

Business Caught Between Democracy and Autocracy

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Transformation and Climate Change Challenges
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Outline

- **From Western liberal globalization (+ sustainability)**
- **Towards bi-polar globalization under autocratic-democratic rivalry**
- **Companies in a squeeze**
- **China and the West: The H&M & Huawei cases**
- **Russia and the West: Energy cases**
- **Discussion**

The era of Western led globalization

**GLOBALIZED
ECONOMIC LIBERALISM**



**CORPORATE
OUTSOURCING**

**CIVIC AND POLITICAL
LIBERALISM**

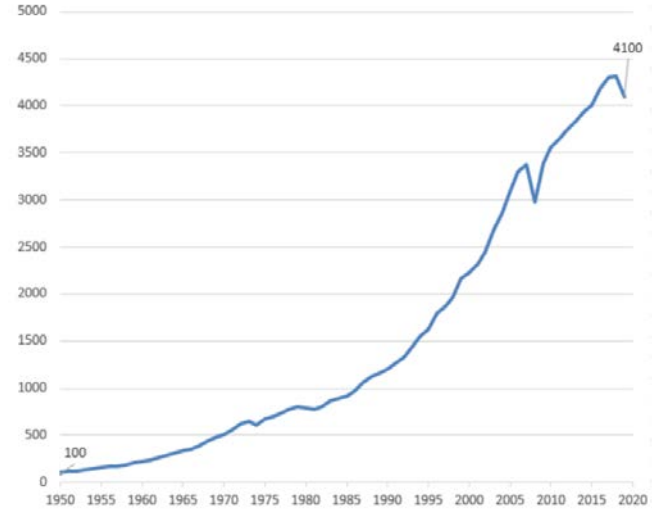


**CORPORATE
SUSTAINABILITY**

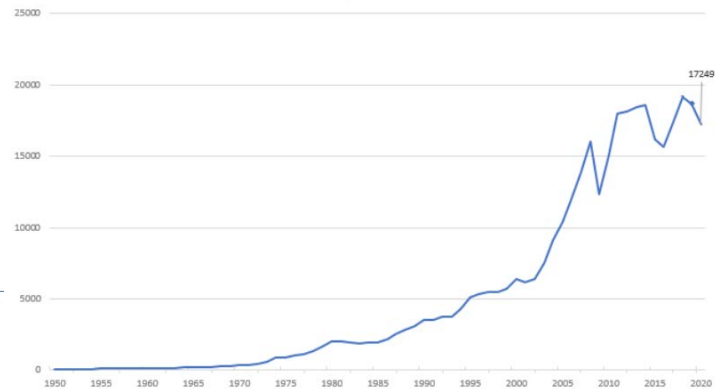
Liberalization and Globalization,



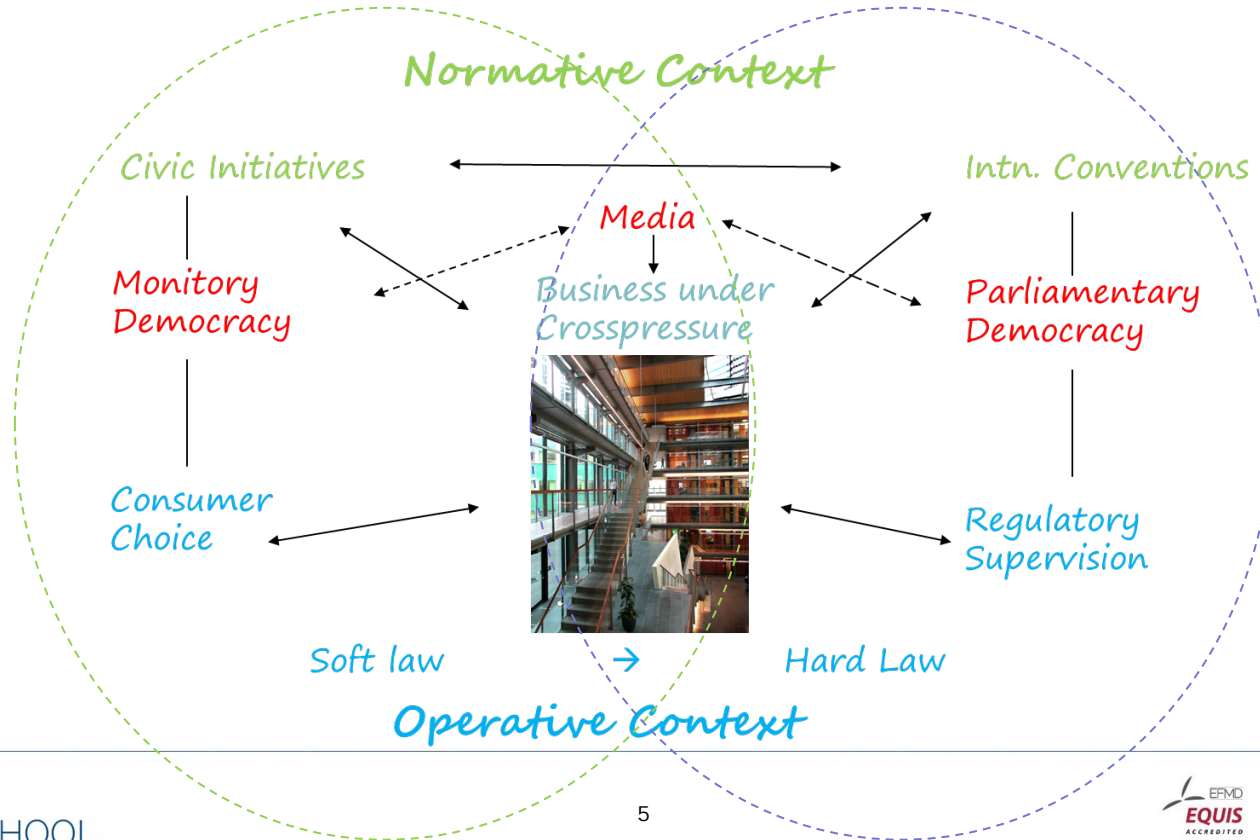
Evolution of world trade, 1950-2020
Volume index, 1950=100



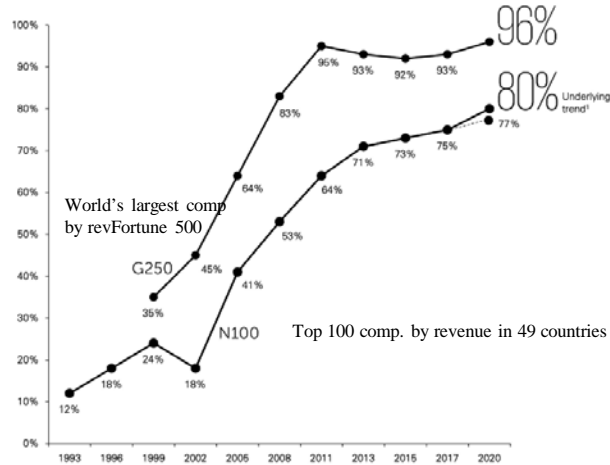
Evolution of World Trade, 1950-2020
Values, Billion USD



Complementary governance-mechanisms in the age of communication and digitalization



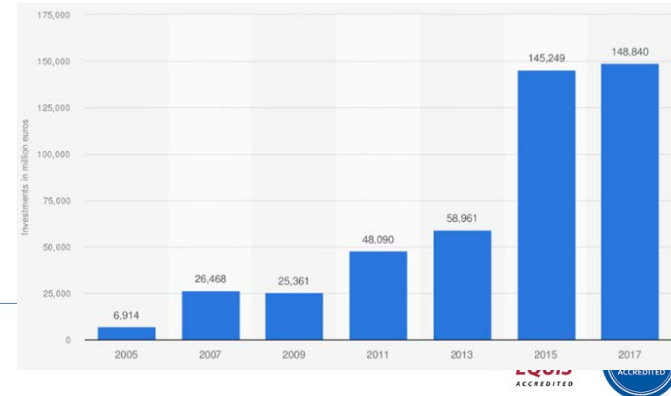
The Corporate sustainability revolution



Source: KPMG



SOURCE: US SIF Foundation.



The era of bipolar rivalry

Common buy-in to capitalism Disagreement on values

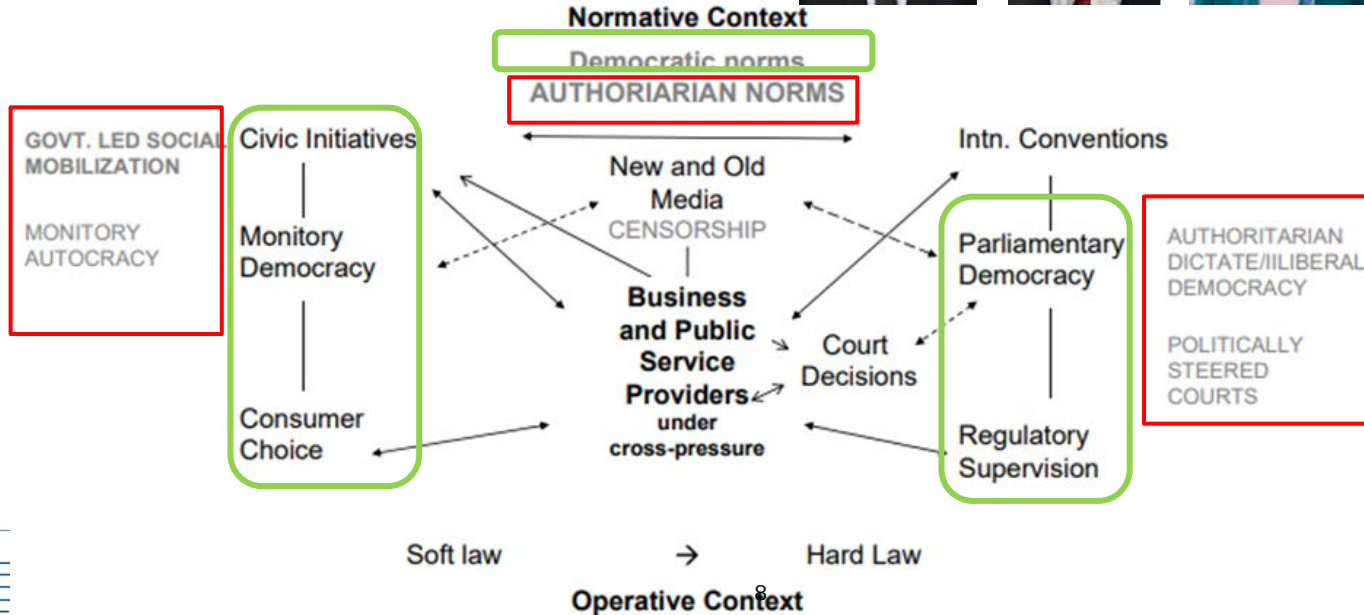
DEMOCRATIC REGIMES:

- For the West, human rights, civil liberties and democratic institutions are central parts of the value hierarchy.

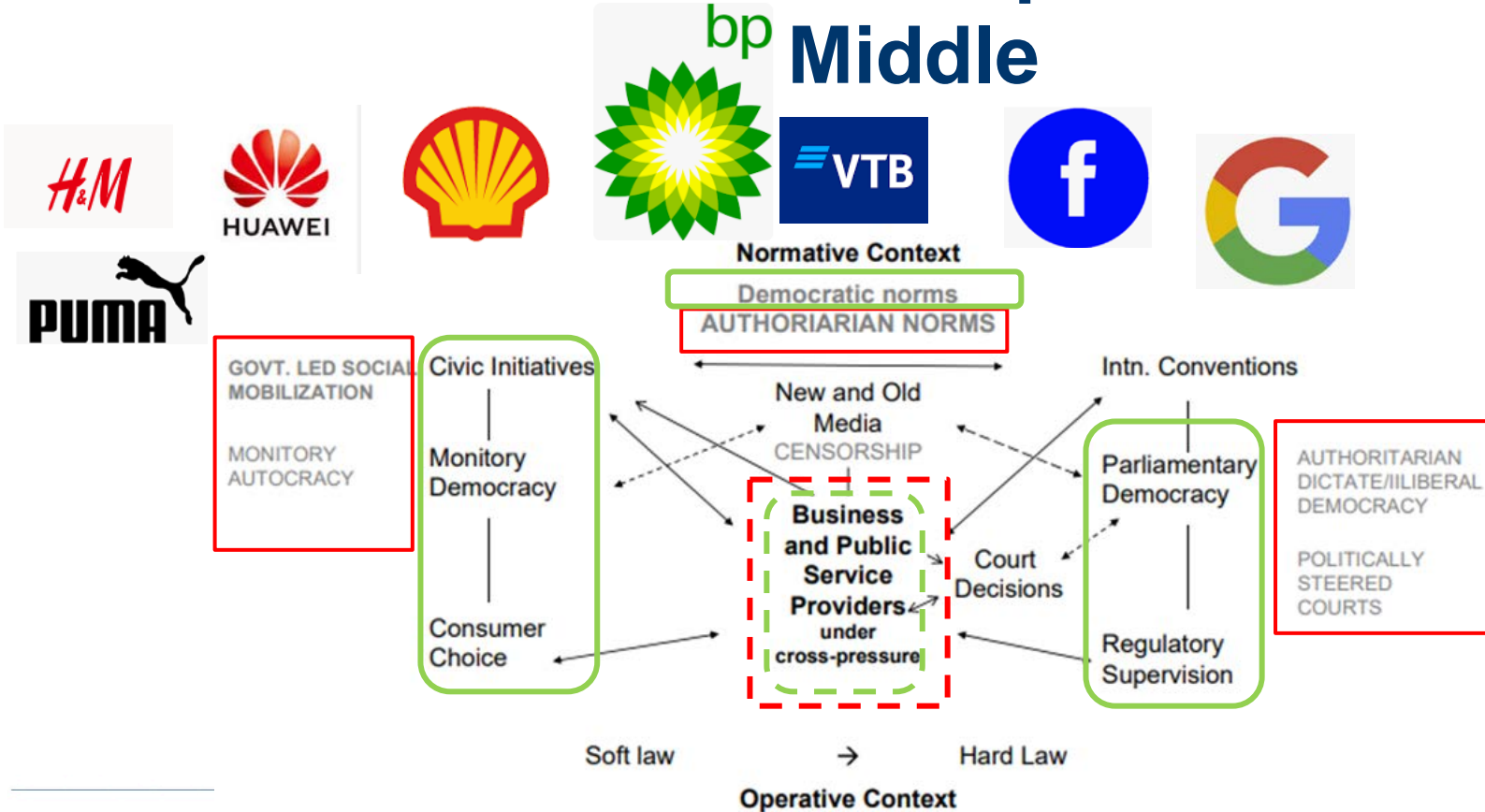
AUTOCRATIC REGIMES:

- Authoritarian regimes emphasize values such as law and order, patriotic nationalism and obedience

Emerging Rivalry Between Democratic and Autocratic Regimes



Global Business Squeezed in the Middle





CHALLENGES:

- 85% of all cotton production in China comes from the Xinjiang region
- In 2021, China boycotted H&M in everything from e-commerce to, social platforms, GPS locations (maps) and physical stores
- China went from No. 5 on the sales list in 2020 to being outside the top 10 list for H&M during the 3rd quarter of 2021
- The H&M annual report from 2021, does not mention the Xinjiang scandal and the financial consequences of the boycott in China
- H&M has also not only lost out on reduced sales as a result of the boycott. China is also one of the company's most important suppliers

REMEDIAL ACTION

- H&M focusing on philanthropy in China
- The H&M Group has recently launched "Arket" and "Other Story" in China to avoid negative Chinese reactions
- H&M must again manage to increase sales in the country by improving relations with the Chinese authorities.
- This must be balanced with Western values for human rights to avoid former customers starting a boycott of the brand.

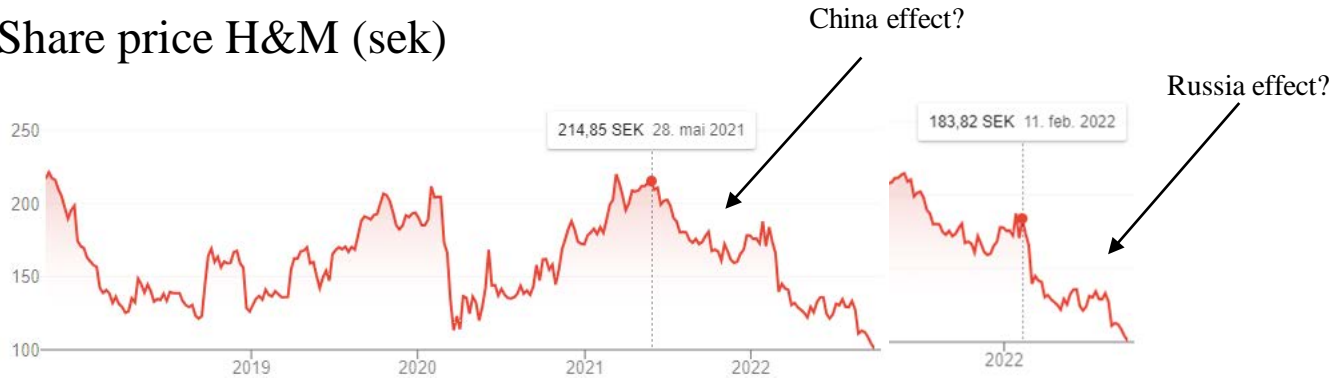




NEW TROUBLE IN RUSSIA

- H&M Group paused all sales in Russia (March 2. 2022)
- In July 22 the company decided to wind down all business in Russia (July 18. 2022)
- Costs estimated to 2 BSEK

Share price H&M (sek)





THE HUAWEI SQUEEZE

- to become the world's largest smartphone manufacturer and
- a global leader in the rollout of 5G.
- blacklisted by the US and banned from the US market in 2019.
- Americans pressured allies against Huawei contracts for the 5G rollout,
- Huawei was eventually frozen out in most Western countries.

A HARD HIT ON THE ECONOMY

- 2021: Chinese telecommunications giant Huawei Technologies reported its biggest ever revenue drop in the first half of 2021 (August 6, 2021 Reuters)
- 2022: Huawei Technologies first-half net profit more than halved as a difficult economy curtailed demand from customers, compounding woes brought by U.S. technology restrictions. (August 12, 2022 Reuters)

REMEDIAL ACTION

- **Mobilizing an enormous home market**
- Huawei is China's leading 5G system vendor
- Huawei secures around 60% of the share
- **Mobilizing in developing markets**
- Chinese government's impact on emerging countries such as Africa and Southeast Asia. Huawei is able to deliver 5G systems at the lowest market price
- **Moving into new fields**
- Automotive, autonomous vehicles
- Software development
- AI

Energy Industry Pulling out of Russia



- **BP:** Exit 19.75% share of Rosneft, wrote down \$25.5 billion pre-tax impairment



- **Shell:** Written off Russian assets \$3.9 billion, incl. 27.5% stake in Sakhalin-2 field



ExxonMobil: Exit about \$4 billion in assets and discontinue all its Russia operations, including the Sakhalin-1 oil and gas project



NESTE : start of April, it had replaced 85% of oil imported from Russia



- **Equinor:** withdrawing from \$1.2 billion worth of capital investment in Russia



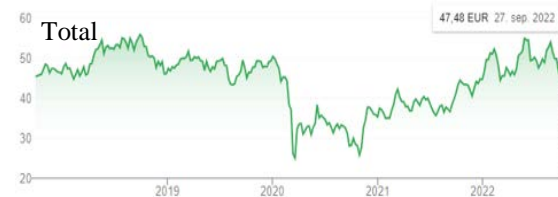
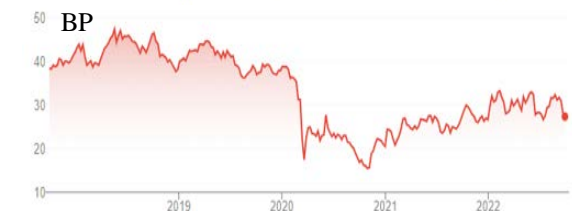
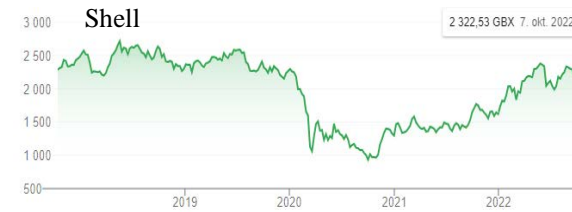
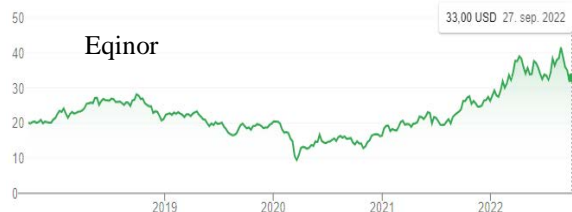
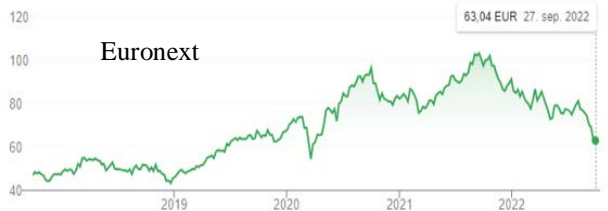
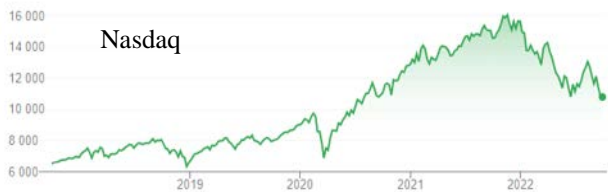
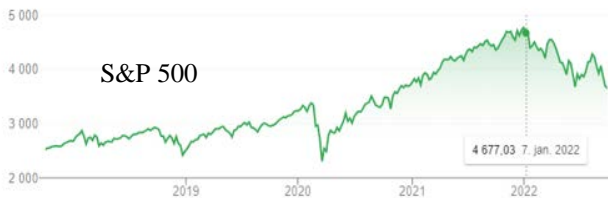
Eni: selling its 50% stake in the Blue Stream pipeline, which runs from Russia to Turkey. Stepping down its involvement with Rosneft



TotalEnergies: has booked a \$4.1 billion impairment, but it has stopped short of joining others in announcing divestments. Russia is an important country for TotalEnergies, producing 16.6 of its oil and 30% of its gas there.

Share value for indexes and energy industry

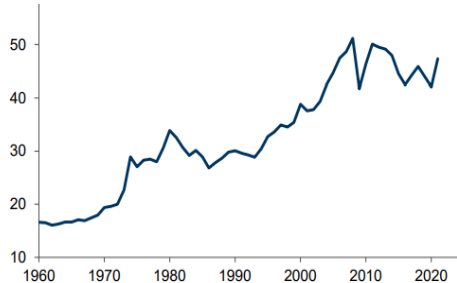
Shell



Discussion I: Regionalization of trade?

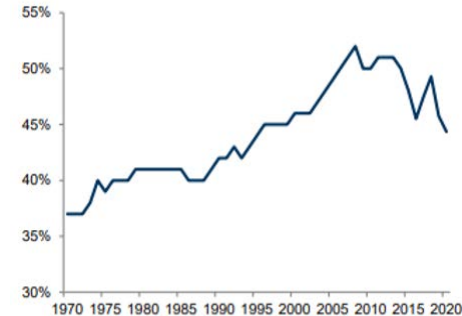
- **Supply chain security, combined with authoritarian/democratic divide**
 - End to hyper-globalization:
 - More concern with security of supply
 - Will sustainability requirements + human rights, count
 - The CBAM, Could we see a HRBAM

Global goods trade peaked as a share of GDP in 2008
World merchandise imports plus exports, % of GDP



Source: IMF, World Bank, Goldman Sachs GIR.

Global value chains have been declining since the mid-2000s
GVC share of global trade, %



Source: World Bank, ADB, Goldman Sachs GIR.

Discussion II: The costs and benefits of corporate sustainability

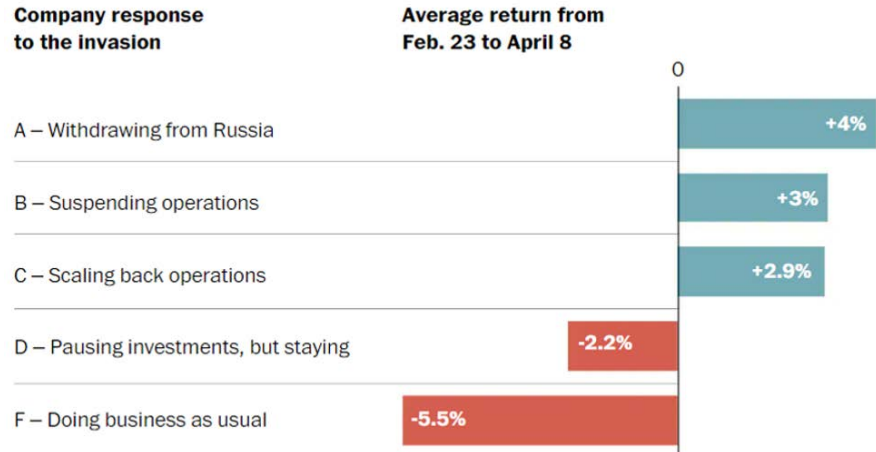
○ The costs and benefits of exit

- Costs in some cases (H&M and Huawei)
- But potential gains in others (energy)

The Sonnenfeld – Yale study – tracking 1200 companies

Impact of the war on companies doing business in Russia

Market-capitalization-weighted returns.



Discussion III: Implications for the Sustainability Agenda

- Rewinding towards philanthropy?
 - human rights are too controversial
 - **Multiple branding strategies – (ex: H&M)**
 - **Or standing by human rights?**
 - The CBAM, Could we see a HRBAM

