What role for the private sector in European Foreign and Security Policy?

Mary Martin

Paper commissioned by the Human Security Study Group
Mary Martin is a senior research fellow at the Civil Society and Human Security Research Unit, LSE. From 2006-2009 she was co-ordinator of the Human Security Study Group, which produced the 2007 Madrid Report. She co-edited the Routledge Handbook of Human Security and edits the Routledge series of Studies in Human Security. Her research interests include the role of multinational corporations in conflict and peace-building, private security in the international system, EU civilian peace-building capabilities, and local ownership in external interventions. She is a former European Business Editor of the Guardian and Daily Telegraph newspapers.

Contact
Mary Martin: m.c.martin@lse.ac.uk

Security in Transition
February 2016, London
Abstract
The private sector is an intrinsic part of the ecology of conflict-affected societies, through its implication in dense networks of external and local actors, combined with practices which directly affect the security of individuals and groups in the everyday. In contrast to the prevailing liberal peace view in which business is framed as an indispensable component of macro-economic reforms, and a mechanism for peace and transition through building free-market democracies, the paper uses empirical examples from the Balkans, Middle East and Central America to show that the supposed benefits of corporate involvement in conflict and transition environments are mitigated by a human security perspective in which the impacts on vulnerable individuals and societies are often perverse and contradictory. This paper addresses the ‘corporate problem’, proposing that EU foreign policy and security strategy should develop a more systematic approach to mainstreaming global and local businesses within conflict analysis and conflict management, by taking account of how the private sector interacts with multiple and interrelated aspects of personal vulnerability, people’s sense of their own security, wellbeing and dignity as well as social resilience and cohesion.

Table of Contents
Introduction: The Corporate Problem
Section I: A Context for increased engagement with the private sector
  1.1 What (and where) is the private sector?
  1.2 The private sector as part of the Comprehensive Approach
  1.3 Bringing together business, conflict analysis and peacebuilding
Section II: Conceptualising and operationalising the private sector in a global European Security Strategy
  2.1 Multi-directional effects
  2.2 Asymmetric relations
Section III: Conclusions and policy implications
Introduction: The Corporate Problem

In a provocative article in *Foreign Affairs* in 2010, Carl J. Schramm argued that:

‘Post-conflict economic reconstruction should become a core competence of the U.S. military’. Citing the failure of years of aid to reduce unemployment in post-war Bosnia and Iraq, he called for a new mind-set of expeditionary economics, ‘to replace the central planning ethos of the international community, and unleash the transformative entrepreneurship of US corporate giants such as Google, Intel, Walmart and FedEx. Options well beyond the usual public-sector sinecures are essential. New opportunities must be created that are more attractive than trading on the black market or making bombs.’ (Schramm 2010: 91)

Schramm’s radical proposition touches on a growing issue and missing link in European security policy-making: the absence of the private sector in systematic efforts to address issues of insecurity, state- and peacebuilding. Business currently occupies a marginal and low visibility role within the EU’s Comprehensive Approach and its foreign policy ‘toolkit’. The EU’s capabilities for conflict analysis, conflict prevention and peacebuilding are conducted separately from initiatives on business and human rights, or regulatory dialogues with European companies. Conflict analysis, early warning or mediation support takes no account of either the positive or negative potential of the private sector. Thus there is no coherent agenda for mainstreaming business relations within European external actions. Security strategy fails to locate either global or local business as part of the challenge of complex security or ‘hybrid peace’ structures in an interconnected world.

This paper tackles the ‘corporate problem’ from the perspective of why the EU should address this gap, and how it might do so. The first section puts this effort into the context of existing EU policy, and contrasts it with the policy agenda on business, security and development within the UN. The second section examines how the private sector is an intrinsic part of the ecology of conflict-affected societies, through its implication in dense networks of actors (both local and external) combined with a tendency to perverse and paradoxical practices, which undermine the security of individuals and groups in the everyday. This account stands in contrast to the prevailing liberal peace view in which business is simply a component of macro-economic reforms, rather than an autonomous social and political actor, and challenges the supposed benefits of business activity and in particular of foreign direct investment in post-conflict reconstruction.

Businesses interact with individuals and communities in intense and diverse ways, which have profound consequences for social and governance rehabilitation, and for legitimate authority as well as for economic reform. The private sector is part of a broad pattern of human (in) security, in that business activities affect multiple and interrelated aspects of personal vulnerability, and people’s sense of their own security, wellbeing and dignity. These challenges to human security require a bottom-
up, locally grounded approach to analyse and understand the impact, potential and risks associated with corporate actors. Such an effort can be situated broadly within a hybrid peace approach outlined by Mac Ginty, Richmond and others (Mac Ginty 2010; Jarstadt and Belloni 2012; Richmond 2015).

The private sector is embedded in a hierarchy of internal (within the company), semi-external (within industries and sectors) and external connections, and dense networks of social, political and commercial relations at multiple levels from the local to the national and global (Pearce 2007). These relations not only affect how corporations impact security in the everyday. They add complexity to the task of discerning the interests and agendas of business actors and identifying the most effective possibilities for compliance and co-operation. Ignoring or underestimating the networked power relations in which global and local businesses are implicated is not just a case of optimising conflict analysis, it has consequences for the ability of external security interventions to achieve optimal results.

The paper draws on empirical work in conflict affected settings, such as the Balkans, the Middle East and Latin America to illustrate the analysis, in setting out a conceptualisation of how business acts in contexts of insecurity, which is intended to reflect more accurately everyday experience, and contribute to our knowledge of how (in)security is actually experienced. Through examining the private sector in an alternative way, through a frame of both human security and ‘hybrid peace’, the paper seeks to suggest appropriate and effective forms of engagement between EU security policy and the private sector.

Section I: A Context for increased engagement with the private sector

1.1 What (and where) is the private sector?

Despite, indeed often because of its imbrication in the economic dynamics of conflict, (Collier and Hoeffler 2004), the corporate sector has remained distanced from contemporary security policy. Yet the foundations of the EU in the Franco-German coal and steel industries underline how economics and industry have been bound up with security in the ‘business of peace’ as well as acting as drivers of war (Nelson 2000; Kobra and Hansen 2004; Santa-Barbara 2007:233; Gourvish 2013) . This historical intimacy, which draws on deeper roots of corporate involvement in foreign and security affairs, has not been reflected in efforts to include private business, individually or collectively in conversations about state- and peacebuilding during the period of liberal peace interventions of the last 20 years. Partly this is because for much of this era, private companies attempted to remain aloof from global security issues, which they felt were not relevant to them. Public agencies also steered away from co-opting business except at the margins of humanitarian assistance, or through supporting micro-finance, venture capital and small-and-medium-sized company (SME) schemes. A new wave of public-private collaboration began with the UN in the 1990s,
as international organisations and states began to recognise the need of working with the private sector, and companies sought increased legitimacy through supporting social causes and to defend themselves against scandal, including involvement in civil wars (Nelson 2002).

The exception to what Schramm criticised as a public sector dominance of post-conflict reconstruction is the rise of private military and security companies (PMSCs) whose rapid growth in the last two decades reflects the emergence of a considerable private market for force (McFate 2014; and Singer 2008), and a form of entrepreneurship applied to not only combat and logistics, but also development. This aspect of the private sector is relevant to EU security strategies. It raises the possibility of involving private contractors in CSDP and also imposing proprietary EU regulations on European based firms (Bailes and Holmqvist 2007; Wither 2005; White and Macleod 2009; Den Dekker 2009). The most prolific private sector actors in conflict societies are SMEs, artisanal activity by individuals, and global businesses – so called transnational corporations (TNCs). In this paper I focus on TNCs as mainstream commercial enterprises, and as representatives of legitimate business (as distinct from illicit corporate actors which are conceptualised in work on war economies, organised crime and illiberal networks) (Collier and Hoeffler 2004; Pugh, Cooper & Goodhand 2004; Lewis 2004, Cockayne 2013). However this should not remove SME’s as potential sites for improved dialogue between the public and private sector, and as the entry points for a bottom-up approach to influencing global supply chains.

TNCs are important interlocutors in the conflict landscape: large global corporations have a multiplier effect, mobilising small local firms and generating a ‘sphere of influence’ (United Nations 2002), which includes not just an extended supply chain, but private and public stakeholders. They are norm entrepreneurs and transmitters, they connect horizontally and vertically to multiple levels of policy and action from the global and regional, down to the national and local. Analysing TNCs helps to increase our understanding of the complex, connected nature of contemporary security.

TNCs provide a window onto state and civil society (dys)-function, and they sit at the interface between internal/domestic politics and external relations because they operate both nationally and transnationally.

1.2 The private sector as part of the Comprehensive Approach

EU foreign and security policy is underpinned by a number of principles which mandate it to act alongside state and non-state actors, and which dispose it to engage with the private sector as part of a ‘whole of society’ approach to security. In EU discourse concepts such as ‘effective multilateralism’, ‘subsidiarity’ and the ‘multi-stakeholder approach’ require co-operation with multiple counter-parties, and
operating at the most appropriate level (international, national, local). Admitting a wide range of inputs into peacebuilding and conflict response are ways of ensuring the legitimacy of EU external actions, as well as achieving effective outcomes through addressing security in a holistic fashion which recognises the complexity of threats and challenges (Lucarelli and Menotti 2006; Zoellick 2008; Martin 2009).

This thinking is given more concrete form in the Comprehensive Approach (CA) and EU political dialogue. The CA refers not only to the joined-up deployment of EU instruments and resources, but also to the shared responsibility of EU-level actors and Member States (European Union 2013:3). The CA was presented in the 2003 European Security Strategy, as both a general working method and a set of concrete measures and processes which acknowledge the actor dimension of EFP (‘who the EU works with’), and the need for specific forms of collaborative process (how it works with them), and that partnerships and burden-sharing should occur from the local to national and regional levels (Benrais and Simon 2015). The necessity of co-operation as part of the ‘DNA’ of European external action was further underlined with the 2013 Joint Communication on the EU’s Comprehensive Approach to external conflict and crises (European Union 2013). However, in none of these core policy texts is the private sector conceptualised head on, or accorded a specific role. It occupies a gap between international organisations and nation states on the one hand, and civil society on the other. The 2009 Concept on Strengthening EU Mediation and Dialogue Capacities (Council of the EU, 2009) provided incentives for dialogue with local stakeholders, and commitment to a participatory approach in development was set out in the 2002 Communication on the Participation of non-state actors in EC Development Policy (EC, 2002). In concrete terms, co-operation includes information sharing, dialogue and mutual support, while the CSDP emphasis on coherence and comprehensiveness, encourages new ways of co-ordinating multiple actors in the field (EPLO 2008:7-8). The private sector is neither targeted as an autonomous actor, nor does it fit comfortably within the extensive initiatives which support dialogue with civil society. Benrais and Simon note the disjunctures in EU policy discourse: the European Consensus on Development (European Union 2006) included private sector actors as part of civil society, yet there was no mention for business in the 2012 EU Communication on Europe’s engagement with civil society (Benrais and Simon 2015).

Beyond the EU’s principled and policy foundations, there is an operational imperative of engagement with the private sector. The increasing complexity of conflict dynamics, the need for more durable solutions to insecurity, including technologies and new forms of knowledge and budget constraints which require spreading the resource cost of peace and statebuilding, are incentives for the EU to explore greater inclusivity and new ways of working at policy level and on the ground. The low visibility of TNCs within EU security strategy and peacebuilding is in contrast to the dominant position of business, economic and trade issues within EU policymaking in general. Competition policy, environmental regulation and the Single Market itself institutionalise contact
with TNCs, but security strategy is largely disconnected from the EU’s business and economic competences.

Partial efforts at involving the private sector contrast with rapid changes in norms and practice within global corporations themselves. The search for new markets, and low cost production centres – combined with a global proliferation of security threats and issues – means that few companies can avoid becoming involved with operations in unstable or hazardous locations, either directly or through their global supply chains. Corporate actors seek new ways of mitigating risk and preserving their licence to operate, which go further than protecting plants and staff, and token forms of community support, which were traditional policies in insecure neighbourhoods. Financial and commercial hazard is not the only threat. Reputational risk and loss of legitimacy alienate customers, investors and undermine companies’ ability to attract the best staff.

There is a significant shift underway in corporate practices encompassing *inter alia* efforts to define ‘sustainable capitalism’ (Grayson and Nelson 2013), promote ethical investing, identify and engage with multiple stakeholders, operationalise concepts such as ‘shared value’ (Porter and Kramer 2011), defuse consumer boycotts, and redefine corporate social responsibility (CSR). This corporate activism has generated new partnerships with governments and NGOs, as well as hybrid social movements and novel models of business-society relations which bring global companies into a broad spectrum of security issues from poverty to slavery, women’s rights, and health.

1.3 Bringing together business, conflict analysis and peacebuilding

Initiatives such as the Kimberly Process, the Extractive Industries Transparency Initiative or Publish What you Pay, which originated with international NGOs and social movements reveal a new attitude to global businesses in this century. These initiatives focus on the governance gap presented by TNCs which operate in multiple jurisdictions with limited accountability and oversight. They attempt to mitigate corporate behaviour through bringing corporate operations out of the shadows, increasing public awareness, transparency and accountability and establishing mechanisms to track them in conflict areas. More recently, individual states such as the US and the UK have used national legislation to introduce more punitive compliance measures. ² The UN’s business and human rights agenda adopted in 2011 took a third approach based on a discourse of responsibility and shared obligations. The UN Guiding Principles on Business and Human Rights established a tripartite and

---

1 For example Business Fights Poverty [http://www.businessfightspverty.org], supported by among others Shell, BP, Diageo, Pearson, Barclays. See also Corporate NGO Partnerships Barometer 2015 [http://www.candeadvisory.com/barometer [accessed 8 December 2015]]

2 US 2010 Dodd-Frank Act which requires the Securities and Exchange Commission to order corporate disclosure of the use of conflict minerals; the UK 2011 Bribery and Corruption Act which provided for extra-territorial jurisdiction and personal executive liability for a wide range of abuses.
multi-level framework of soft law (Protect, Respect and Remedy) in which businesses and states articulate and assume a joint role in protecting individuals against human rights violations, and work with civil society to provide redress for victims (SRSG 2011a; 2011b)

EU actions to engage the private sector have included setting out standards on Corporate Social Responsibility (CSR) in 2006, ‘A renewed EU Strategy 2011-14 for Corporate Social Responsibility’, developing and implementing the UNGPs on business and human rights, and a draft law on conflict minerals’ due diligence which includes incentives to companies to introduce due diligence measures.

The 2012 EU Strategic Framework on Human Rights and Democracy included three actions related to business and human rights, only one of which has been fully implemented with the publication of detailed human rights guidance notes to the ICT, employment agencies and oil and gas sectors.

The EU has been criticised for its slow response to initiatives by the UN and the OECD, its failure to mainstream business and human rights in external relations as part of a more robust overall agenda on human rights (Pearson 2015), and to replicate US legislation demanding corporate disclosure of trading in conflict minerals. The European Commission has faced pressure from the European Parliament and coalitions of NGOs to require companies to meet standards of due diligence set by the OECD.

This reflects frustration that the EU has a range of powers over European domiciled companies, enabling it to adopt a ‘smart mix’ of voluntary and regulatory tools to encourage co-operation and compliance on the part of corporate actors. Although specific legal obligations on European companies in regard to human rights and environmental protection are sparse, EU and member states ‘do not always make full use of opportunities to constrain […] companies’ operations beyond the EU (Augenstein 2012).

One explanation for the ‘light footprint’ of EU security policy towards business is a tension between peace and security objectives and policies guaranteeing European economic and corporate interests. For example, the Raw Materials Initiative (RMI) which ensures adequate inputs for European business – a matter of food security to European consumers – could contradict guidelines on resource exploitation in fragile societies. Anti-cartel measures by DG Competition inhibit inter-firm co-operation on security issues and seek to remove any competitive advantage from firms unilaterally applying ethical standards (Martin 2011).

In contrast, the UN and other international organisations, such as the OECD have embarked on a pro-active agenda, to not only regulate companies, but persuade them to make social investments and undertake advocacy and public dialogue on a wide range of security related issues such as health, poverty, the environment, slavery, food and water and so on.
An extensive architecture of ‘focal points’ and contacts, as well as practice guidance is centred on two principal institutions, the UN Global Compact and the UN Office for Partnership, which mandates agencies across the UN system to work with business to encourage ‘good corporate citizenship’ and compliance, allow the UN to access corporate financial and technical resources, and reinforce agendas such as the Millennium Development Goals (described as a ‘beacon for UN-business engagement’ (United Nations undated), and the post 2015 Sustainable Development Goals (United Nations 2004; United Nations 2015).

Institutional enmeshment between the UN and corporations, while ostensibly reflecting the UN turn towards more inclusive forms of global governance, is also criticised for creating a new global elite, which serves commercial interests rather than providing public goods, for shifting the texture of international development cooperation into a technical frame which ignores its fundamental political aspects (Thérien and Pouliot 2010), and for negating the core values of the UN paradigm (Paine 2000; Agazzi 2011).

Section II: Conceptualising and operationalising the private sector in a global European Security Strategy

In this section, I construct an alternative view of the private sector within strategies for conflict management and post-conflict reconstruction, beginning with disaggregating the macro-economic perspective, and discerning a role for business through understanding how TNCs act in actual contexts of conflict, fragility and transition, rather than how they are positioned within current global discourse.

The traditional view of the private sector within the liberal peace is skewed by conflating it with macro-economic reforms which adds to an earlier ‘peace through commerce’ perspective. Foreign corporations are regarded as the vector for delivering free market economics and growth through foreign direct investment (FDI). They are characterised as financial actors whose motives are commercial and profit-orientated, they are sources of external capital (FDI), employment, and income, and facilitators of technology transfer. The level of analysis is the state and occasionally, industrial sectors; more rarely it problematizes groups of enterprises (Brooks 2005; Henisz, Mansfield and Von Glinow 2010, ).

Critical security studies literature is more explicit in framing TNCs as autonomous agents, with specific practices and norms, which are capable of influencing security. There are also a few ethnographic studies of extractive companies which offer detailed descriptive accounts of management processes (eg Welker 2014). Explicit or implicit in all these accounts is a dichotomy between a positive role delivering investment, infrastructure, and some contribution to governance building (Haufler, Crocker et al,
2001, Banfield, Haufler and Lilly 2003; Deitelhoff and Wolff 2012), and ‘negative externalities’ which reveal companies as sites of predation and abuse. The root of this dichotomy is a tension between private interests, and social objectives of stability, justice and good governance. Faced with a choice between corporate ‘peace brokering’ or corporates as conducting ‘peace breaking’, the question becomes reduced to how corporate power can be harnessed to maximise its productive potential (Wenger and Moeckli 2009), or to minimise collateral risk. This ‘schizophrenic’ view of corporate activity links to wider debates on the nature of peace, and the distinction between negative peace as the absence of violence and positive peace as social justice, reconciliation and rehabilitation (Galtung 1969; Roberts 2008, Clark 2009).

Approaches to draw business into a sphere of governance through either compliance or co-optation tactics are based on disrupting what UN Special Representative, John Ruggie, described as the ‘negative symbiotic relationship’ between the private sector and human rights abuses (SRSG 2009). Both approaches – constraint and co-optation - assume that the corporate profit motive presents a hurdle which not only disposes TNCs to perverse behaviour in areas of weak or non-existent rules of law. It also precludes that corporate can have an authentic engagement in building peace (Scherer and Palazzo 2011; Bakan 2005).

Yet the reality of corporate activity on the ground in insecure environments may be more complicated (Pearce 2007). In particular, an ambition to produce ‘positive peace’ engagements with business rather than simply limiting the downside risks of corporate activities, need to ask how exactly TNCs and their supply chains shape the security environment beyond human rights issues; how they affect individual vulnerability; and how the profit motive is mediated by other types of concern. These aspects of corporate behaviour in relation to security are still poorly articulated or addressed.

Nor do conventional approaches adequately address the complex multiplicity of interactions between global companies, local communities and host states. TNCs occupy and open up spaces which extend beyond formal legislative and administrative mechanisms for order and justice. They present not only a governance gap because the mismatch of jurisdictional authority makes them difficult to control. They produce alternative forms of political authority and are the locus of private, sometimes discriminatory or exclusionary security practices. Moreover TNCs exercise a distinct form of political agency and authority not in isolation, but through multiple transactional and relational dynamics with local communities and national, regional and international elites. Some examples from the field illustrate these key characteristics.

In the Balkans, global companies are an integral part of a double transition, firstly from authoritarianism and secondly from conflict, through the privatisation of former state enterprises in a wide range of business sectors. Their inward investments are seen as
not only bringing much needed capital and employment, but also international standards and knowledge exchange. In contributing to ‘normalising’ these economies in the European Neighbourhood, foreign investment by TNCs is actively sought and highly prized.

2.1 Multi-directional effects

A bottom-up analysis however shows that the effects of these corporate interventions on human security — defined as a broad range of threats to everyday existence and individual dignity (Tadjbaksh and Chenoy 2007; HSSG 2004) — are more equivocal. In a context of fragile and incomplete reform, these effects also assume greater visibility and significance. The intervention of TNCs frequently entails job losses, the replacement of guaranteed employment with short-term contracts, but also the marginalisation of older workers, a loss of social status, and the disruption of traditional social and community ties as part of a narrative of privatisation and modernisation. Thus the socio-economic benefits of FDI are often mitigated in terms of how they play out for individuals and communities. The outcomes of new jobs, revenue streams and technology transfer as the most typical markers of corporate engagement, are not clear cut. They affect people within communities in different ways, and generate mixed benefits for individuals, creating possibilities for trade-offs and strategies to secure marginal gains (Kostovicova et al 2012; Martin and Bojicic-Dzelilovic 2016 forthcoming).

An example is the case of Fiat in Serbia (Box 1). The takeover of the former state enterprise of Zastava led to 9,000 job cuts in the last six years, but meant new opportunities for a small group of younger people who have been hired and trained to work in the rehabilitated car plant. Their economic security has improved: they have gained an elevated status within society. Their children and families benefit from corporate childcare, education and healthcare. However, these same services outside the plant are at risk from the local authority scaling down public provision so that citizens who are not employed at the plant are worse off in both economic and social terms. Another consequence of the Fiat plant is that the fragmentation of social and civic benefits has undermined social cohesion, while the company’s provision of benefits as a form of ‘private goods’ has also reduced incentives for the municipality to improve its own provision of goods and services, and led to a loss of authority for the public administration.

In the case of Arcelor-Mittal in Bosnia (Box 2), the company is a source of energy security, through supplying town heating. Yet this dependence simultaneously produces forms of insecurity in the loss of municipal bargaining power and the ability of civil society groups to demand accountability for fear that the company might close the plant. Similar multi-directional dynamics are observed in conflict neighbourhoods in Mexico, where foreign plants provide safe enclaves from drug violence, also offering warmth and shelter, but at the cost of excessive working hours, low pay and fragile
economic security (Martin 2016 forthcoming). This ambiguity makes it hard to separate positive from negative effects of corporate behaviour, clarify potential abuses or establish universal frameworks for good practice.

Both cases highlight a widespread characteristic of the private sector in conflict-affected societies: that there is a dissonance between the macro-economic benefits, traditionally imputed to inward investment by global businesses as part of the liberal peace, and the effects on individuals, seen through a lens of human security, where economic security is less clear-cut, and where there is potentially also detrimental effects in terms of personal dignity and social cohesion. This tension between bottom-up and top-down is characteristic of forms of hybrid peace.

2.2 Asymmetric relations

A second area in which private sector engagement in the conflict and post-conflict environment impacts on human security, is through aggravating imbalances of power and structural inequalities. The asymmetry between global corporations and local actors in conflict-affected and transition environments is largely internalised as a ‘normal’ characteristic of foreign direct investment, without considering how this might undermine institutional reforms and the resilience of local societies. TNCs are not only able to create sovereign spaces which deliver concrete benefits such as tax breaks and incentives, which are hallmarks of business-society relations everywhere, but also ‘exceptional’ freedom of action and dispensations from normal rules (Ong 2006:6), which have severe repercussions on the prospects for ‘positive peace’ in fragile societies. In the case of Bechtel-Enka in Kosovo (Box 3), this manifested itself in the foreign consortium being able to brush aside allegations of abuse of workers, because its project had national significance. It also used informal practices to hire workers, rather than supporting a nascent system of labour laws. In the example of Fiat in Serbia the company was able to exploit its special status within the national economy to introduce a bespoke system of wage bargaining. In a challenge to local public authority and media freedom, it also suppressed information claiming a superior duty to rules of non-disclosure of the New York Stock Exchange. In these cases the disconnect between the practices of foreign corporates on the one hand, and traditional and emerging domestic norms on the other, threatens to undermine a fragile rule of law, and governance capacity. It reduces the leverage of local and international authorities, including the EU, and heightens the risk of ineffective or ‘empty shell’ reforms (Dimitrova 2010, 146) in Bojicic-Dzelilovic and Kostovicova 2013) that occur when actors ignore new rules and continue to use parallel informal rules, and questions the salience of formal benchmarks and assessment criteria (Bojicic-Dzelilovic and Kostovicova 2013, ibid).

A permissive context for corporate behaviour occurs where there is a high degree of dependency on the foreign company, coupled with low local capacity. In Kosovo weak government meant that public authorities were neither willing or able to enforce
labour and safety legislation, while weak civil society, including media were poorly equipped to challenge corporate and government complicity over safety and transparency issues. Even the EU Special Representative endorsed the project as providing improved access to materials and markets.\(^3\) Bosnia- Herzegovina’s complex, multilayer government system has been both a problem for ArcelorMittalZenica as well as an opportunity to implement with less resistance some of the more politically sensitive aspects of its low cost production strategy. In Lebanon, the provision of badly needed water facilities by Veolia closed down scrutiny of how their operations impacted on wider social and political issues.

The significance of the cases cited here is that they are not regarded as examples of abuse or predatory behaviour, of the type which typically attracts attention from governance initiatives on business and human rights. They are sites of localised struggles between groups of active citizens and the company concerned. In each case, governments have been complicit in enabling the private sector to operate a domaine reserve, or conceding a form of parallel authority. This has the effect of not only undermining the government’s own authority (both at national and municipal level), but also of normalising practices which have deleterious impacts on human security and equitable social rehabilitation. Moreover all the cases reveal how relations between governments and the global private sector are pervaded by bargaining and deal-making, rather than a co-constitution or mutual enterprise towards entrenching rule of law and good governance practices.

In seeking to address this gap in governance, a discourse of corporate responsibility is of limited practical value. The structure of corporate operations makes it hard to regulate or hold business accountable, and provide few levers for the intervention of external adjudicators, such as the EU. Multiple layers of management hierarchy defuse commitments to good behaviour entered into at global headquarters level. In Kosovo, Lebanon and Israel, the TNCs highlighted in our research, had a contractual rather than an investment relationship with the governments concerned. Their interventions were geared to short-term project goals rather than contributing to skills building, or supporting governance reforms.

Box 1: Fiat in Serbia

In 2009 Italian carmaker Fiat completed a €700 million investment to take a majority stake in Serbia’s largest industrial conglomerate Zastava, and to become the highest-profile foreign investor in the country. The investment conformed to a classic economic model of low-cost production in a developing country, and was framed as such by both government and Fiat. However, the political and social implications of the deal have been considerable. It contributed to a view of Serbia as a normalised European (EU)

\(^3\) Remarks by Samuel Zogbar reported in ‘The Business Horizon’, American Chamber of Commerce, August 2014.
country, and helped the pro-European party win the 2009 elections. The new Fiat plant has changed dynamics both within the city, creating a ‘zone of exception’ in which global rules and privileges apply, and social divisions between new employees and those who laid off in the restructuring. It has changed national dynamics, side lining once influential social mechanisms such as trade unions, and creating of new forms of authority such as the powerful Council of Foreign Investors.

Box 2: Arcelor Mittal in Bosnia

ArcelorMittal Zenica (AMZ) was formed through a privatisation deal comprising an upfront payment of $80 million and a commitment to invest a further $200 million in BH Steel the country’s largest steel maker, which employed over 22,000 people. At the time, this was the single largest FDI in Bosnia-Herzegovina. ArcelorMittal’s restructuring plan promised rehabilitation and modernisation of existing facilities, investment in new units, including new technology to address both efficiency and a legacy of environmental pollution. Key aspects of the privatisation agreement on production and employment have not been met. Local employment has plummeted and air pollution from the plant is one of the most sensitive aspects in evaluating the impact of the company’s presence. The Federation government retains a minority stake but is reluctant to engage in key issues such as restructuring or environmental improvements. However the company is at the heart of local politics; local politicians’ electoral fortunes are tied to their relations with the company. The company’s employment and environmental practices, and its position as the main provider of town’s heating are key political battlegrounds and reflect widespread frustration among citizens. Redundancy policy and an overhaul of Zenica’s employment structure has disrupted social patterns and caused new fault lines between the population, with consequences for status, pay and occupational safety.

Box 3: Veolia in the Middle East

Veolia, the giant French environment and transport group has a number of operations in Lebanon and Israel, building water plants in Lebanon under contracts with the Lebanese Council for Development and Reconstruction (CDR), described as an opaque organisation, and a highly controversial project to build a light railway connecting new settlements in the West Bank. Veolia was a member of a French/Israeli consortium building the Jerusalem tramway on a design/build/operate basis. Palestinians claim that the railway is a means by which Israel is reinforcing its illegal occupation over the whole of Jerusalem. European companies are making possible a project which entrenches discrimination against the Palestinians. The project was defended by the

---

4 Research on this case study was conducted by Dr Vesna Bojicic-Dzelilovic and I am grateful for her permission to reproduce it here.
company on the grounds that it is ‘only’ a sub-contractor in the construction. Although the company is a participant in and promoter of the UN Global Compact on corporate behaviour, there is a disconnect between policy made at headquarters and what is done on the ground. The group’s commitment to ethical norms is filtered through multiple management and organisational layers before they are operationalised, and weakens its due diligence on human rights and other conflict issues. Many Veolia staff are unaware of the UN Global Compact, and corporate social responsibility (CSR) has limited resonance and uncertain meaning in local culture. A report by the EU Heads of Missions in Jerusalem, criticised the railway project: ‘Israel is by practical means actively pursuing its illegal annexation of East Jerusalem by weakening the Palestinian community in the city, impeding Palestinian urban development and ultimately separating East Jerusalem from the rest of the West Bank’. However the most effective action restraining European corporate involvement was a series of consumer boycotts of Veolia internationally.

**Box 3 Bechtel-Enka in Kosovo**

A joint venture between US contractors Bechtel and Turkish conglomerate Enka, won a €400 m public tender from the Kosovan government in 2010, to build a motorway connecting the capital with Macedonia. The project had a symbolic value demonstrating modernisation of the country’s infrastructure. The joint venture partners committed to hire 3000 local workers, a significant employment boost to the Kosovan economy, which also held out the prospect of new skills and capacities to the local workforce. The project is financed by the Kosovan government and the cost represents nearly two-thirds of Kosovo’s entire capital budget. The motorway contract attracted criticism including from former senior officials of the International Civilian Authority over the lack of transparency surrounding the contract, the support given by the US embassy in Pristina, in particular the ambassador who subsequently took a job with Bechtel, and allegations of abuses of workers and breaches of safety rules. These have been rigorously denied by the government and the contractors but no information has been supplied to support these denials.

Informal and ad hoc networks which corporations enter into with local elites, community groups, social coalitions and individuals, create further opportunities to both pervert/subvert legitimate practices and for unintended outcomes. A disconnect between ethical commitments and pragmatic decisions on the ground are common (see box 3), and outcomes are likely to be uneven and haphazard rather than systemic and constructive (Martin and Bojicic-Dzelilovic 2015). Whether this always works
against local communities and human security in conflict settings cannot be assumed: it has to be established empirically case by case, and in practice and policy terms.

**Section III: Conclusions and policy implications**

Global corporations have become embedded in the landscape of conflict and security in the last twenty years, most visibly through legitimate companies seeking new markets and resources in dangerous neighbourhoods and in some cases being sucked into patterns of predation and corruption. They have also become visible as privileged partners of the international community, most notably the UN, in addressing a broad range of ‘new’ security issues such as health, environment as well as economic development, and through bringing together commercial interests and social objectives.

Mainstreaming corporate responsibility and acknowledging the private sector’s socio-economic and political role in conflict environments proposes benefits in terms of legitimacy to business, and resource gains to the UN which declared private companies to be ‘indispensable’ to the Post 2015 development agenda (Ban Ki Moon 2015). The effects of this symbiosis between the policy community and business are hard to gauge: practice metrics for assessing corporate (good) behaviour are underdeveloped technically (Cunningham 2014), while the conceptual framing and analysis of the Global Compact and business responsibility in general are contested, and poorly underpinned by empirical evidence, particularly in conflict settings (Rasche and Waddock 2014; Baumann-Pauly and Scherer 2013, Sethi and Schepers 2013; Scherer and Palazzo 2011).

The European Union lags behind other global actors in integrating the private sector into its conflict analysis, mediation efforts and peacebuilding. This is despite its natural advantages and experience as a corporate and economic regulator, and as the ‘home state’ of some of the world’s leading TNCs, (23 of the Global Top 100 are in the UK and Eurozone5). The private sector has not generated or been the subject of functional spillover whereby collective policy in trade and economics has developed into cooperative forms of security. The ‘low politics’ of the Single Market has not produced a role for the private sector in security and foreign policy (Hoffmann 1966, Hooghe and Marks 2007).

In addressing this gap in its capabilities, and its lack of joined up action towards business and security, the EU has the chance not just to catch up with what has been achieved in the last two decades by the UN and other international organisations, but to go deeper in addressing the corporate problem at the grass roots.

---

Strategies of co-optation /co-operation and compliance and a discourse of responsibility, whether framed as CSR, security responsibility, or redress for human rights abuses are only likely to be effective if they recognise the multiple levels and ways in which TNCs influence security, and if they take particular account of grass-roots corporate impacts. The private sector represents an example (among others) of the phenomenon of hybrid peace (Mac Ginty, 2010; Jarstadt and Belloni 2012). This means that the private sector cannot be assumed to be a mechanism for top-down transformation. It will affect conflict environments in often contradictory ways, which require mediation and mitigation at the micro-level, not only through international or even national economic policy. The presence of global business is a site for perpetual power negotiations between multiple local and external actors, with diverse opportunities to undermine governance and socio-economic reform and perpetuate perverse behaviour. The challenge for the EU is to understand how these dynamics work, and seek entry points to divert as well as leverage corporate behaviour to produce positive outcomes for human security.

The EEAS is an obvious institutional starting point to develop a clear and transparent brief co-ordinating with DG Development and DG Enterprise on human rights, CSR and peacebuilding agendas, as a systematic part of political dialogue and security strategy.

As a regulator, the EU could also do much to counter a lack of information about private sector activities (including abuses), where they shelter behind claims of commercial confidentiality. It could sponsor adequate metrics for measuring corporate impacts and monitoring the gap between corporate commitments and actual operations. It could also use both indirect financing and direct interventions to ensure that the private sector is brought into discussions on governance reforms, local ownership and security sector reform. These are lessons which have been learned from the UN experience on business and human rights, which could be applied to improving EU practice towards the private sector (Jungk 2015). Better provision of information and training to European companies to identify and adopt best practices on human rights and human security is another contribution the EU can make. The EU could do more to help civil society and local communities overcome their traditional passivity and lack of expertise in holding TNCs to account, and in pressuring local governments to act responsibly and transparently towards foreign investors and contractors. Finally the EU could re-energise its work with SMEs to include global business, through global supply and value chains, to mount more co-ordinated and bottom-up initiatives, towards the private sector.
References


Making Europe a pole of excellence on corporate social responsibility’


COM(2011) 886 final


Haas, E ( 1958)


Hoffmann, S. (1966) ‘Obstinate or Obsolete? The Fate of the Nation-State and the Case of Western Europe’, Daedalus

Vol. 95, No. 3, Tradition and Change (Summer, 1966), pp. 862-915


Lewis, S (2004) ‘Rejuvenating or Restraining Civil War. The role of external actors in the war economies of Sudan’ Bonn International Center for Conversion


O’Brien, Robert, Anne Marie Goetz, Jan Aart Scholte, and Marc Williams, Contesting Global Governance: Multilateral Economic Institutions and Global Social Movements (Cambridge: Cambridge University Press, 2000),


- (2011c) Business and human rights in conflict-affected regions: challenges and options towards State responses


