are, they are the addressees of these regulations. So, the intensity of regulation how much whether it is becoming more strong or weak.

So, it is for the national context, it is becoming weak like in terms of there is more of deregulation and privatization. But when, we are talking of the post Westphalian setting. So, this regulation the course of ethics that conduct the organizations member countries have to follow these are becoming increasing day by day and it is becoming tough day by day. So that, some regulatory mechanism at least can be followed by the members. So, to maintain such uniformity and balancing the way the business is done. In democratic country of political power is higher in case of national context.

Because the addressees of the regulations are the citizens and they can exercise their democratic power in the control of the political power. But when the in the post Westphalian setting the democratic control of the political power has reduced because addressee of the regulation are the member states or the MNCs and the citizens of the society. Sometimes do not have any same determining the contract signed between the MNCs and the government or the regulations that will be impossible. So, they are not involved in many cases in this decision making. So, the democratic control of the political power is lesser is lower in globalised context.

(Refer Slide Time: 09:38)

Globalization, government, and business: changing roles		
	National context (Westphalian setting)	Global context (Post- Westphalian setting)
Role of the state	Dominant (as Regulator)	Dependent (as addressee of regulation)
Role of the company	Dependent (as addressee of regulation)	Dominant (e.g. corporate power of withdrawal)
Types of regulation	Imperative regulation	Nation states: imperative regulation Private transnational actors: private, self- controlled regulation

When you are discussing the globalization, government and business the changing roles of each other we find like in the national context, in the Westphalian setting the role of those state is dominant as a regulator as either by the restricting of the business or by enabling the business and playing the major role in the license of operation for the business. So, not in the global context in the post Westphalian setting the particular role of the state specifically of the depend like the developing country is that of a dependence role where they are the addresses of the regulations and they have take care like in their particular country these regulations have been taking care of. So, that it gives a facilitating environment for the MNCs to come and do their business over there.

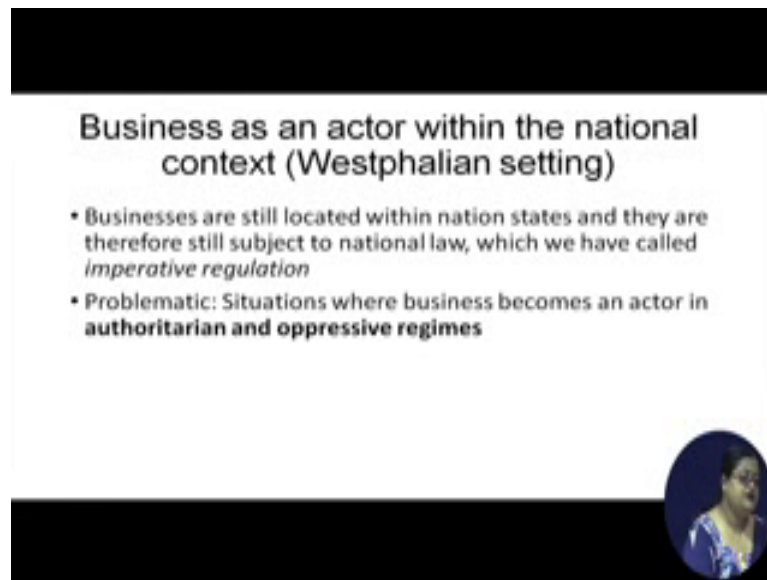
So, the role of company is that of a dependent in the national context as the addressee of the regulation. So, in the national context they function as a dependent, but in the global context they play a very dominant role of like may be even withdrawal from a country. Now the corporate power withdrawal from a country, if certain regulations are not followed or certain regulations are not may be relaxed for them. So, the types of regulations which are there for the national context, so that of imperative regulations which is that for the given by the laws, by the state to follow. The global context for the nation states it is imperative regulation for the private transnational actors like MNCs, it is private self controlled regulation because it is not possible for the state to design so many regulations in cooperating different ways of doing business and to monitor cross check for whether all the MNCs are functioning in a proper way.

So, self controlling regulations are very important for the MNCs. What we find over here is a change in the role of the state in, and the company also from the national context to the global context. If we compare the relative roles of the state and the company across the two settings we find the role of the state in the national context was is that of a dominant as a regulator and the role of the company is that of dependent as addressee of the regulation. While in the global context the role of the state is that of dependent as addressee of the regulation, but the company plays a very prominent dominant role to the corporate power of withdrawal.

So, we find like there is a shift from the shift in power from the being a dominant position the national context the state is in a dominant position by the power of their, they acting as a regulator. While in the global context the company plays a dominant role by the corporate power of withdrawal. In the global context, the state plays the role of the dependant as the addressee of the regulation and in the national context the company plays the role of the dependent in the as the addressee of the regulations. So, we find there is a shift in the roles of being dominant or dependent and the relative like shift in roles, when the it is a national context, Westphalian setting and it is a global context of the post Westphalian setting and the types of regulations whom it is address to? Who are need, where self regulations are required or not? So, these type of, we understand like because the company has a dominant power of withdrawal with a global context and state is itself is that of addressee of a regulation.


So, for the private national actors, self controlled regulations becomes very important because they have the corporate power of withdrawal and they are playing a dominant role in the business government relations.

(Refer Slide Time: 16:13)



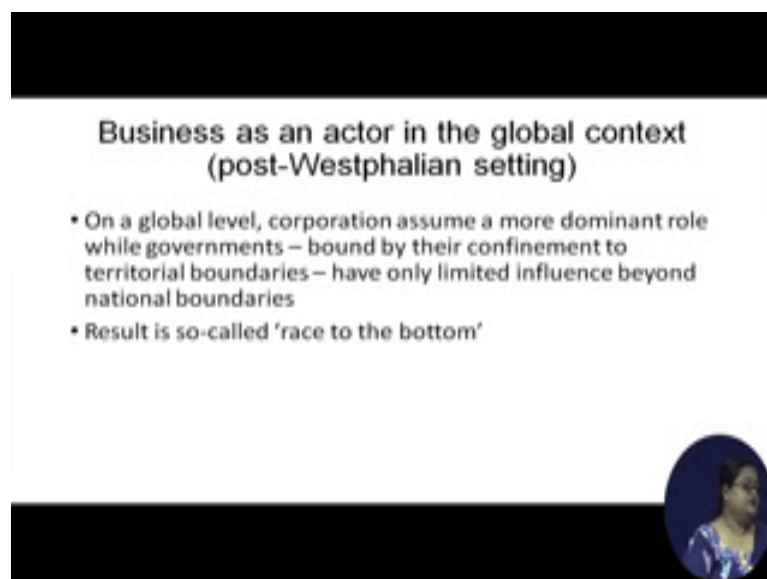
Business as an actor within the national context (Westphalian setting)

- Businesses are still located within nation states and they are therefore still subject to national law, which we have called *imperative regulation*
- Problematic: Situations where business becomes an actor in **authoritarian and oppressive regimes**




In the, if we understand like the nation called national context and the Westphalian context are or the post Westphalian context if the global context are functioning side by side. So some businesses, which are still located in the national states, so they are subject to national laws, we should call that a imperative regulations. So, this becomes problems when it is an oppressive and like authoritarian regime and the business has to functioning that environment then it becomes a problem.

(Refer Slide Time: 16:59)



Business as an actor in the global context (post-Westphalian setting)

- On a global level, corporation assume a more dominant role while governments – bound by their confinement to territorial boundaries – have only limited influence beyond national boundaries
- Result is so-called 'race to the bottom'



So, in a global level again corporations assume more of a dominant role that like that of the dominant role while the government is still bound to their confinement of territorial boundaries. So, and they have only limited influence beyond their national boundaries. So, the corporate assumes of more dominant role and it may give rise to like the race to the bottom as we have already discussed earlier where they try to go to the (Refer Time: 17:46) whether there is less of regulations, implementation and regulations and more freedom to a more we can generate more profit to more and all and with less of regulations, less of best practices followed becomes more attractive as location targets for business.

So, this may happen which is called race to the bottom and these may have an effect on the life of the citizens of that particular country where these MNCs are going. Because in order to remain attractive to the MNCs as a location for investment. So, this regulations may not be taken care of, working conditions may not be taken care of, exploitations may be there. So, that the outcome is profitable for the MNCs, they generate more profit by producing at a very low cost and may be selling at a very high margin and that difference gives them more profit. And this ability to produce at a low cost by compromising on the rights of the employees or the citizens at large may make the developing country more attractive. So, this is called the race to the bottom.

(Refer Slide Time: 19:26)



Business-government relations in international trade regimes

- Several transnational government institutions have significant impact on business
 - Regional bodies: EU, NAFTA, ASEAN
 - EU is particularly significant, due to its strong legislative powers
 - Global players: WTO or World Bank
- Role of these bodies is to enable trade and exchange of goods and services
- Double-edged sword:
 - They can enable access to cheap labour and larger markets
 - But the same institutions increase competition and in some ways limit business

In business, government relations in international trade regimes you find that. So, there are regional bodies or the global players who have a impact on how the business is done through the regulations that they have set or the funding opportunities that they have created. So and because, the role of these bodies is to enable, trade and exchange of goods and services, so through this policies taken where this exchanges are possible.

There is a fair competition fair trade and all, but they, it may act as a double edge sword like they can enable access to cheap labor and large markets. So, but the same type of institutions, the same institutions increase their competitions and limit business for others. So, this is like you are giving access to a cheap labor and being produced over there, they are increasing the competition and limiting the business for there will be local industries which are there. So, this may become like a double edged sword. So, one side you are providing access to cheap labor and making it profitable for the organizations, who are for coming for on this like may be post Westphalian setting.

When we are talking of global organizations, but they do at a cheap cost and go because they have infrastructure to deal with it. Like producing in one country and selling in others or spreading its products at a like throughout the country and this may again create a competition sort of, or threat sort of the local players which in many cases they may not be able to withstand.

(Refer Slide Time: 21:59)



In the next module, we are going to discuss corporate citizenship and regulations where, we are trying; we will be focusing on business as a key player in the regulatory game.

Thank you.