Corporate Accountability
Why does it matter?

Yanuar Nugroho
Executive Director
The Business Watch Indonesia
yanuar-n@watchbusiness.org

www.watchbusiness.org
Regional Conference on Corporate Accountability
Jakarta, Indonesia, 9 October 2006
Why are we here?

“… The events of the last ten years have not resolved, but sharpened. [...]”

My friends, globalization is not a tide that lifts all boats. Even among those who the statistics tell us are benefiting, many feel deeply insecure, and strongly resent the apparent complacency of those more fortunate than themselves [...]"

Globalization brings people together in theory. In practice it drives them apart …”

Kofi Annan,
opening his last UN General Assembly session,
New York, 19 September 2006
Points

- The facts – figures and trends
- The logic – nature and roles of corporate sector
- The extent – accountability v (social) responsibility
- Mission (im)possible – holding corporate sector accountable
- Some implications
Business as usual?

Careless exploration and hot toxic mud engulfing villages

Copyrights: Sydney Morning Herald, Australia, 28 Sept 2006
Business as usual?

Softdrink company and danger to the ground water

Copyrights: Liz Stuart/Christian Aid
Business as usual?

Mining company and pollutions endangering life

Copyrights: SH/Don Peter

Copyrights: Environment Ministry

Copyrights: JATAM, Walhi, ICEL, Kelola, YSN, BKMKT, FORJAPB, ELSAM, TAPAL
Business as usual?

Mining company and environmental devastation

Jim Bob Moffett said that the environmental effect of the mine was "the equivalent of me pissing in the Arafura Sea."

(1996)

Photo By Alan Pogue

Freeport, West Papua, 1990
© rettet-die-elbe.de

Freeport, West Papua, 2000
© rettet-die-elbe.de
Business as usual?

Modern retail and the extinction of traditional markets
The UNDP reported in 2002 that with two-thirds of the population below the poverty line, people in developing countries lacked access to the basic human needs -- 60 percent lacked basic sanitation, 33 percent had no access to clean water, 20 percent lacked access to health services and 25 percent lacked adequate housing.
World tragedy – poverty

Number of people living on less than a dollar a day, as a percent of the world’s poor, cumulative.

Source: Janice Poling, Boston Univ, 2003
Money does matter ...

Figure 1.2. Total resource flows\(^a\) to developing countries\(^b\), by type of flow, 1990–2003

(Billions of dollars)

\(^a\) Defined as net liability transactions of original maturity of greater than one year.
\(^b\) The World Bank classification is used here. It differs from UNCTAD’s classification in that it includes CEE countries under developing countries.
Figure 2. FDI flows by region, 2003, 2004
(Billions of dollars)

Investment in Asia & Oceania

Figure II.7. Asia and Oceania: FDI inflows and their share in gross fixed capital formation, 1985-2004

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1 and B.3.
Led by developing countries, global FDI flows resumed growth in 2004 ... ...with the Asia and Oceania region the largest recipient as well as source of FDI among developing countries.

FDI rebounded in Latin America following four years of decline ... remained stable in Africa ... and increased in South-East Europe and the CIS for the fourth consecutive year. ... Further increases in FDI are expected.

(Outline World Investment Report, UNCTAD, 2005, h. v)
The greatest impact has been in developing countries, where annual foreign direct investment flows have increased from an average of less than $10 billion in the 1970s to over $350 billion in 2005.

FDI in the ‘Third World’ now makes up nearly one quarter of global FDI.

China is the world’s largest host country for FDI.

Larger multinational corporations and conglomerates still make the overwhelming percentage of FDI (UNCTAD, 2005).

Middle-income ASEAN countries such as Malaysia, Thailand, Indonesia and the Philippines are now facing the major challenge of improving their competitiveness and attractiveness as hosts to FDI in a rapidly changing economic environment.

Source: Fact-sheet DTE on FDI
The facts

- Overseas Development Assistance (ODA) used to be the main source of the development funds in developing countries since before 1990s. But in 2000, total ODA was only a half its pre-1990 level.
- Private finance, through FDI, has become the biggest source of ‘development’ funding.
- This huge increase of FDI is a result of the massive growth of TNCs in the global economy. From 7,000 multi-national companies in 1960, the number has soared to more than 63,000 with approximately 690,000 affiliations or subsidiaries by the late 1990s.
- More than 75% of these corporations are originally from developed countries in Western Europe and North America, while their subsidiaries operate mainly in developing countries, such as Indonesia.
- Private sector is estimated to have control over two-thirds of international trade.
FDI inflows to Asia and Oceania reached a new high at $148 billion in 2004, registering the largest increase ever.

FDI flows to Asia and Oceania increased by 46% in 2004; the region’s share of FDI inflows worldwide also increased from 16% in 2003 to 23% in 2004.

East Asia accounted for the major share (71%) of FDI flows to Asia and Oceania. These rose from $72 billion in 2003 to $105 billion in 2004, mainly on account of higher FDI flows to Hong Kong (China), China and the Republic of Korea.

South-East Asia witnessed a further rise in flows from $17 billion in 2003 to $26 billion in 2004.

FDI inflows to South Asia also climbed in 2004 for the fourth consecutive year. Inflows to India – at a record level of $5 billion

FDI inflows to West Asia increased from $6.5 billion in 2003 to $9.8 billion in 2004.
Approval of foreign and domestic investment
Source: data processed from State Investment Coordination Body (BKPM), Jakarta, Nov 2003
“In Indonesia, the successful privatization of State assets and foreign acquisitions of private firms helped putting an end to the continuous period of negative FDI inflows that began in 1998.”

(World Investment Report 2005, h. 52)

There has been a 70% increase in foreign direct investment in the first half of 2005, along with 5% - 6% economic growth since late 2004.

Britain, Japan, China, Hong Kong, Singapore, Australia and Malaysia were important sources of new FDI in early 2005. Total FDI in Indonesia was US$13.2 billion in 2003 (latest available figures), compared with US$9.8bn in 2002, $33.8bn in 1997 and over $40bn in the mid-1990s.

For more detailed elaboration, see the attachment: Country FactSheet Indonesia, World Investment Report 2005
International Infrastructure Summit (17 Jan 2004)
Explicit decision that all infrastructure projects were open to foreign investors to make profit, without any exceptions. Restrictions would only be created by competition between companies. The government also clearly stated that there would be no difference in the treatment of Indonesian and foreign businesses operating in Indonesia.

BUMN (State Owned Enterprise) summit (25-26 Jan 2005)
Made clear that all state-owned companies will gradually be sold off to the private sector. Put simply, this means no goods and services will be provided by the government at low cost with subsidies from taxes. In future, all public goods and services will be commercial ventures with their provision purely guided by the profit motive.
World Economic Forum survey (2005) lists the barriers to investment:

- Inefficient state bureaucracy (21%)
- Inadequate infrastructure (19%),
- Tax regulation (15%),
- Corruption (11%),
- Human resource quality (9%),
- Instability of policies (7%)
- Labour law (4%)
Box figure I.3.3. Major risks to global FDI flows,\textsuperscript{a} 2005-2006
(TNC, expert and IPA respondents)

Source: UNCTAD (www.unctad.org/fdiprospects).

\textsuperscript{a} Percentage of respondents that considered each factor as important or very important.
Today corporations stand next to, rather than under, democratic governments. Corporate leaders believe they have a legitimate role, as partners with government, in governing society. Meanwhile, the government is believed to have a less legitimate role in governing corporations.

Transnational corporations (TNCs) numbered 3,077 in 1914, jumping to 39,463 by 1994 and leaped again to 63,312 in 2000. Of the 100 biggest economic units in the world, 53 are corporations and only 47 are nation-states (IPS, 2005).

The oil company ExxonMobil is much bigger than the combined revenue of poor 180 countries. […]

Of course, money does not automatically reflect power, but it is certainly parallel to power.

About 85% of the world's flour stock is controlled by only six TNCs.

Five TNCs now control 90% of the music industry and seven companies own 95% of the world's film industry (Gabel and Bruner, 2005)
Today, the biggest irony is that the power of capital has escaped from the criteria of public accountability, and the irony seems to be rooted in the conception of the origins of power, i.e. the "public" character of state power and the "private" nature of capital, or business, power.

State power is rooted in its control over the state, which of course is not private property. In contrast, business power is rooted in its ownership of capital, which is unquestionably private property.

In the libertarian conception, the democratic criteria applies towards state power, but not towards business power. This might be the deepest root of our powerlessness when faced by capital power which can fly anywhere and intervene in the economic process of any country without any entry-exit regulation.
The key problem of such a paradigm is the *sundering of ownership/property from power* – we know clearly that they cannot be separated. There is no property which does not involve power, and vice versa.

Thus, any socially consequential exercise of power based on private property should not escape the democratic criteria. The use and abuse of private property in the pulp industry, for example, has a deep implication on the environment and on ecological governance.

We can easily look at other examples of power related to "privately owned" capital -- the workplace, employment and unemployment, the deposit pool, consumerism, credit provision, state income for social welfare, provision of public needs, income and living standards for farmers and workers, etc.

Perhaps we should pay more attention to what is most influential nowadays -- not only the dictatorship of the state, but rather the oligarchic domination of capital, or even the combination of both.
The nature of global corporate power has been changing for over a decade. There is an alarming acceleration in corporate concentration in individual sectors and in the overall power of the largest corporations in the world, and the job-destroying activities of large firms (Institute for Policies Study, 2001).

As corporate concentration has risen and corporate profits have soared, workers and communities are getting a shrinking share of the growing pie (Mishel, et al, 1996).

- Accountability deals with the control of the exercise of power while responsibility merely counts on individual entities’ voluntary action.
- “Corporate Accountability” concept is in its action plan – to make business practices not only socially responsible but also democratic and accountable.