

## **“We, the Stakeholders of Globalization...”:**

### *A Role for Business in New Forms of Global Democracy?*

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**Andreas Blüthner**

“Democracy is the worst form of government except all those other forms that have been tried.”

—Winston Churchill, 1947

“The launch of the Global Compact is an important milestone in the democratic history of Ghana.”

—Ghana’s Vice President Alhaji Aliu Mahama, 2002

“Corporate citizenship in the world economy.”

—Global Compact brochure, 2003

#### **Introduction**

This fourth symposium on democracy at Kent State University is called Globalization and Democracy. It aims to address recent trends, challenges and developments regarding the future of democracy for increasingly diverse and economically integrated national and international societies. It draws on the lessons learned from the tragic events of May 4, 1970, at Kent State.

On May 4, 1970, four students died and several were wounded while protesting for societal change. The tragic events of Kent State in May 1970 caused a national student strike. Activist groups took up the momentum created by the incidents of Kent and protests rapidly spread out over the country: highways, expressways, city streets, and railroad tracks were barricaded across America and a “dangerous situation... threatening the whole economic and social structure of the nation” appeared.<sup>1</sup> Finally, more than 35,000 national guardsmen had to be called into action in sixteen states in order to maintain public order.<sup>2</sup>

With a view to the events at Kent State in 1970, some similarities might appear with today’s anti-globalization movement. Globalization’s critics became prominently recognized by the broader public through their protests against the third WTO Ministerial Conference in December 1999, which ended up in the “battle in the streets of Seattle” against local police forces.<sup>3</sup> These protesters also demanded a social change; namely, a more effective realization of global societal values like human rights, decent labor conditions, and proper environmental standards. Furthermore, they called for a more equitable and democratic international economic order and its supposed governing institutions, most prominently the World Trade Organization (WTO). These protests were followed by demonstrations in Washington, Bangkok, Prague, Davos, Melbourne, Quebec, and Genoa. In Genoa, an anti-globalization activist died in violent confrontations with local police forces, while the G-8 summit was under way.

The protests in Seattle, Genoa and other cities indicate growing public concern and misunderstandings about globalization and its governance. This concern addresses three different governmental levels, in which globalization is perceived to have a negative impact on democratic

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<sup>1</sup> *Business Week*, May 16, 1970. See <http://alancanfora.com/nwspage.asp?id=40> (accessed Dec. 10, 2004).

<sup>2</sup> See <http://alancanfora.com/may4fr.htm> (accessed Dec. 10, 2004). Alan Canfora is a member of the KSU May Fourth Task Force, an activist group aiming at raising the level of awareness of students, faculty and the general public about the May 1970 incident and the history of subsequent related events.

<sup>3</sup> *Seattle Post Intelligencer*, December 1, 1999.

structures and decisions. First, a case for democracy can be made on the constitutional level of global governance: National economies are most often based on a commonly agreed set of societal values, but the global regulatory systems of open markets are perceived as lacking an effective framework of common values and principles, including a strong democratic legitimacy. Second, another case for democracy identified by globalizations' critics are institutions like the WTO, targeted for their pretended nondemocratic institutional design. However, the WTO emphasizes that it is a member-driven organization, participating in the legitimacy of elected governments, which are represented in the WTO's decision-making bodies. Third, civil society groups make up a third argument, which is about the assumed antidemocratic effect of WTO regulations and rulings. Backed by a significant scientific opinion, they make trade liberalization responsible for increasing institutional competition that undermines national standards, such as environmental and labor standards, which finally results in a regulatory "race-to-the-bottom."<sup>4</sup> This is seen as creating de facto limitations for elected local jurisdictions and the exercise of peoples' voting power.

To sum up, the Kent State demonstrations in the 1970s and the marches against globalization today have in common that protesters claim to exercise democratic rights, such as freedom of speech and assembly, and that they push for democratic rights, such as participation or transparency. Both were also part of confrontational and violent approaches toward achieving social change.

By drawing a line from May 4 events over recent anti-globalization protests, this paper aims to present and further elaborate a "cooperationist" policy model for the challenges of globalization: the U.N. Global Compact (GC). This project, initiated by U.N. Secretary General Kofi Annan in 1999, calls for cooperation instead of confrontation in addressing universally accepted values. This paper will provide a basic understanding of this initiative and its context, where it comes from, what it is, and what it is not. It will as well explain the common ground of this initiative through the different views of the divergent stakeholders. One point of emphasis will lie on the substantive principles and procedural mechanisms of the global structures, compared to emerging local structures. The fact-finding concerning the local situation is based on a project mission undertaken for the United Nations in 2002 (Global Compact Development Project). This paper will explore the capacity of the compact for sustainable governing networks and institutions that can complement state jurisdiction on the global and local level. Finally, an outlook is provided on the GC as its future potential to develop into a multi-stakeholder model of democracy.

## **The Global Compact**

### **Context**

The United Nations has been working with the private sector for more than fifty years; for example, through the procurement of goods and services. Since then, the United Nations and business have been interacting through intergovernmental processes and policy networks. In addition, NGOs (nongovernmental organizations) cooperate with the United Nations both in the field and at the

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<sup>4</sup> Steve Charnovitz. "The WTO and Social Issues," *Journal of World Trade* 28, no. 1 (1994): 7; Friedl Weiss, "Internationally Recognized Labour Standards and Trade," *International Economic Law with a Human Face*, ed. Friedl Weiss (Den Haag: Kluwer Law International, 1998), 85; Eddy Lee. "Globalization and Labour Standards: A Review of the Issues," *International Labour Review* 136, no. 2 (1997): 180; Nigel Harworth and Stephen Hughes, "Trade and International Labour Standards: Issues and Debates over a Social Clause," *Journal of International Relations* 39, no. 2 (1997): 185; Lance Compa. "Labor Rights and Labor Standards in International Trade," *Law and Policy in International Business* 25, no. 1 (1993): 166; Werner Sengenberger. "International Labour Standards in a Globalized Economy: The Issues." *International Labour Standards and Economic Interdependence*, ed. Werner Sengenberger and Duncan Campbell. (Geneva, Switz.: ILO, 1994), 3; Peter Koslowski. *Ethik des Kapitalismus (Ethics of Capitalism)*. (Tübingen, Ger.: Mohr, 1984), 221.

political level. In 1999 more than 44,000 nongovernmental groups existed (1991: 23,600) and around 3,500 enjoy an official consultative status within the United Nations.<sup>5</sup>

Thirty years ago the relevant U.N. bodies perceived business for their aim and work rather as part of the problem, than part of the solution. Accordingly, rigid rules of corporate behavior were the means of early U.N. approaches to business. In the 1970s, the U.N. Center for Transnational Corporations (CTC) drafted a “U.N. Code of Conduct” aimed at setting minimum behavior standards for multinationals.<sup>6</sup> Since member states did not come to an agreement, the code was never adopted and the CTC is now closed down.

In this context, the approach of the GC can be seen as a change of paradigms. At the beginning of a new century, the United Nations and world societies are facing increasingly complex and particularly interconnected economic, social, and environmental challenges that call for cooperation. Secretary General Annan’s starting point to respond to these new challenges was the recognition that business should rather be perceived as part of the solution, than as part of the problem. Accordingly, he underscored that the United Nations and business share common goals, even though diverging interests might drive them. For example, the United Nations contributes to the “soft infrastructure” for business by advocating respect of public goods and universal values, such as peace and stability.<sup>7</sup> The private sector can contribute to these goals not only through philanthropic action or community projects but also through the way good corporate citizens are conducting their business, including sound social and environmental investment.

On the macro level, Secretary General Annan was aware that the globalization process is not irreversible, as proclaimed by some in the late 1990s.<sup>8</sup> He saw the threat of a backlash to globalization, if it did not become more inclusive and sustainable. He particularly pointed to the question of inequity between countries and people, which remained unanswered by economic liberalism alone. Accordingly, nine months before the events of Seattle, he proposed the GC to the stakeholders of globalization in Davos. The overriding goal he had in mind for this compact was to offer a framework for helping to fill the gap between economic issues, which enjoy strong governing rules and

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<sup>5</sup> Jane Nelson. *Building Partnerships: Cooperation between the United Nations System and the Private Sector* (New York: United Nations, 2001), 19.

<sup>6</sup> For more information on the work of the CTC, see United Nations, Center on Transnational Corporations, *The CTC Reporter*, a periodical that ran from 1976 to 1991; and United Nations, Department of Economic and Social Development: Transnational Corporations and Management Division, *Advisory Studies*, New York (1987–90), online at <http://unctc.unctad.org/asp/ctcTitle.aspx> (accessed Dec. 10, 2004).

<sup>7</sup> For further research in international cooperation and global public goods from a U.S. perspective, see Joseph S. Nye, “American National Interest and Global Public Goods,” *International Affairs* 78, no. 2 (2002), 233–44.

<sup>8</sup> Some would accordingly say that he supports the “weak globalization thesis,” which sees “globalization” as nothing entirely new compared to traditional “economic integration” that still allows a range of viable policy alternatives. However, this paper does not aim at analyzing or contributing in depth to the already fuzzy definition of “globalization.” For a good introduction from political science perspective, see Christopher Kollmeyer, “Class Compromise and American Exceptionalism: Political Change in 16 Advanced Capitalist Countries,” *Critical Sociology* 29, no. 3 (2003), 371. Available online at <http://repositories.cdlib.org/cgi/viewcontent.cgi?article=1022&context=gis> (accessed Dec. 10, 2004). On globalization, its definition problems, and the role of business, see Klaus M. Leisinger, “Globalization, Minima Moralia of Multinational Companies.” Available online at [http://www.novartisfoundation.com/en/articles/business/globalization\\_multinational\\_companies.htm](http://www.novartisfoundation.com/en/articles/business/globalization_multinational_companies.htm) (accessed Dec. 10, 2004).

appropriate enforcement at the international level, and social and environmental issues, which do not yet.<sup>9</sup>

### **How the Compact Came About**

The first high level meeting on the Global Compact was held on July 26, 2000, in the rooms of the General Assembly at the U.N. Headquarters in New York.<sup>10</sup> This was the official “kick-off” for the GC. In a forward-looking speech at the World Economic Forum in Davos on January 31, 1999, U.N. Secretary General Kofi Annan addressed the following words to the gathering of world business leaders:

“Let us choose to unite the power of markets with the authority of universal ideals. Let us choose to reconcile the creative forces of private entrepreneurship with the need of the disadvantaged and the requirements of future generations.”<sup>11</sup>

This proposal was initially taken up by forty-four founding participants from various business sectors.<sup>12</sup> The GC includes major global players such as Asea Brown Boveri (ABB), BASF, DaimlerChrysler, Dupont, Nike, Union de Banques Suisse (UBS), and Volvo. Furthermore, a significant number of selected small and medium-sized enterprises and associations are lending their support to the GC. The range of civil society organizations (CSOs) represented in the GC includes leading human rights organizations such as Amnesty International and Human Rights Watch, major environmental groups like the World Wildlife Fund (WWF), and social initiatives, for example Business for Social Responsibility and Transparency International.<sup>13</sup> Additionally, with the International Organization of Employers and the International Confederation of Free Trade Unions, the most important labor groups are actively supporting the GC.

Yet, the composition of the participants shows that the GC is still a primarily European-based initiative. Some see the main reason for the ongoing reservation of U.S. companies to join the GC in

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<sup>9</sup> Georg Kell, “Dilemmas in Competitiveness,” paper presented at the Community and Citizenship Business and Human Rights seminar at a conference Toward Universal Business Principles, London School of Economics and Political Science, London, May 22, 2001. Available online at <http://www.unglobalcompact.org/content/NewsEvents/SpeechesStatements/LSE.htm> (accessed Dec. 10, 2004).

<sup>10</sup> A wealth of information on the New York meeting and the Global Compact, including U.N. documents, the commitments of participants, case studies, speeches, press information and the full text of papers can be accessed from the homepage <http://www.unglobalcompact.org> (accessed Dec. 10, 2004). For a four-page special section on the Global Compact, see *International Herald Tribune*, January 25, 2001. The work on the Global Compact within the United Nations, however, started as early as 1998. For one of the first presentations of the concept, see Georg Kell and John Ruggie, “Global Markets and Social Legitimacy: The Case of the ‘Global Compact,’” paper presented at the conference Governing the Public Domain beyond the Era of the Washington Consensus: Redrawing the Line between the State and the Market, York University, Toronto, Canada, November 4–6, 1999), 7. Available online at <http://www.unglobalcompact.org/content/NewsEvents/SpeechesStatements/gkjr.htm>. (accessed Dec. 10, 2004).

<sup>11</sup> Secretary General Annan’s speech in Davos (UN-Doc. SG/SM/6881/Rev.1). Available online at <http://www.un.org/News/Press/docs/1999/19990201.sgs6881.r1.html>. (accessed Dec. 10, 2004).

<sup>12</sup> Currently it is far from being clear what status the different groups in the initiative are holding. Accordingly it seems appropriate to talk just about “participants” rather than “members.”

<sup>13</sup> A list of all participants of the Global Compact is available online at <http://www.unglobalcompact.org/Portal/Default.asp> (accessed Dec. 10, 2004). Delegates from eighteen countries were also present at the New York meeting as observers, including developed countries like the United States, Germany, and Norway and developing countries like India, Pakistan, and Thailand.

their reliance on the so-called Global Sullivan Principles (GSP), a set of principles about how to conduct responsible business, initiated by Leon Sullivan, a late U.S. entrepreneur. Although the GC goes further in its environmental principles, there seems to be no contradiction, but instead many similarities between the content and the aims of the two initiatives. Accordingly, the GSP home page has now set up a link to the GC Web site.<sup>14</sup> However, for transnational companies, the GSP are not a sufficient substitute for the GC, because they do not have the universal authority of the United Nations, as the GC does. The GSP will, despite its name, always be recognized as a domestic U.S. initiative. Accordingly, with a view to attracting U.S. business, U.N. Secretary General Kofi Annan was anxious to stress that the GC Alliance is open to all important companies prepared to make some contribution toward achieving the nine universal principles, which are now going to be addressed in detail below.<sup>15</sup>

### ***Substantial Pillars of the Compact***

The GC is based on nine principles, which were drawn from three universally accepted U.N. declarations in the area of human and labor rights and environment. These principles were translated from state duties to promotional principles addressing the business community and read as follows:

#### *Human rights*

1. World business should support and respect the protection of internationally proclaimed human rights within their sphere of influence, and
2. make sure they are not complicit in human rights abuses.

#### *Labor*

3. Businesses should uphold freedom of association and the effective recognition of the right to collective bargaining,
4. The elimination of all forms of forced and compulsory labor,
5. The effective abolition of child labor, and
6. The elimination of discrimination in respect of employment and occupation.

#### *Environment*

7. Businesses should support a precautionary approach to environmental challenges,
8. Undertake initiatives to promote greater environmental responsibility, and
9. Encourage the development and diffusion of environmentally friendly technologies.<sup>16</sup>

Human rights make up the first pillar of the GC, as participants have committed themselves to promoting human rights within their sphere of influence and not being complicit in their violation. The commitment to human rights may be particularly beneficial for the purpose of economic and social rights, the so-called second dimension human rights, rather than the political rights of the first dimension.<sup>17</sup> Through their products, companies can make a vital contribution toward meeting

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<sup>14</sup> Online at [www.globalsullivanprinciples.org](http://www.globalsullivanprinciples.org) (accessed Dec. 10, 2004).

<sup>15</sup> See paragraph five, "Executive Summary and Conclusion of High Level Meeting on the Global Compact," U.N. Press Release SG/2065, July 27, 2000. Available online at <http://www.un.org/News/Press/docs/2000/20000727.sg2065.doc.html> (accessed Dec. 10, 2004).

<sup>16</sup> The full version of the Global Compact principles is available online at [http://www.unglobalcompact.org/Portal/?NavigationTarget=/roles/portal\\_user/aboutTheGC/nf/nf/theNinePrinciples](http://www.unglobalcompact.org/Portal/?NavigationTarget=/roles/portal_user/aboutTheGC/nf/nf/theNinePrinciples) (accessed Dec. 10, 2004).

<sup>17</sup> For more information on the three dimensions of human rights, see Eibe H. Riedel, "Menschenrechte der dritten Dimension" ("Third Dimension Human Rights"), *EuGRZ* (1989): 9–21.

economic and social needs. They have expertise and resources at their disposal which could efficiently be deployed in implementing, for example, the rights to food and health. Additionally, it is interesting to note that the United Nations is starting to clarify the human rights content of the GC by linking it with existing voluntary and legally nonbinding instruments like U.N. Codes of Conduct.<sup>18</sup> In addition, relevant U.N. treaty bodies are starting to directly refer to the GC and its participants in official U.N. documents and regulations.<sup>19</sup>

Universal social objectives constitute the second pillar of the GC. These labor principles of the GC correspond to the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work, which was unanimously adopted by the members of the ILO in 1998.<sup>20</sup> This historical second-ever declaration by the ILO clarified which of the 183 ILO Standards are “core labour rights” because of their human-rights dimension. The declaration must be seen as an answer given to those accusing ILO of failing in effectively implementing its standards and who are demanding a social clause in the WTO, implementing human rights with trade sanctions.<sup>21</sup>

The third pillar of the GC, which holds the environmental principles, can be traced back to the Rio Declaration of 1992.<sup>22</sup> Among the ecological principles, the spread of environmentally sound technologies seems of particular significance for the aim of Sustainable Development (SD),<sup>23</sup> since it likewise addresses economical, ecological and developmental policy needs.<sup>24</sup> The seventh principle of

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<sup>18</sup> For example, the U.N. Code of Conduct for Law Enforcement Officials, available online at [http://www.unhcr.ch/html/menu3/b/h\\_comp42.htm](http://www.unhcr.ch/html/menu3/b/h_comp42.htm) (accessed Dec. 17, 2004), is referred to by different Global Compact publications. Due to the flexible and project-based approach of the Global Compact and its structural differences compared to Codes of Conduct as discussed below, this approach seems to be questionable.

<sup>19</sup> See, for example, “Draft Responsibilities of Transnational Corporations and other Business Enterprises with Regard to Human Rights,” UN-Doc. E/CN.4/Sub.2/2002/13, available online at <http://www1.umn.edu/humanrts/links/NormsApril2003.html> (accessed Dec. 10, 2004).

<sup>20</sup> For the negotiating history of the ILO Declaration on Fundamental Rights at Work see ILO, Report VII, ILC, 86th Session, “Consideration of a Possible Declaration of Principles of the International Labour Organization concerning Fundamental Rights and Its Appropriate Follow-up Mechanism” (Geneva, Switz.: ILO, 1998). Available online at <http://www.ilo.org/public/english/standards/reim/ilc/ilc86/rep-vii.htm> (accessed Dec. 17, 2004).

<sup>21</sup> For further reading on the issue of human rights and proposals to enforce them through trade measures, see Andreas Blüthner, *Welthandel und Menschenrechte in der Arbeit (World Trade and Human Rights at Work)* (Frankfurt, Ger.: Peter Lang Verlag, 2004), 230.

<sup>22</sup> The text of the Rio Declaration and other milestones in international environmental law are online at <http://www.un.org/documents/ga/conf151/aconf15126-1annex1.htm> (accessed Dec. 17, 2004). Further, it is interesting to note that David F. Murphy in *African Enterprises and the Global Compact: Adding Value through Human Relationships* (Tunis, Tunisia: New Academy of Business, 2001), available online at <http://www.new-academy.ac.uk/research/africanenterprise/report.pdf> (accessed Dec. 17, 2004), traces the environmental principles of the Global Compact back to African values as described by Senghor already in the late 1950s.

<sup>23</sup> Environmentally Sound Technologies (ESTs) as defined by Agenda 21 “protect the environment, are less polluting, use all resources in a more sustainable manner, recycle more of their wastes and products, and handle residual wastes in a more acceptable manner than the technologies for which they were substitutes. (ESTs) are not just individual technologies, but total systems which include know-how, procedures, goods and services, and equipment as well as organizational and managerial procedures.”

<sup>24</sup> Sustainable Development is commonly defined as “development that provides economic, social and environmental benefits in the long-term, having regard to the needs of living and future generations.” See Alan Gilpin, *Dictionary of Environment and Sustainable Development* (Chichester, N.Y.: Wiley, 1996), 35. For the foundation of the concept of Sustainable Development, see the so-called “Brundtland Report” by the World Commission on Environment and Development, *Our Common Future*, (New York: Oxford Univ. Press, 1987).

the GC contains the precautionary principle, also enshrined at the Rio Conference, which might be seen as representing the time dimension in the concept of SD.<sup>25</sup>

The concept of SD provides the unwritten and underlying concept of the GC and its nine principles. Due to its integrative, “cooperationist” approach, SD can provide a common ground for an initiative of partners with divergent backgrounds and particular interests. As the GC relies on a liberal and open world economy, but at the same time addresses social and environmental demands, the initiative aims to foster basically all three pillars of sustainability on the global level.<sup>26</sup> Also, the composition of participants represents economic, social and environmental interests, which perfectly suits the integrative imperative and the threefold approach of sustainability. Consequently, the GC was incorporated in the 2002 World Summit on Sustainable Development (WSSD) in Johannesburg (“Rio plus 10”) and the Rio process as a whole, as erstwhile suggested by Klaus Töpfer in New York.<sup>27</sup>

To sum up, the GC contains nine principles drawn from universally accepted core U.N. treaties covering the areas of human rights, labor rights and environmental policy. Sustainable development may be seen as the underlying common sense building the bracket between the divergent range of stakeholders engaged in this initiative.

### ***Procedural Pillars of the Compact***

In addition to the nine substantive principles, the GC is also characterized by important procedural components, and two formal obligations for participants to join the compact ensure due progress of the initiative.

First, participants must send a letter by their CEO to U.N. Secretary General Kofi Annan proclaiming that they will embrace and promote actively the principles and objectives of the GC.

On the one hand, this CEO commitment ensures in companies a top-down approach toward the internal implementation of the GC. Examples are the integration of the nine principles into management processes or setting up a compliance scheme. On the other, this letter might be seen as a quasi-binding commitment to the compact’s principles, since the CEO expresses support, on behalf of the company, to the head of the United Nations. However, so far corporations have not been recognized as legal subjects in public international law.<sup>28</sup> The signature of the CEO to the GC, however, may one day be seen as the birth of a new form of “soft law treaties” in public international law, voluntarily enacted and monitored by the public, possibly through increased transparency in the areas this “compact” covers.

Second, once a year the participants have to publicly prove concrete undertakings promoting the principles of the compact on the GC Web site.<sup>29</sup> This procedural element of the compact ensures transparency in order to prove once-a-year concrete action in implementing the nine principles. This

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<sup>25</sup> See John G. Ruggie, *The Global Compact as Learning Network*, available online at [http://www.ksg.harvard.edu/cbg/research/j.ruggie\\_global.governance\\_global.governance.net.pdf](http://www.ksg.harvard.edu/cbg/research/j.ruggie_global.governance_global.governance.net.pdf) (accessed Dec. 17, 2004). The essence of the precautionary approach is described in Principle 15 of the Rio Declaration, which states: “Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost effective measures to prevent environmental degradation.”

<sup>26</sup> For the relation of the Global Compact to the liberal trading system, see *infra* 20.

<sup>27</sup> The Results of the World Summit on Sustainable Development in Johannesburg (WSSD +10) are available online at <http://www.johannesburgsummit.org> (accessed Dec. 17, 2004).

<sup>28</sup> Beside the cases of so called state contracts, which are treaties between states and the private sector, mostly on subjects regarding business opportunities in the country, like investment or extraction of raw materials and natural resources. As a starting point for further research, see A. F. M. Maniruzzaman, “State Contracts in Contemporary International Law: Monist versus Dualist Controversies,” *European Journal of International Law* 12, no. 2 (2001): 309–28, discussing different forms of state contracts.

<sup>29</sup> Online at [www.unglobalcompact.org](http://www.unglobalcompact.org) (accessed Dec. 17, 2004).

is necessary to avoid free-riding by those, just signing a letter and taking advantage of being part of this high-profile initiative, for example enjoying the privilege of active participants to advertise with the GC logo. Free riders not fulfilling this requirement are regularly criticized by NGOs for “bluewashing” their image with help of the U.N. (that is, white washing their image with the legitimacy of the United Nations’ blue flag; see also note 53). Active corporate participants hold a stake in maintaining the integrity of the GC by avoiding such free-riding behavior.

Besides cooperation, transparency regarding achievements creates constructive competition as a driving force for implementing the nine principles and for developing new best practices between the participants. Best practices within the GC incorporate the economically, ecologically or socially applied capacity of the participants, for example, through realization of sustainability projects. Publishing such best practices on the Web site or presenting them at the annual forum of the GC can serve as a stimulus or yardstick to other participants. Companies are used to responding to competitive challenges, particularly if they come from the same country or sector, with innovation and improvements, which was smartly translated into the not-for-profit environment of the GC.

Beyond these entry requirements, the procedural structure of GC itself rests on three core elements: dialogue, learning and projects. Firstly, annual multi-stakeholder “policy dialogues” are held on the contemporary challenges of globalization and corporate citizenship, aimed at providing a key platform for substantive discourse. Participation in these dialogues is voluntary and open to all GC stakeholders: business, labor and civil society organizations. Drawing on the core strength of the United Nations and its convening power, GC dialogues offer a unique, added feature: proximity to governments and operational entities of the United Nations. This allows results coming out of dialogues to influence both the policy-making level and the operational activities on the ground. The overall objective is to facilitate mutual understanding, create a climate of collaboration, and develop a culture of rapid and repeated experimentation aimed at identifying innovative solutions to the key challenges of globalization.

Experience obtained so far is encouraging. The first two dialogues focused on the themes “The Role of the Private Sector in Zones of Conflict” and “Business and Sustainable Development.”<sup>30</sup> As of January 2003 six major meetings had been organized and eight self-sustained working groups are active. The GC Office and relevant U.N. agencies facilitate problem definition and solution finding while giving maximum leeway to those who are willing and able to make progress. Following a first meeting in which the participants identify and prioritize key issues, champions carry the work forward in informal groups. Subsequent meetings, bringing together all the participants in dialogues, provide opportunities for broadening support, building consensus around practical solutions and preparing the ground for action.

Second, ever since the GC was launched in July 2000, learning has been an integral part of both its vision and day-to-day operations. Learning is aimed at helping the participants in internally applying ideas and experiences from dialogues and project cooperation. At the heart of the GC learning network is the Learning Forum, which operates on the one hand as Web-based forum and database, on the other convenes annual meetings of participants presenting their concrete undertakings, both with a view to success stories and to lessons learned from implementing the nine principles.

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<sup>30</sup> On the policy dialogue, see “The Role of the Private Sector in Zones of Conflict,” Global Compact Policy Paper Series, vol. 1, *Case Studies of Multi-Stakeholder Partnership*, ed. Virginia Haufler (New York: UNDP, 2003), available online at [www.undp.kz/img/docs/en/546.pdf](http://www.undp.kz/img/docs/en/546.pdf) (accessed Dec. 17, 2004), and vol. 2: Juliette Bennett, *Conflict Prevention and Revenue-Sharing Regimes* (New York: UNDP, 2003), available online at <http://www.undp.kz/img/docs/en/547.htm> (accessed Dec. 17, 2004).



The Learning Forum invites the participants to share good practices and to identify and fill knowledge gaps around issues related to the GC. The goal is to establish a rich and useful repository of both corporate practice and fundamental research, a platform of knowledge that integrates the views of all relevant stakeholders, while simultaneously increasing the transparency of companies' activities. The Learning Forum on the global level aims to create a valuable model for the formation of local and regional learning structures.

Ultimately, the Learning Forum seeks to contribute to a better understanding of the concept of "globally responsible corporate citizenship," thereby building issue leadership in support of the Secretary General's vision of a more inclusive and sustainable global economy.

To achieve these goals, the Learning Forum leverages several important assets, including examples and case study databases for networking and primary research, a recently established academic network, as well as an emerging network of Corporate Social Responsibility (CSR) organizations that are interested in working with the GC.<sup>31</sup>

Third, the participants may join United Nations specialized agencies in public-private partnership projects. The GC is an expression of common values and common goals of participating companies, U.N. agencies, labor (unions) and civil society organizations (NGOs). These common values are best expressed by partnership projects contributing to the achievement of the nine principles. Through partnership projects, GC participating companies can pool their knowledge and expertise with development organizations, be they U.N. agencies, state agencies, labor or NGOs. The objective of GC partnership projects is to support in sustainable development the host country of a GC firm's operation, by using the nine principles and corresponding value sets, such as the U.N. Millennium Development Goals, as guidelines.<sup>32</sup>

Even before the GC, a number of U.N. organizations cooperated successfully with the private sector on a project basis and therefore have the relevant experience with private-public partnerships on the operational level.<sup>33</sup> Accordingly, participants of the GC, too, were already implementing partnership projects in many countries, before the GC arose. However, the Global Compact encouraged participating firms to increase the number of projects worldwide, particularly in developing countries. At the same time, the GC offers companies a communication platform and the organizational and technical services of U.N. agencies—particularly the United Nations Development Programme (UNDP). Recently, the GC Office in close cooperation with UNDP developed the following project criteria:

1. The project objective(s) support(s) one or several U.N. Millennium Development Goals and correspond with one or more GC Principles.
2. Partners and beneficiaries participate in drafting, implementing, monitoring and evaluating the project.

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<sup>31</sup> For a call to "globalize" CSR (Corporate Social Responsibility) and the respective contribution of the Global Compact, see Ruggie, "Globalization, the "Global Compact" and Corporate Social Responsibility," *Transnational Associations* 6 (2000): 292.

<sup>32</sup> See <http://www.undp.org/mdg/> (accessed Dec. 17, 2004) for the text of the Millennium Goals.

<sup>33</sup> The ILO, for example, has a great deal of experience of cooperation with transnational companies; see, for example, the decent work program online at <http://www.ilo.org/public/english/decent.htm> (accessed Dec. 17, 2004). Also worth mentioning are the partnership programs of the UNIDO that aim, for example, to improve the interface between transnational companies and their SME suppliers in developing countries, available online at <http://www.unido.org/doc/4364> (accessed Dec. 17, 2004). An overview of the relations between the U.N. and business is online at <http://www.un.org/partners/business/index.asp> (accessed Dec. 17, 2004).

3. Partners and beneficiaries contribute financially or with their work to the implementation of the project.
4. In their design, projects follow the concept of sustainability and capacity building.
5. The partnership project produces measurable results corresponding with its objective(s).
6. The project has the potential to be replicated elsewhere, within the project country or outside.
7. Innovative and successful partnership projects are replicated by becoming part of regional or national sector policies.
8. Project activities continue after funding from external sources ceases, that is, projects are institutionally sustainable.

These criteria underscore that entering into partnerships with other participants only as a form of financial sponsorship instead of joining concrete projects is seen as a second-best solution for companies and the success of the GC as a whole. Due to the divergent interest groups, a crucial factor for the overall success of the GC is whether and to what extent the partners are willing and able to enter in concrete and sustainable cooperation at the project level. This is crucial, not only because implemented projects create external positive change toward the nine principles, but also, project cooperation provides the opportunity of mutually beneficial learning and organizational development. It is important to note that the opportunities for mutual learning through the GC are not only for the benefit of business participants, but also for NGOs and particularly envisaged reform of the United Nations. Accordingly, U.N. Secretary General Kofi Annan underscored on April 9, 2002: “I see the Global Compact as a chance for the U.N. to renew itself from within, and to gain greater relevance in the twenty-first century.”<sup>34</sup>

To sum up, the GC is based not only on nine substantial principles but also on a range of procedural mechanisms. First, there are two requirements for participating, namely the letter of commitment by the CEO and the annual “going public” with at least one example of how the nine principles were implemented. Second, the GC itself is based on three procedural elements: dialogue, learning and projects. Annual “Policy Dialogues” create a climate of mutual understanding and collaboration, the “Learning Forum” provides resources for applying ideas and experience from dialogues and project cooperation and finally, partnership projects provide concrete action on the implementation stage.

### ***What the Global Compact Is Not***

The policy model of the GC will become even clearer if one considers what the GC is not. First of all, the nine principles of the GC are not designed as and do not constitute minimum standards. Minimum standards define a general behavioral baseline. Their content is fixed and they are directed to prohibit worst practices, like employing child labor. In contrast, the content of the GC is structured in the form of promotional obligations, representing flexible guidelines and benchmarks directed to foster best practices, for example, projects supporting the education of former child laborers. One pragmatic reason for the flexible content of the nine principles is that, due to the wording, there is no precise consensus about the meaning of the principles yet. So it seems hardly possible to define the

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<sup>34</sup> The infra paragraphs are based on official and informal information provided by the Global Compact Office. For further reading, see Andreas Blüthner, “Der Global Compact—Ein Globalisierungspakt über Werte und Effizienz” (The Global Compact: A Globalization Pact about Values and Efficiency), in *Kooperation oder Konkurrenz Internationaler Organisationen. Eine Arbeitstagung zum Verhältnis von Vereinten Nationen und Europäischer Union am Beginn des 21. Jahrhunderts* (Baden-Baden, Ger.: Nomos, 2001), 72–79, arguing for the Global Compact as a new model for cooperation in international affairs.

“precautionary principle” within the GC Alliance or to draw a clear line where “complicity” in human rights abuses begins. However, the “promotional principles approach” of the GC is certainly no “second best” solution. It necessarily has considerably greater flexibility and openness than is the case with concepts based on minimum standards or fixed rules, like codes of conduct.<sup>35</sup> For putting the principles into practice, the GC relies on the “patchwork effect” of specific individual projects and not on rigid regulation.

A difference between minimum standards, for example in certification initiatives such as SA 8000, and the compact’s principles is that there is no specific third-party monitoring of business participants.<sup>36</sup> Companies are not subject to individual inspection in a way that the United Nations itself or individual participants check compliance with the nine principles. This does not mean that participants are not accountable for their compliance with the promotional obligations of the principles. Instead of third-party monitoring, the GC relies on openness, disclosure and transparency enabling monitoring of success through the public and civil society. These means are mainly provided through the procedural requirements, such as the obligation to publish an example on the Web site.

The GC makes neither a provision for sanctions nor any rules governing the consequences of failing to promote the principles. Accordingly, there is no definition of the response to cases of serious disrespect concerning the nine principles by participants. There is not even a mention of the circumstances under which participation of the GC can be withdrawn, although it has already been made clear that the United Nations is prepared to abandon the GC project in the event of failure.<sup>37</sup>

Some, therefore, may be left wondering whether the GC lacks the teeth to convert the principles into practice. Anyone who arrives too hastily at this conclusion is overlooking the fact that the GC is not a classical regulatory control instrument. It relies on setting the right incentives, the power of transparency, the willingness of business players to respond to constructive competition, a changing market environment, and a commitment to self-regulation.<sup>38</sup> Accordingly, the question regarding the procedure in the event of violation of the nine principles virtually answers itself through the means of transparency. Acting in serious and persistent contradiction to the aims of the compact could easily result in “shaming and blaming” through media or CSOs.<sup>39</sup> Companies that do not fulfill their obligations to the GC, particularly failing to submit their annual example, simply will not receive any positive reputation from the GC.<sup>40</sup> They will not even be mentioned as participants. In any event, the participants will not be easily excluded from the possibility of returning to good practices and the aims of the compact.<sup>41</sup>

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<sup>35</sup> For the nature of principles and their distinction to rules, see Ronald Dworkin, *Taking Rights Seriously* (London: Duckworth, 1977), 22–26; and Robert Alexy, “On the Structure of Legal Principles,” *Ratio Juris* 13, no. 3 (2000): 294.

<sup>36</sup> For details about SA 8000 and an overview of different instruments related to social accountability, visit the home page of Social Accountability International online at [www.cepaa.org](http://www.cepaa.org), where a statement of support for the Global Compact is posted.

<sup>37</sup> Ruggie, *Remarks on the Global Compact to the NGO Community*, Geneva, Switzerland, October 13, 2000, available online at <http://www.unglobalcompact.org/content/NewsEvents/SpeechesStatements/ruggiengo.htm> (accessed Dec. 17, 2004).

<sup>38</sup> Ruggie, 2001.

<sup>39</sup> A very active CSR group monitoring corporate behavior is Corpwatch online at [www.corpwatch.org](http://www.corpwatch.org) (accessed Dec. 17, 2004).

<sup>40</sup> Kell and Ruggie, 1999.

<sup>41</sup> At the New York meeting, it was proposed to encourage sectoral Global Compact structures, since best practices of companies in one sector are certainly easier to compare and make use of. However, due to the direct competition between companies in a particular sector willingness to cooperate should not be overestimated.

Finally, it should be stressed that the GC is not intended to replace governmental action or other forms of governance in the areas of human rights, labor rights, and environmental protection, nor can it do so. While governmental regulations usually set minimum standards, best practices within the GC aim to go beyond these. Due to the project nature of the GC, concrete action on the operational level so far can only offer a positive complement to governmental action. Accordingly, many governments have declared their support for the GC, even if they are not directly involved in its actions.

### **Ten Reasons Why the Global Compact Works**

The GC still is an open-ended experiment.<sup>42</sup> Yet, there are at least ten good reasons explaining why this initiative is still rapidly growing, developing and providing significant results at the project level:

1. The United Nations has experience and core competence as a neutral broker. It is capable of resolving communication problems and achieving consensus and cooperation between unequal partners on the international level. This negotiating expertise will be valuable to companies not only in the actual implementation of the nine principles, but also as they enter into more constructive relations between the stakeholders of the globalization process.
2. The United Nations and business might have different interests, but they share common goals. By providing peace and promoting human rights, for which the United Nations and its Secretary General were recently awarded the Nobel price, the United Nations is also creating the “soft infrastructure” increasingly required by companies for global business operations. This results from the increasing length, complexity and transnational interdependence of commercial value chains. Therefore, “positive peace” has become a public good, increasingly demanded across borders by globally operating companies. At the macro level, the overlapping goals and interdependent interests of the United Nations and business became strikingly evident through the terrorist attacks of September 11, 2001, and their negative impact on stability, world peace, and the world economy.
3. As producers and investors, companies are already playing a role in putting the universal principles of the United Nations into practice. Products made by companies can contribute to realizing second-generation human rights, such as the right to food and the right to health. There would appear to be scope for increasing this potential held by companies, not least through technological progress, but also through partnership projects under the GC.<sup>43</sup>
4. Economic and development policy goals coincide. Sustainable economic development, which companies can best contribute through foreign direct investment, reduces poverty and creates in the end markets for companies.<sup>44</sup>
5. According to the commitment of many companies to the concept of SD, the effects of investment are measured and assessed no longer by economic factors only, but equally with environmental and social indicators (triple-bottom-line approach), including environmental standards and human and labor rights. The United Nations recognizes in a forthcoming report on partnerships with business by

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<sup>42</sup> Kell and Ruggie, 1999.

<sup>43</sup> Accordingly, Secretary General Kofi Annan asked world business to support the U.N. in its combat against HIV within the framework of the Global Compact, see “Another Five Years at the UN Helm for Annan, of Course,” *International Herald Tribune*, June 27, 2001.

<sup>44</sup> Jürgen Strube, as Chairman of the BASF Executive Board of Directors on the occasion of accession to the Global Compact, said the following, “We regard it as a matter of principle to act in a socially responsible manner. Anything that benefits society ultimately benefits business, and when business prospers, society prospers as well. The Global Compact addresses this win-win situation on the global level.”

its Secretary General, Kofi Annan, that “the greatest contribution that domestic and foreign companies can make to support the goals of the Millennium Declaration is through private investment and through concerted and transparent efforts to ensure that the economic, social and environmental impacts of that investment are positive.”<sup>45</sup>

6. Companies are aware of how to use market forces and by doing so, to create values efficiently. The GC is the first global initiative so firmly based on the creative and constructive potential of markets and their actors.

7. Political steering potential is moving toward companies. The participants of the GC have embraced the social responsibility this implies for them. Their efforts in corporate social responsibility projects show the potential of companies in producing societal values. Social responsibility is one of the United Nation’s key areas of expertise from which companies can benefit by exercising partnership projects.

8. One strategic strength of the GC lies in the “best practices approach,” which puts emphasis on the advantages of the individual partners. This approach paves the way for detecting synergies and win-win situations, creates openness and trust for learning from each other, and stimulates a results-oriented climate for projects.

9. Structures to support implementation of the nine principles are growing slowly but steadily. A GC Office directly under the Secretary General has been set up. Equivalent structures are now being put in place at the participating International Organizations and the company level. On top of this, national GC Alliances are in the process of being established to implement the principles on the domestic level.

10. Last, but by no means least, the success of the GC backs the maintenance and development of the liberal world trading system, as will be explained in more detail below.

### ***Why Advocates of Liberal Trade Support the Compact***

It has been shown that, from an objective viewpoint, there are good reasons for the success of the GC. However, with a view to the long-standing and sometimes harsh debate about the downsides of globalization, it has to be clarified why divergent interest groups like “free-traders” and civil society are leaving the battlefield of diverging interests to enter this arena of cooperation.

Free trade increases the *overall* welfare of all partners involved. The fundamental validity of this basic tenet of neoclassical trade theory is scarcely disputed today. But supporters of liberal trade are often asked whether the prosperity created for trading partners in total, ultimately generates societal values in a specific country or for particular societal groups and individuals. Development policy advocates often question whether the effects of prosperity gained through liberal trade actually trickle down to all levels of society. With a view to the ongoing “Doha Round” WTO negotiations, the “development question” has become one of the major challenges to the WTO and its developed member states.

Furthermore, the world trading system still faces “new issues,” prominently the interdependence between trade on the one side with environmental policy and human and labor rights on the other. Despite that there is no room to explore the complex issues of these “trade ands” in depth, minimum social and environmental standards in the WTO enforced by trade measures necessarily cause an intervention in the market.<sup>46</sup> The implementation of labor rights and environmental policies within the WTO would require at least the credible threat of trade sanctions.

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<sup>45</sup> Kofi Annan, *Towards Global Partnerships, Report of the Secretary General*, UNGA, Doc Nr. A/56/323, 9–10. Available online at <http://www.un.org/partners/business/otherpages/docs.htm> (accessed Nov. 10, 2004).

<sup>46</sup> For a detailed consideration of the economic and legal aspects of the nexus between trade and fundamental labor rights, see Andreas Blüthner, *Welthandel und Menschenrechte in der Arbeit (World Trade and Human Rights at Work)*, (Frankfurt, Ger.: Peter Lang Verlag, 2004).

This easily could erode not only the economic basis for environmental and social progress in the targeted country, but also the basic consensus between WTO members about open markets. Accordingly, supporters of liberal trade tend to recognize these “trade ands” as a serious threat to liberal trade, increasing the risk of new trade conflicts and protectionism for the WTO.<sup>47</sup> These “not-only-trade-related” issues will presumably not disappear easily from the trade agenda in the near future.<sup>48</sup>

The GC aims to realize these values that cannot be best addressed within the WTO and through trade instruments.<sup>49</sup> As stated by U.N. Secretary General Kofi Annan, the GC is based on the recognition that liberal trade is a necessary prerequisite for the realization of the nine principles and economic development.<sup>50</sup> Accordingly, the compact is based on the assumption of a positive nexus between liberal trade and the universal values of the United Nations. By setting incentives for the realization of environmental and social goals, its instruments not only are compatible with, but also build upon market forces and rely on cooperation. On the contrary, the various proposals on tying up trade with labor and environmental goals mainly function because of pressure, compulsion and ultimately confrontation. The ongoing dispute on these issues, not just among the line of developed and developing countries, serves to illustrate this assessment.

To sum up, the approach of the GC meets the worries of liberal interest groups concerning the enforcement of environmental and social standards through the WTO. The U.N. initiative enables them to contribute actively to the legitimization of liberal trade, its institutions, and finally its stakeholders. The GC provides business with the opportunity to advance its defensive position on environmental standards and human and labor rights it is assumed to hold because of the objections against linking them with trade. Missing the opportunity of the GC might put business in danger of becoming unwarrantably recognized by the public as standing in general opposition to these values.

### ***Why Civil Society Supports the Compact***

After having explored the purpose and means of the GC, one would expect broad support of civil society groups for the initiative of U.N. Secretary General Kofi Annan, as many of them are also aiming to promote environmental goals and human and labor rights. It should not be a surprise if civil society groups applauded the Secretary General for committing world business to the promotion of the nine principles in order to make new resources available for realizing them. This might be expected, because the GC enables, if not requires, liberal interest groups to get beyond “just saying no” to the effective implementation of human rights and environmental principles in the world trading system.

However, the reaction of the CSO community to the GC is clearly twofold. The few “global” CSOs that are part of the compact support the initiative. On the one hand, as they are becoming involved as partners in joint projects with business, these groups are increasing their impact and the resources accessible for their goals. On the other, partnerships require CSOs to take up the complementing responsibility by acting in a proactive and constructive manner, directed toward

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<sup>47</sup> For further arguments in this direction, see Jagdish Bhagwati, “Fair Trade, Reciprocity and Harmonisation: The New Challenge to the Theory and Policy of Free Trade,” in *Analytical and Negotiating Issues in the Global Trading System*, ed. Alan V. Deardorff and Robert M. Stern, (Ann Arbor: Univ. of Michigan Press, 1994), 582–83.

<sup>48</sup> The issues of labor and environment were both included in the draft WTO Ministerial Declaration for the ministerial aimed to take place in Doha; the text is online at [www.ictsd.org/ministerial/doha/relevantdoc.htm](http://www.ictsd.org/ministerial/doha/relevantdoc.htm) (accessed Dec. 17, 2004).

<sup>49</sup> For the relationship between the Global Compact and the WTO, see Kell and Ruggie, “Global Markets and Social Legitimacy: The Case of the ‘Global Compact.’” For a comprehensive analysis, see Blüthner, *Welthandel und Menschenrechte in der Arbeit*.

<sup>50</sup> Qtd. from Kell, “Dilemmas in Competitiveness”.

results, which groups like Amnesty International, Human Rights Watch, and the World Wildlife Fund doubtless are used to.

Apart from the CSOs involved in the initiative, it seems as if the criticism of some groups staying out of the initiative constitutes a serious threat to the GC. The United Nations is not used to persistent and harsh criticism from civil society, particularly since neutrality and the belief in respecting every party's interests are key elements of the United Nations' aim and work. Besides, the more the compact is criticized, the less attractive it becomes for companies to join or even maintain their active role. This is particularly true for the United States, where CSOs have somehow a stronger relevance for public opinion than in Europe.

Since all participating groups have to lose image in this initiative, harsh criticism and "rejectionism"<sup>51</sup> easily have the potential to erode the positive and constructive climate in the GC Alliance. Therefore, it seems crucial to have a closer look at the validity of some common objections that CSOs are putting forward against the GC.

First, CSOs are basically concerned that the GC is selling out the United Nations to companies, particularly since under certain circumstances they are allowed to advertise with the label of the GC initiative.<sup>52</sup> In this simplicity, the argument reflects a good deal of ideology and dogmatism from the dark past of the seventies and eighties, when some recognized multinational enterprises as evil itself and others viewed the United Nations as an ineffective club of idealistic bureaucrats.<sup>53</sup> Since then, fortunately times and minds have changed. Today it is almost a common wisdom that most transnational corporations (TNCs) are certainly not in opposition to environmental protection, decent working conditions, and human rights. On the contrary, because of a change in the business environment, companies, particularly if hosted in societies where the compact's values are traditionally common sense, have developed an increasing self-interest to act in a social responsible manner. The opportunity for business to be mentioned by the U.N. as a good global corporate citizen serves as a stimulus for these efforts. From a pragmatic perspective, this is a quite effective and cheap way of multiplying the resources available for the United Nations to achieve its goals. One has to bear in mind that the interests of business and the United Nations might differ, but there are certain common goals they can best achieve jointly. Accordingly, companies should not be blamed for their assumed commercial or at least utilitarian interest in the initiative. Instead, this driving force should be used to fuel socially responsible action. Action should be evaluated purely by contributions to the common goals and the results achieved according to the nine principles, rather than by motivation. Finally, many people are worried about globalizations' downside. But hardly anybody knows about the GC apart from people professionally involved in these issues. This is even more surprising since public recognition is intended to fuel the initiative and its actors. In the end, one might arrive at the conclusion that there is not too much but rather too little marketing of the GC initiative by the United Nations and its participants.

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<sup>51</sup> For the use of this term, see, among others, Ruggie, "Globalization, the 'Global Compact' and Corporate Social Responsibility," 293.

<sup>52</sup> For some common phrases illustrating this concern ("tangling up in blue," "bluwashing of companies," and so forth) see Ruggie, *Global Compact as Learning Network*.

<sup>53</sup> For the history of the difficult relation between the United Nations and business, see James A. Paul, "Der Weg zum Global Compact" ("The Road toward the Global Compact), in *Entstaatlichung und Kommunalisierung im Globalisierungsprozess (De-Nationalization and Communalization in the Globalization Process)*, ed. Tanja Brühl, (Bonn, Ger.: JHW Dietz, 2001), 104.

Second, CSOs are skeptical, because they believe the GC lacks apparent enforcement mechanisms, such as mandatory third-party monitoring.<sup>54</sup> As elaborated in detail above, this argument omits the power of transparency and self-regulation. Still, it should be considered that the GC contains promotional principles rather than minimum standards. The appropriate enforcement tool matching this promotional approach is voluntary “reporting” rather than mandatory “monitoring” through third parties in a classical sense. However, companies that fail to promote the principles will not receive any public promotion by the United Nations. Agreeably, enterprises acting in clear contradiction to the purpose of the nine principles risk being held accountable by the public, with the threat of “negative news.” To sum up, skeptics should take the effort to scrutinize the examples published by companies on the Web site, before generally criticizing the United Nations for “blue-washing” companies.<sup>55</sup>

Third, some bring forward the argument the GC is a “business initiative,” because it was launched in Davos at the world economic forum. This argument definitely stops short, since the model of the compact means for the United Nations working “with business” and not “for business.” After all, some will be tempted to conclude, on the contrary, that the GC makes business work “for the United Nations.” However, this year the GC did not participate in Davos, but at the complementary event of globalization’s critics in Porto Alegre (Brazil).

Fourth, some critics generally do not believe in the ability of globalization to become sustainable, not even through incorporating environmental standards and human and labor rights in this process.<sup>56</sup> However, this argument should not be taken too pitiable seriously by the stakeholders of the GC, since these fundamental opponents to globalization will be hardly converted by any efforts of business. Furthermore, their criticism can be seen as absolutely legitimate, since these CSOs often represent social groups that oppose capitalism as such. Accordingly, they are expected by their clientele to criticize GC as a simple window dressing exercise of “the system” and can play a valuable role as “watchdogs” detecting free-riding companies.

A complementary argument reflects the concern that, in the event of success, the GC will weaken the ability of CSOs to push for their goals in other areas, particularly within the WTO. Hence, this merely strategic argument might come from a CSO activist perspective, but does it justify the ongoing criticism which slightly undermines the support for the GC? It becomes even more doubtful when taking into account that the GC is not intended to substitute other initiatives or governmental regulation concerning the nine principles. In addition, nobody seriously believes that a voluntary instrument like the GC is able to ensure the abolition of worst practices alone, for example systematic forced labor as in Myanmar (Burma).<sup>57</sup> Fortunately, hardly anybody questions that national and

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<sup>54</sup> See the letter to Kofi Annan, July 20, 2000, expressing the concerns of several CSOs about the Global Compact. Available online at <http://www.corpwatch.org/article.php?list=type&type=101> (accessed Dec. 17, 2004).

<sup>55</sup> Examples at [www.unglobalcompact.org](http://www.unglobalcompact.org) (accessed Dec. 17, 2004) include, for instance, microfinance schemes (Deutsche Bank), capacity-building for ecoefficient production (BASF), or human rights training for judges in Venezuela (Statoil).

<sup>56</sup> Letter to Kofi Annan, July 20, 2000.

<sup>57</sup> For ILOs action against forced labor in Myanmar, see *Resolution on the Widespread Use of Forced Labour in Myanmar (Burma)*, ILO-Docs. GB.267/16/2, GB.268/14/8, GB.268/15/1, GB.274/5, CIT/1999/PR16; *Measures, including action under article 33 of the Constitution of the International Labour Organization, to secure compliance by the Government of Myanmar with the recommendations of the Commission of Inquiry established to examine the observance of the Forced Labour Convention, 1930* (No. 29), ILO-Docs. GB.267/16/2, GB.268/14/8, GB.268/15/1, GB.274/5, GB.275, GB.276/6; and *Report of the Committee set up to consider the representation made by the International Confederation of Free Trade Unions under article 24 of the ILO Constitution alleging non-observance by Myanmar of the Forced Labour Convention, 1930* (No. 29), ILO-Doc. GB.261/13/7. All documents are online at [www.ilo.org/ilolex/english/](http://www.ilo.org/ilolex/english/) (accessed Dec. 17, 2004).



international efforts besides the GC will have to continue in order to ensure that the fundamental universal principles of the United Nations are respected in international relations.

In conclusion, CSOs should carefully review whether their rather harsh criticism of the GC finally serves the interests and goals of their stakeholders and donors. Some might thereby draw the conclusion that any additional and thereby voluntary contribution to decent goals like the nine principles of the GC is worth being approached with a positive and constructive attitude instead of “rejectionism.” However, those aiming to abolish the initiative by targeting the United Nations and participating companies must be aware of the consequence, which is not only that the efforts of companies undertaken with the GC will come to an end. Ultimately, in the event that this initiative of Secretary General Kofi Annan fails, who else will have the necessary moral authority and be able to re-create the momentum to form such a broad and proactive coalition of stakeholders in the globalization process?

### **Global Structures**

At the time the GC was initiated, there were forty-four founding participants serviced by a GC Office composed of two persons. Right from the beginning, the GC Office was organizationally linked to the Secretary General’s Office and grouped under the direct supervision of an Assistant Secretary General, at that time John Ruggie.

Today, the number of participants has risen to over 1,200 and is still growing; the Office in New York is now run by about ten staff members and, during the last three years, the compact also developed first structures on the global level. In 2001 the GC Office decided to create the Advisory Council. The GC Office appointed the members out of all stakeholder groups, including business representatives from all continents. Members of the council are intended to serve from one to three years. So far, the mandate of the Advisory Council has been to guide the GC Office in strategic decisions concerning the future development and the integrity of the initiative. Furthermore, this body is searching for common ground about questions of principle relevant for the compact and its participants.

From an organizational perspective, the Learning Forum and the Policy Dialogues may also be seen as structures of the GC. Compared to the hand-selected members to the Council, entitled to advise the Office and thereby play a steering role for the initiative, Forum and Dialogue are currently fulfilling plenary functions, since they are open to all the participants.

The GC Office employees are U.N. staff with different professional backgrounds, being drawn from international agencies, business, media, national ministries and development agencies.

### **The Global Compact Development Project (GCDP)**

Right from the beginning, the GC Office was clear that the success of this initiative will depend on positive change created at the “grassroots level.” However, in its early days, the GC was perceived as initiative directed from New York and approaching mainly the global players, without significant impact and structures on the local level. In principle, the Web site as the central tool of learning and information sharing was accessible from anywhere. However, local cultures are not everywhere supportive of a Web-based learning forum, as set up by the New York Office. In addition, there remains a demand to further coordinate and support local initiatives popping up in various countries under the

GC label.<sup>58</sup> Accordingly, in 2002 the compact was joined by UNDP as the fourth agency beside U.N. High Commissioner for Human Rights (UNHCHR), ILO and the U.N. Environmental Programme (UNEP) with the objective of implementing the initiative through their some 170 national offices. Recently, the U.N. Industrial Development Organization (UNIDO) joined those four as the fifth core agency, mandated to strengthen the outreach towards small and medium sized participants within the GC. It was evident that some of the U.N. national teams would need support through capacity building and other resources for carrying out their new role as a broker for the GC. This challenge of approaching, understanding and entering into concrete cooperation with new partners like business, labor, and NGOs on the basis of a “virtual initiative” created the demand for initiating the Global Compact Development Project (GCDP) in 2002.

### **The Approach of the GCDP**

The Global Compact Development Project is a partnership project that promotes public-private partnerships and good corporate citizenship in developing countries within the framework of the Global Compact.<sup>59</sup>

Despite the fast progress on global level, neither local U.N. staff nor business leaders seemed to be well-prepared for joint undertakings under the GC due to historical reservations, unreasoned misunderstandings and lack of contacts. Even if contacts are established, communication problems can create obstacles for action, because the United Nations and businesses do not speak the same “language” and do not know enough about each other’s role, resources, interests, working methods and organizational culture.

To address this challenge and to unlock further developmental potential of the GC, the GCDP was presented first at the International Conference on Financing for Development in March 2002 in Monterrey. In order to implement the project idea, UNDP, the U.N. Staff College, the International Chamber of Commerce (ICC) and BASF, a founding business participant of the compact, initiated the GCDP as a GC partnership project. The three pilot countries of the mission, selected in accordance with all stakeholders, were Panama, Ghana, and Thailand.

The objectives of the project mission, developed in advance in a multi-stakeholder workshop with U.N. agencies, business, labor, and civil society, were set as follows:

1. Prepare local U.N. staff to recognize business as potential partner for work.
2. Convince U.N. and partners of the GC concept and attract new participants.
3. Create mechanisms for new partnerships.
4. Support existing partnerships.
5. Identify role of partners in national GC networks and create sustainable structures.
6. Define a U.N. interagency approach to business in the country.
7. Provide support for local business to participate in the GC.

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<sup>58</sup> The structure of local “Compacts” range from loose, informal networks, such as the German “Friends of the Global Compact” to more structured approaches with a range of local bodies and sub-bodies, as the case in Ghana.

<sup>59</sup> Blüthner and Berangere Magarinos, *Global Compact Development Project, Mission Report* (2002): 1. Available online at <http://www.unssc.org/web1/programmes/glnp/> (accessed Dec. 17, 2004).

### ***Undertakings of the Project Team***

The project team spent a period of four weeks with the U.N. national team and organized its work into three main phases:

The first phase was dedicated to senior U.N. staff members as well as to staff directly involved in partnership projects or with a special interest in developing business links in their work. At the same time, leaders from business and civil society were interviewed to include their views in the preparatory assessment. The objective of the first phase was to review existing partnerships, interests in the GC approach, local best practices, and lessons learned as well as future plans and expectations.

The second phase of the mission aimed at building capacity for partnership collaboration under the framework of the GC. The project team held a training workshop for the United Nations and helped develop an interagency strategy toward business. This included translating local priorities of the United Nations into a “business case,” such as the rights to health and education. A complementary workshop was facilitated for business; however, the focus was set on creating some basic understanding about the GC and its potential benefits for business participants. Furthermore, individual corporate participants received coaching for their projects and their presentation at the joint event.

In phase three, the project team organized a joint event (“wedding day”), aimed at integrating the different stakeholders and paving the way to cooperation through new partnership projects. The design of the event depended on the stage of development of the local GC initiative. The topics to be presented during the event as well as the objectives were defined in agreement with senior staff of the country team during phase one.

The overriding purpose of this three-step approach was to initiate a self-executive process promoting the nine principles and local GC structures. In addition to this overall approach, the project team dedicated a significant amount of time to media work in order to increase awareness for the GC and to set further incentives for business participation. This included not only negotiations with media partners and media companies about supporting and joining the initiative but also radio and news interviews and press conferences.

### ***Comparison of the Pilot Countries***

The three mission countries Panama, Ghana, and Thailand were selected because of their response to a questionnaire that the project team jointly developed with UNDP. The environment and the local conditions varied significantly not only in their broader economic, political, and cultural circumstances, but also in their approaches and achievements toward implementing a local GC structure.

#### ***Panama***

The U.N. country office in Panama had nearly one year of experience in setting up a local GC Alliance. By doing so, the United Nations received strong support from CEDIS (Centro Empresarial de Responsabilidad Social), the leading CSR<sup>60</sup> organization in the country. Even before the mission, there was a high awareness for the “Pacto Global” thanks to intensive media work of the United Nations and its partners. Nine months after the launch, twenty-eight participants, ranging from major corporations to small and medium sized enterprises (SMEs). The local United Nations selected new participants

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<sup>60</sup> Corporate Social Responsibility, more information on CEDIS can be found online at [www.cedis.org.pa](http://www.cedis.org.pa). During the mission, CEDIS was invited to the Global Compact Office, New York City, to a learning session on case study reviews; accordingly, CEDIS might wish to deepen its involvement in Global Compact activities in Panama.

carefully in order to ensure the integrity of the local initiative. Right from the beginning, local structures were set up, including a “steering committee” for the compact, mainly composed of business participants.

The main challenge for the local GC in Panama was the integration of other stakeholders in the GC. So far, neither NGOs nor unions have been part of the compact in Panama. Furthermore, beside UNDP, no other U.N. agencies have been involved.

In view of this situation, the project team undertook two capacity-building workshops, one with U.N. agencies and one with the business sector. These workshops were followed by the implementation of the first learning forum on the country level worldwide. The introduction was provided by the WTO and the CSR Department of the World Bank Institute via a videoconference. Business presented their yearly examples on how they addressed and implemented the nine principles of the GC through local projects in Panama. The corporate examples were mainly related to education and health, thereby addressing principle two of the GC. Finally, during the Learning Forum, the first NGO joined the GC in Panama.

### *Ghana*

The Global Compact Development Project supported UNDP Ghana and the U.N. country team during July 2002. It contributed through an introduction on the GC at the launch and facilitated a two-day workshop for the United Nations as well as a half-day workshop for business, combined with a pilot learning forum for all stakeholders.

At the pilot learning forum, corporate participants provided four presentations on their experience in areas related to the nine principles, such as ISO certification, cleaner production projects and economic capacity building for local communities. The United Nations presented girls education, HIV/AIDS, and shipping and maritime protection as their joint issues for business to engage in.

Right from the beginning, UNDP Ghana established the GC as a multi-stakeholder initiative, based on and in line with the learning resources available on the GC Web site. This is reflected through the broad engagement of local leaders from the United Nations, business, labor, and civil society in the local structures, including an advisory council and subcommittees reflecting the three areas of the compact, human rights, labor standards, and the environment.

Two weeks after the official launch, the GC Alliance counts twelve participants from all sectors and five more companies have expressed their commitment to join within the coming weeks.

### *Thailand*

Thailand launched the GC in 2001. In cooperation with Employers Federation of Thailand (ECOT), the United Nations organized the first “National Workshop” on the GC in March 2001, with a special emphasis on reaching out to the SMEs through supply chains. The UNDP and the ECOT followed up by initiating an “umbrella partnership project” that marks the first collaboration in the country between the private sector and a U.N. agency. The project sought to promote the values and principles of the GC in the Thai business community through thematic workshops in the areas of human rights, labor relations, and the environment.

Within the GC Alliance, a Task Group was formed composed of three committees, one each for environment, labor, and human rights. The mandate of the task group is to develop a strategic plan to implement compact principles. To promote and develop the GC’s principles in Thailand’s academic institutions, the National Institute of Development Administration (NIDA) is offering training courses and developing a pertinent curriculum aimed at mainstreaming the nine principles in all academic subjects. So far, NGOs and labor have not participated in these undertakings, and just a few companies

have indicated that they are moving forward toward their individual projects. In addition, access to the GC was practically limited to Thai-owned corporations. Due to the very informal approach of the United Nations, the Global Compact Development project and UNDP aimed at taking a step ahead toward broadening the network, deepening its structures, and building mutual capacity for individual partnership projects.

Accordingly, the project team first organized an interagency workshop for the United Nations and an information day for business, explaining the compact and its objective. As a follow-up, the United Nations and the project team hosted the first comprehensive multi-stakeholder forum on the GC with partners and stakeholders in Thailand. More than fifty participants representing the United Nations, business, labor and civil society confirmed to embrace and promote the compacts' principles in Thailand.

After the introductory plenary session, aimed at setting the context for new members, the participants split into working groups and discussed practical ways on how to reinforce the GC in Thailand. The outcome was the following list of recommendations, which can be grouped in four sections:

***Nature of the Global Compact:***

1. The Global Compact must stay voluntary.
2. The United Nations should act as a neutral institution.

***Broadening the Global Compact:***

3. Participation in the Global Compact should be broadened.
4. The business community should develop a network of leaders for advocacy work.
5. The United Nations should organize an information meeting for new companies.
6. More foreign investors should join the Global Compact.

***Deepening the Global Compact:***

7. Companies should get recognition for participation.
8. Introduce awards and other certification for participation in the Global Compact.
9. Organize an event to show and share best practices related to the principles.
10. The United Nations should increase support for SMEs in addressing the nine principles.
11. The United Nations should support participants to involve subcontractors in the Global Compact.

***Governance (sustainable structures):***

12. Set up a standing body for the Global Compact, for example, a secretariat.
13. The United Nations should give explanation and guidance on how to promote the principles.
14. Business should take care of the integrity of GC in Thailand.
15. The United Nations should approach the government to raise support for the GC.

These recommendations of the GC network Thailand can be seen as a remarkable outcome of this stakeholder forum. United Nations Thailand is currently working with its partners toward implementing them.

**Summarized Results**

<b>Objectives<sup>61</sup></b> <b>At the end of the four weeks mission, the U.N. country team will be able to:</b>	Panama	Ghana	Thailand
1. Recognize businesses as potential partners for their work	GC and CSR perceived as an external activity. No partnership in June 2002. Better understanding of opportunities for collaboration with business. No real financial needs, no strong incentives for partnerships. Strong interest in case studies helped recognizing possible opportunities.	A few good examples already. Example: UNESCO Old Accra project and UNDP Computer Project. UNICEF also involves business. Workshop developed the thinking on what the U.N. has to offer and on how to design a project in partnership and not impose projects on business.	Very diverse experiences from an one agency to the other. Confusion between GC and partnerships. Excellent examples from the drug program. Still very early stage for the others. Identification of opportunities around AIDS. No real quality time dedicated to partnerships in the workshop.
2. Convince potential partners of the GC concepts	Information campaign on the GC already well established. However, need for some clarifications in the indications given to business. New approach towards civil society. New communication within the U.N. team who can also considered as partner. A few new members (Panama Canal). The mission supported the team in delivering the GC "message" to the media.	A lot achieved at that level since the country was at the stage of the launch. Eight new members signed the GC. Workshop helped U.N. staff to refine their message on GC to business. New arguments developed around the benefits of the GC for business. Events were reported in the press and on TV and the mission along with the focal point gave radio interview and press conference.	New opening to NGOs. Sharing with other U.N. agencies. Five new companies signed. More U.N. staff feeling confident to engage commitment under the GC framework. The advocacy work will also be developed through universities. Strong support offered at that level during the mission.

<sup>61</sup> Objectives defined in the multi-stakeholder workshop before the mission, evaluated by Berangere Magarinos (United Nations Staff College, Turin, Italy), available online at <http://www.unssc.org> (accessed Dec. 17, 2004).

<p>3. Create mechanisms to build effective partnerships</p>	<p>The roundtable discussion at the learning forum allowed participants to identify area of mutual interest. Such dialogue sessions will continue as part of the activities of the GC network.</p>	<p>The coordination committee of the GC will play a key role in reviewing partnership opportunities. It can play a role “filter” since it is composed of business and U.N. representatives.</p>	<p>The visit of the Nike project was a good way to start awareness but the team is not yet at a stage to build new partnerships. Also the GC network is led by the business community with “light” U.N. involvement. Partnership building is perceived as adding to the work.</p>
<p>4. Identify role of partners in national GC networks</p>	<p>Still a very complex situation. UNDP would like to hand over the responsibility of the GC network to CEDIS who does not feel comfortable. Currently there is a search for a new partner to lead the network. The project mediated discussions between UNDP and CEDIS even after the mission.</p>	<p>Very clear set -up with shared responsibilities between business, the U.N. and civil society. Leading role at this point. New people hired to follow GC and partnerships. U.N. identified a strong coordination and advocacy role.</p>	<p>U.N. role has emerged as one of support to a business led initiative. U.N. team helps to broaden the GC alliance and ensure wider participation. Still not clear how much the U.N. wants to be involved. However, the mission “forced” the team to reflect on opportunities and evaluate needs and resources for a GC network.</p>
<p>5. Develop U.N. capacity to adequately deal with different partners</p>	<p>Objective not achieved. Time did not allow.</p>	<p>The team went through a role play to practice partnership negotiation: a well-received exercise.</p>	<p>Objective not achieved. Time did not allow.</p>
<p>6. Define an U.N. interagency approach to business in the country</p>	<p>The U.N. workshop was the first time for all agencies to share info and talk about the Compact. Clear desire of the RC to make the GC a country national team project but no</p>	<p>As a first step, agencies thought they would organize together a policy forum involving business and focusing on HIV-AIDS. Based on the UNDAF, agencies</p>	<p>In the U.N. workshop a session has been dedicated in working groups to the definition of a strategy. The outputs were shared with the RC who will work on</p>

	real interest from agencies.	would like to reflect on how to introduce the girls' education program to business.	that basis with some key people to define a strategy including the compact, CSR and partnership. The mission helped them start the process of consultation and collection of first ideas.
7. Raise awareness of and provide support for local businesses	GC workshop attended by thirty-five participants. Individual coaching for fifteen-plus companies, including coaching of projects, presentations at learning forum and drafting of letters. Support by local chambers of commerce.	GC pilot learning forum attended by sixty companies. Individual coaching for five-plus companies, including coaching of projects, presentations at learning forum and drafting of letters.	GC business day attended by forty companies. Individual coaching for a few companies, some help with drafting of letters. Support by ICC Thailand.

### Assessing the Democratic Potential of the Global Compact

The previous parts of the paper have shown how the GC has developed from U.N. Secretary General Kofi Annan's speech in Davos to a global multi-stakeholder issue network. Currently, the GC is on its way to becoming an established U.N. initiative with sustainable global and local structures. As the GC develops, questions around internal and external participation and governance will have to be addressed, to ensure that further developments enjoy support and legitimacy of all the stakeholders involved. A more democratic and inclusive institutional design would certainly positively contribute to this development.

Let us perform a very preliminary assessment of the GC's potential to serve as a form of representative democracy one day. Since this paper does not allow a broad discussion of the theory and definition of democracy, this section takes a limited look at five vigorously disputed characteristics of democratic institutions: participation, legitimization, representation, openness, and transparency.

#### Participation

This challenge, and the opportunities involved, can be best illustrated by the recent proposal by Transparency International,<sup>62</sup> to introduce "transparency" as the compact's tenth substantial principle. It is argued here, that in no event may the nine principles of the compact be easily amended ex cathedra by the United Nations, as some seemingly were in favor of. The GC represents a new soft-law category of international law, as the phrasing "compact" already indicates. A compact is a *minus* compared to a contract, but certainly a *more* than a gentlemen's agreement. Legal representatives of

<sup>62</sup> See [www.transparency.org](http://www.transparency.org) (accessed Dec. 17, 2004).



worldwide operating companies signed the *nine* principles in their letter to the representative of the only truly global organization, the United Nations. As they agreed to Secretary General Annan's offer made in his speech in Davos, this created a mutual consensus over the nine principles. With respect to *pacta sunt servanda* (Latin: pacts must be respected) principle, the United Nations cannot amend the compact *ex post* (Latin: afterward) without acting in contradiction to the spirit of this principle developed under its own supervision for the law of the treaties (Vienna Convention). The sole, but simple, way out of this dilemma is to develop procedures allowing the compact and its participants to express their will formally. This would certainly contribute to unlocking parts of the *internal democratic potential* related to the institutional design of the GC.

But this suggestion also relates to the *external democratic impact* that the GC may evolve in the future. Let us, for example, assume that all stakeholders involved in a local compact alliance in a developing country conclude that they are, individually and as a group, in favor of good governance criteria, such as the rule of law. Only with a due internal process for decision making are they able to express this opinion, which may complement and support appropriate local developments and institutions. In short, only the design of an internal decision making process will give the compact a legitimized "voice," allowing it to address broader issues of common interest and enriching local democracy through participation of new stakeholders.

### **Legitimization**

Closely related to internal and external participation is the question of legitimacy of the GC and its participants. Obviously, the compact is aimed at complementing elected governments that are not directly part of the initiative. Global Compact participants do not gain legitimacy from being elected in the classical sense of voting. Nobody elects, for example, an NGO to lobby for his or her environmental interests, but is an NGO therefore non- or even antidemocratic and does it lack any form of legitimacy to operate as a credible advocate for its objectives? Certainly not, because NGOs receive their societal "license to operate" from the publicly accepted values for which they are advocating. In short, public legitimacy is derived from public goods; it is a substantial, not a formal legitimization.

How about the legitimacy of corporations? Nobody voted for the companies engaged in the GC; however, could one say business is under permanent re-election, day by day, through consumers buying their products, the labels, the brand image? Are consumers purchasing a sports shoe just buy a composition of rubber, leather, and synthetics? Or do they decide about a design, a label, and the corporate identity, and thereby exercise their "consumer sovereignty"? Furthermore, one may recognize a legitimization of business through its employees, who once decided to work for this company. This does not necessarily mean the organized workers in trade unions. The usual employee, by deciding to spend his professional life with an organization on a day to day basis, seems to be a very strong legitimization for an entity. Is this comparable to voting in an election? Finally, the commitment to act in conformity and to promote actively the nine universal principles guided by the United Nations as leading institution also gives the active GC participants another substantial element of legitimacy. To sum up, these thoughts may just illustrate that denying the GC any form of legitimacy stops short.

### **Representation**

Democracy in its classical sense is direct democracy, but representation made this form of governance applicable for societies on a larger scale. Accordingly, a form of global stakeholder democracy may require ways of democratic representation.

With a view on the GC, it is not hard to imagine the Advisory Council becoming a body of formal representation. Already, all stakeholder groups are reflected in the composition of the council.

However, there is still a lack of participation, because the members of the council are not yet elected by the participants, but appointed by the GC Office. Nevertheless, even if members of the Advisory Council were elected into the council by the votes of all the participants, many open questions remain to be answered about internal structures and procedures. One can certainly challenge the idea of such a stakeholder assembly on a global level, but also alter it by suggesting that these groups should be officially included in existing institutions, for example the U.N. General Assembly or the ECOSOC.

### ***Openness***

As a matter of principle, a democratic process has to be designed potentially to be open to all for active participation. So far, the GC may be only partly in line with the principle of openness, because it sets no limitation for business to participate except signing the letter, and, once a year publishing an example related to the nine principles. The concept of open access to participation does not apply in the same way to NGOs. The United Nations selected some global groups, which are now participating in the initiative through cooperation; whereas, others were left out and pushed into the confrontational role of “watchdogs.” This might be justified because groups other than business neither have to express their commitment to the GC to the U.N. Secretary General, nor have to prove willingness and ability to cooperate through reporting about their activities. One may conclude that diverse obligations also lead to different rights in the initiative.

However, if civil society, labor, and academia should play an equal role in a more democratic GC, they will need to be equipped with the same legitimacy as actively committed businesses participants. This can be achieved by asking them to equivalently support the compact and to once a year report about their activities.

### ***Transparency***

Finally, democratic processes certainly require a minimum of transparency. At the beginning, the GC was perceived and criticized particularly by NGOs as an invisible alliance, since the GC Office refused to publish the list of participants. The transparency has improved in that all participants, meeting reports, and many projects and examples are now published on the web portal of the compact, including summaries of the advisory council meetings.

### **Conclusion and Outlook**

This paper has argued that the GC has as yet a not deployed democratic potential and that, besides NGOs and trade unions, particularly business can help unlock it. Certain democratic elements of the GC can also be found both at the level of participants and at the institutional level of the GC initiative as such.

At the participants' level, enterprises gain their legitimacy from sometimes representing thousands of employees. These employees have voluntarily selected or elected their employer and renew this choice daily by entering their organization to contribute to the common corporate interest through their work. Often employees closely identify themselves with the corporate identity, particularly, if they are with a successful enterprise. Whether its stakeholders admire a company for its success today also depends on the corporate environmental and social performance. In addition, the recent discussion about corporate governance might contribute to fostering internal participation within companies. This would happen, for example, if the annual meeting of stock-owned companies would increase its rights compared to executive boards or supervisory boards. Other recent trends, like employee-owned companies or share programs for employees point in the same direction.

Another line of argumentation is the relationship between enterprises and their customers. One may argue that customers, by buying products, are at the same time selecting or electing the producer of these goods and services. This applies particularly to consumer goods depending on brands; for example, fashion wear or cars. Consumers, particularly in developed economies, rate the quality of these products also by “soft” emotional criteria such as design and brand image, which includes the performance of the brand-owner as “good corporate citizen.”

At the institutional level, the GC gains its legitimacy first from the universality of its nine principles and second from its multi-stakeholder participation. The diverse participants represent groups and persons with a strong stake in the globalization process and the values of the compact, such as human rights, core labor standards, and the environmental principles.

However, the current structure of the GC needs to be developed further in order to allow the participants to go beyond the concept of a loose network, the compact is still since its infant phase.

There are several important challenges that can be overcome if the GC Office and the participants jointly decide to move ahead toward a more sustainable and democratic institutional structure of the initiative.

The first one is the problem of free-riding participants. The United Nations has neither the mandate nor the capacity to “police” participants’ action taken to get from principles to good practice. Not even the 170 country offices of UNDP, the agency responsible for the local GC networks (outreach), have the capacity to verify whether local participants are walking their talk. If not, there is no mandate to advise or exclude them from participation, as a last resort. Free-riding companies just signing up to the GC not only are challenging the credibility of the initiative and subjecting themselves to profound criticism from NGOs, but are also devaluing and frustrating those corporate citizens who are truly involved in the GC.

Secondly, the compact aims to provide solutions for the challenges in an increasingly interdependent world. However, how could the compact work as a forum of common sense if it does not have the ability to form a common will, make decisions, or speak with one voice? Today, the GC Office, which was set up as the “network administration,” plays this role in developing the initiative’s shape, appointing the members of the advisory council, setting agendas, representing the initiative, and was even about to introduce a tenth principle to the participants. The Office staff does a decent job on this; however, the extent of the participants’ participation remains low and the United Nations is perceived as the main owner of the compact. Particularly at the country level, this may become a problem; for instance, when local UNDP has not the resources to fuel the local compacts or in the case of a complete shutdown, as will happen to UNDP Offices in eastern European countries when they join the European Union.

Fortunately, the solution for the described challenges seems to be appealingly simple: allow the GC a more democratic structure, empower good corporate citizens, and allow more ownership and a self-sufficient self-regulating initiative! Good citizens recognize their responsibilities, but they also enjoy rights, such as the opportunities to vote, participate, and be elected. These are fundamental elements of any democratic citizenship concept.

As a concrete first step, all participants may elect the advisory council. If this is done through the GC Web portal or by normal mail, even SMEs from developing countries can participate in this exercise. The number of delegates representing participants in the council should also adequately reflect the multi-stakeholder participation as the different regions united in the compact. This can easily be achieved by an adequate voting procedure. Furthermore, policy dialogues might counterbalance the council by serving as the General Assembly of participants, the GC Office playing the role of a secretariat.

In a second step, the elected advisory council with the support of the “secretariat,” namely the GC Office itself, can draft its terms of reference and procedural guidelines. Issues to be addressed may include decision making within the council and the policy dialogues. Furthermore, it may adopt and apply guidelines on how to proceed in the case of assumed free-riding by the participants. As a result, statements and recommendations issued by the council or policy dialogues, then truly representing the GC Alliance as a whole, would give the Global Compact a legitimate and significantly strong voice.

Finally, and in particular, local compacts would become more sustainable and self-sufficient, if corporate, civil society, and labor representatives would take responsibilities and ownership as elected members of local advisory councils and steering committees. Of course, it would be of great benefit for any local network to see the United Nations continue to play a leading role in these democratized bodies and in administering the compact. However, as more “owners’ of the initiative take a greater responsibility, the United Nations will free resources for concrete partnership projects on the ground, which at the end of the day is the primary means for positive change.

To sum up, the GC Office should consider, propose, and encourage the democratization of the initiative and its infrastructures. In the event that a consensus can be reached, the implementation of the concept should start at the country level; for example, in a new EU member state from Eastern Europe. As a consequence of a successful internal democratic development of the compact, the initiative can serve as a framework for a new form of democratic global governance aimed at complementing and strengthening rather than replacing or weakening nation states and existing international institutions.

It has often been stressed, that good corporate citizens have to act in a socially responsible manner. Otherwise society will withdraw their “license to operate.” The GC went a step further by issuing a “license to cooperate” to those citizens who proclaimed to be good. For those who have proven to be good, a “license to participate” may be the logical next step.

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