Commentary No. 57
December 3, 2022

Trade Offs – Big Business in the War

Paul Hansbury

Summary

One of the less-expected things to happen following Russia's invasion of Ukraine was the withdrawal of many western brands from the Russian marketplace. No such actions by multinational corporations followed Russia's war with Georgia in 2008, nor followed the annexation of Crimea in 2014. Corporations' actions this year are therefore significant, and they portend a prospective shift in the norms of international commerce.

Actors in international affairs

Among liberal international relations scholars since the late 1970s, it became commonplace to think that multinational corporations had become significant players in international relations. No one doubted that they had a role – the father of neorealism, Kenneth Waltz, agreed that it was 'obvious' that corporations and economic interdependence had effects on politics, although he considered multinational corporations really to be no more than 'nationally based firms that operate abroad' – but it was neoliberalism's focus on interdependence that pushed the corporations-as-actors hardest as part of a growing interest in global governance.

The ending of the cold war perpetuated this idea. It fed into claims that realism, with its tendency to focus on states-as-unitary-actors, was obsolete. Susan Strange argued that power had been diffused far more widely across different kinds of actors as part of what she called 'the retreat of the state'. For her, the domain of state authority within domestic societies was shrinking; the corollary of this was a greater role for non-state actors in international politics. The move away from state-centric understandings of international relations was in its heyday.

In certain respects, the twenty-first century has been less kind to neoliberalism. First of all, there was the 2008 financial crisis which showed that the state remained indispensable, stepping in to bailout corporations deemed 'too big to fail'. Then came the Covid-19 pandemic. Private firms played an undeniably important role, most visibly

the pharmaceutical corporations developing vaccines, but also NGOs in providing assistance round the world. At the same time, endeavours to stop the virus from spreading required states to take measures, either cooperating in ways that corporations on their own either could not or would not be expected to do. Or, from a more cynical perspective, it required states to engage in protectionist and selfish measures as part of the dog-eat-dog world of international politics. In either case, the state remained the preeminent actor in international relations.

Corporate social responsibilities

But multinational corporations have changed their self-image in the past decade and may well be showing their ability to shape new norms during the Russo-Ukraine war. In 2014 none considered exiting the Russian market, adapting to sanctions as required, and leading western brands had shown little compunction in operating in political regimes condemned by western governments.

> To paraphrase Calvin Coolidge, the business of businesses was business. Corporations' interests largely appeared politically neutral and little concerned for ethics.

Something clearly changed. The exodus of firms from Russia was a spontaneous event. Oil and gas giant Shell PLC wrote off billions of dollars by ending its cooperation with Gazprom. Many manufacturers, financial corporations and foreign industrials firms either suspended joint ventures or closed factories. Many retail brands, the most visible corporations operating in Russia, left the market. Some firms tried to resist, but they faced censure on social media and from consumers – and often buckled. The extent of the exodus is tricky to gauge – a recent visitor to Moscow tells me many of these brands are still readily available in Moscow and there are rumours of western firms disguising ongoing activities – but many firms clearly exited the Russian market.

It might be a stretch to call the move unprecedented, in so far as consumer boycotts of brands operating in South Africa during apartheid led to many firms ceasing to operate in that market, but, at least initially, the decisions of firms to leave the Russian market were less driven by consumer pressures than the corporations' own perceptions of whether it was appropriate to trade in Russia. Rightly or wrongly, many quickly concluded it was wrong.

Two points are relevant here. The first concerns multinational corporations' perceptions of what is expected of them. We can be highly sceptical about the motivations for corporate social responsibility, as we can doubt about environmental and social

governance (ESG) agendas, but big western firms are pushing themselves in a position where they will be increasingly expected, and therefore need, to act in line with the consensus among consumers on political matters even if it comes at high cost to them. This is a dialectical process. Research has shown that 'Generation Z' in western Europe and North America, the generation born since the late 1990s, expect brands to embody their own values.

The second point is that these actions, in turn, will shape how states interact with one another and the principles and norms of global trade. The most direct influence corporations will have is on their own countries' governments (accepting Waltz's view that such firms are not truly "multinationals").

> Among the foreseeable consequences in the global economy is the emergence of hidebound markets with brands operating in discrete trading spaces; an obvious leader here being the appearance of 'Vkusno – i tochka' in Russia in place of McDonald's with the two unlikely to compete directly in most markets.

Whether multinational corporations would be happy in the long run with smaller markets remains to be seen, as does the effect on – in this case – Russian consumers, but it may well be that, rather than the emergence of such hidebound markets, corporations will prevail in bringing change to the norms of international political economy. Paraphrasing Coolidge for the second time, the business of businesses is politics as well.

Paul Hansbury
Associate Fellow, Minsk Dialogue Council on International Relations