MONEY TALKS: THE INFLUENCE OF ECONOMIC CRISIS ON GLOBAL GOVERNANCE

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ABSTRACT

The economic crisis has had an influence on all aspects of life, from economic to social life, from national security to governance, and from politics to sports. The consequences of the economic crisis of 2008 could shape the future of global governance. Also, the appearance of new players in influencing and restructuring the global political system, such as private and state-owned Transnational Corporations (TNCs), makes us rethink the ways in which we need to approach human development issues such as fighting corruption, supporting human rights and higher living standards, and maintaining good governance practices worldwide. Thus, this article addresses the influence of the economic crisis of 2008 on formal and informal governance. The focus of this article is addressing the increasing of economic and political power of TNCs, especially state-owned TNCs, and their influence on the global political system. The conclusion reached is that International Organizations (IOs), civil society organizations, people, and even TNCs need to work together to reorganize the political scene with new international agreements and IOs, because institutions and international agreements that initiated after WWII are not working affectively anymore.

Keywords: International organizations, Economic crisis, Transnational Corporations, State-owned TNCs, China, Governance

INTRODUCTION

Without a doubt, globalization has affected every corner of the globe; even isolated areas that were once less affected by what is happening outside their borders have been affected as a result of globalization. Advanced technology and transportation have translated communication and relational dynamics of global world into those of a small village. In addition, the desire of

Transnational Corporations (TNCs) to maximize their profits and the willingness of states with strong economies to have bigger role in shaping world's political systems, among other factors, have participated in restructuring local and global governance in recent decades.

Politics, relationships between states, international trade, and culture are all influenced one way or another by globalization. Accordingly, the economy is one of the fundamental factors that has shaped and continues to shape this new era of globalization. Also, economic crises such as the one in Asia in the 1990s and the current crisis that began in 2008 are good examples of how globalization became an unavoidable fact.

Consequently, the role of governments has changed dramatically, from welfare states trying to provide jobs for citizens to facilitating states trying to provide a proper environment for investors. According to United Nations Conference on Trade and Development (UNCTAD) (1996), "under forces of globalization, the role of government is progressively shifting toward providing and an appropriate enabling environment for private enterprise" (p.14). This new role for governments comes as a result of globalization and capitalism, as modeled in the USA, Western European countries, and Japan.

Host states change some regulations to attract TNCs to invest. In contrast, financial crises are golden opportunities for TNCs with strong financial status to have new investments. According to Harris (2010),

The TCC [Transnational Capitalist Class] response to the world crisis is to expand transnational accumulation through a deeper integration of the national into the global. For the TCC there is no national industrial policy that is not a transnational policy. Economies at home and abroad have merged in ways that intractably link the profits and strategies of TNCs. U. S. auto manufacturers can't survive without their global footprint. The same is true of every auto corporation, no matter their perceived national identity. (p. 407)

The 2008 economic crisis and its consequences such as increase in countries national debts and browning costs show indications of the new structure of the global economic system. For example, a new report by *Financial Times* shows that China, through China Development Bank and China Export-Import Bank, has lent more money to developing countries than the World Bank did in 2010 (Dyer, Anderlini, and Sender, 2011). A country borrowing from other countries is a frequent action and always happened, but this time is different for two reasons. The first reason is that countries such as China, Qatar, and United Arab Emirates (UAE) have started to invest in and lend money to countries in need of cash, such as Greece and some African countries. These lenders record low in most governance indicators, such Worldwide Governance Indicators (WGI) by the World Bank (Kaufmann et al., 2010), which raises the important issue of how these lenders could use these loans and investments to influence the development of governance development in the receiving and host countries. The second reason, which is related to the first, is the fact that these loans and investments come with flexible conditions from lenders compared to loans guaranteed by IOs or developed countries, this flexibility might have an influence on aspects of formal and informal governance, such as transparency and the democratic process, in receiving countries. In the case of China, for example, Tull (2006) states that "by offering aid without preconditions, China has presented an attractive alternative to conditional Western aid, and gained valuable diplomatic support to defend its international interests." (p. 459)

Transnational Corporations (TNCs) are the key players in the new global political system. Beyond the mere exchange of goods and provision of services in foreign countries, TNCs participate in – or have an enormous impact upon – the formation of regulations, public organizations, politics, and even the governmental constitutions of home and host states. The economic and political influence of TNCs has risen in recent decades (Henderson, 2000; UNCTD, 2011). According to the *World Investment Report* of 2011, "TNCs' production worldwide generated value-added of approximately $16 trillion in 2010, about a quarter of global GDP. Foreign affiliates of TNCs accounted for more than 10 per cent of global GDP and one-third of world exports." (UNCTD, 2011a, p. x)

State-owned TNCs have been one of the main forces of globalization. According to *World Investment Report*,State-owned TNCs are an important emerging source of FDI. There are at least 650 State-owned TNCs, with 8,500 foreign affiliates across the globe. While they represent less than 1 per cent of TNCs, their outward investment accounted for 11 per cent of global FDI in 2010. (UNCTD, 2011a, p. x)

However, the main task of state-owned TNCs is maximizing profit and diversifying investment, or at least they claim this is the case; however, there is no doubt that state-owned TNCs have other roles to play, including political roles (Henderson, 2000; McLean, 2003; Rondinelli, 2003; UNCTD, 2011a).

This article will discuss the increasing role that privately owned TNCs and state-owned TNCs play in the global governance and global economic system. This paper is structured as follows. First, the economic and political influence of TNCs in world political systems and global governance will be discussed. Second, responses to the economic crisis of 2008 from IOs and TNCs and its affect on formal and informal governance will be explored. Finally, suggestions for further research will be presented, since this article is intended as a step toward a better understanding of international governance structure.

TRANSNATIONAL CORPORATIONS (TNCS)

TNCs are defined as "incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates" (UNCTD, 2011b, p. 3). According to the *World Investment Report* of 2011, TNCs accounted for 25 percent of world GDP, which explains their economic power. Simply stated, a transnational corporation (TNC) is a corporation or enterprise that introduces services or/and production in other countries as well as the home country.

Foreign Direct Investment (FDI) and other forms of TNCs have a positive impact on the market and people of the countries where they operate. For example, FDI challenges the local companies with competition, leading them to merge in order to have a strong firm (financially and professionally) and the ability to compete with the big TNCs either in business or by launching new ideas with new products. According to *World Investment Report*, "each form of foreign investment plays a distinct and important role in promoting growth and sustainable development, boosting countries' competitiveness, generating employment, and reducing social and income disparities." (UNCTD, 2011a, p. 21)

Even though FDI and TNCs are a very important element in posting economy, it is important to keep in mind that TNCs are profit driven, so they will relocate whenever there is a new opportunity or serious threat to their operations (UNCTD, 2011a). In addition, TNCs, as a form of FDI, like to operate in countries with flexible regulations (e.g., labor, environment) to reduce cost and maximize profit (Hill, 2008; Kwok & Tadesse, 2006; Tull, 2006). According to Kwok & Tadesse (2006),

There are plenty of anecdotal evidences that TNCs sometimes bring undesirable influences. In some situations, TNCs exploit natural resources, cause environmental pollution, employ child labor, or take advantage of the looser regulations of the host countries (to bypass the stringent regulations and costly requirements of parent countries). (p. 8)

In addition, according to Henderson (2000), there is always a conflict of interest between private and public interests, which in this case refers to the interests of TNCs and the people of the countries they affect. Yet economic globalization and liberalization movements give private sectors and TNCs advantage over the public interest, and local governments have less power to control, manage, or organize TNCs' activities. Thus, TNCs have the necessary power to influence governments' actions toward their interests, even if such interests conflict with the public interest. According to Henderson (2000),

Companies and TNCs still fight regulations with stonewalling, countless legal challenges, lobbying, political fundraising, manipulating markets and finance, corruption, and in some cases, repression and violence, even if a regulation would benefit them by organizing a new and larger market or help capitalize a cleaner, cost-saving technology. (p. 1236)

Even though there is an attitude among reporters and in academia to distinguish between privately owned TNCs and state-owned TNCs, there is no consensus on labels for non-state-owned TNCs, so we will call them privately owned TNCs in this article. There are some characteristics that can help to distinguish private and state-owned TNCs. While all TNCs are profit-driven, one could argue that privately owned TNCs enjoy more freedom in running their operations even when governments own shares in the company (e.g., US government ownerships of shares of GE), because the government's shares' ownership is a temporary situation and the governments have little or no influence in these companies' strategies. Thus, one could argue that most of privately owned TNCs operate in developed countries. By contrast, state-owned TNCs are owned completely or partially by governments, and in many cases these governments have their own agenda carried out by the companies. For example, a report by U.S.-China Economic & Security Review Commission in 2011 explains the relationship between China's government and China's state-owned TNCs:

Chinese outward investment activities are often directed by the Chinese government, especially for firms in deals involving oil and minerals or telecommunications, which are required by the government to remain under government oversight or control. Chinese governments at various levels often appoint executives in such Chinese firms and finance the deals through state banks. The Chinese government's support for these industries includes a variety of subsidies as well as access to low-cost financing from the largest banks, all of which are state owned. (Salidjanova, 2011, p. 4)

This statement relates specifically to Chinese state-owned TNCs, but this could be applied to all state-owned companies in developing and transitional economies. Thus, privately owned TNCs have less political involvement in host countries compared to state-owned TNCs, and both types have economic and political influence in home-state countries.

Although it can be hard to distinguish between privately owned TNCs (governments have less control over operations) and state-owned TNCs (governments direct TNCs economically, managerially, and politically), following *World Investment Report* by UNCTD we will try to distinguish between the two politically and, to some extent, economically. Thus, state-owned TNCs will be discussed in a separate section to clarify the role that state-owned TNCs play in the world's political systems. Also, we will discuss some countries, such as China, that rely heavily on state-owned TNCs to gain international economic and political power.

FOREIGN DIRECT INVESTMENT

Foreign Direct Investment (FDI) has been one of the main indicators in measuring global trade. FDI refers to inflow (investment to countries) and outflow (investment from countries). The *World Investment Report* defines FDI as:

an investment involving a long□term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). (UNCTD, 2011b, p. 3)

However, state-owned TNCs from the U.S., China, and Western Europe have the biggest share of global FDI, developing and transitional economies attracted more FDI in 2010 than other economies. According to *World Investment Report* published by United Nations Conference on Trade and Development, global FDI totaled $1.24 trillion worldwide in 2010. Consequently, FDI inflows increased 5 percent in 2010, which is 37 percent less than the peak point in 2007. By contrast, FDI outflows remained constant in 2010 compared to 2009 (UNCTD, 2011a).

STATE-OWNED TNCS

International trade and the influence of state-owned TNCs in shaping the global political system is one of the controversial issues among politicians, economists, and academics; however, there is no agreement among international organizations and countries as to a specific definition of state-owned TNCs. McLean (2003) in *The Transnational Corporation in History* studies the history of TNCs, and he argues that "because the legal nature of corporations was not determined by international law, but rather by national or colonial law, the status of the different corporations varied" (p.371). In this article, the U.N. definition will be adopted. According to the United Nations Conference on Trade and Development, state-owned TNCs are "enterprises comprising parent enterprises and their foreign affiliates in which the government has a controlling interest (full, majority, or significant minority), whether or not listed on a stock exchange." (UNCTD, 2011a, p. 28)

According to the *World Investment Report* of 2011, there are almost 650 state-owned TNCs and more than 8,500 foreign affiliates around the globe; presumably, then, it would be unusual to find a country that does not have TNCs or one of their affiliates present. Furthermore, in 2010, TNCs accounted for 25 percent of global GDP, while their affiliates accounted for almost 10 percent of global GDP and one-third of world exports. Even though TNCs and their affiliates account for less than 1 percent of all TNCs, they nonetheless wield great economic and political power in their home and host countries (Clark & Chan, 1995; Harris, 2010; Henderson, 2000). According to the report, in 2010, 19 of the 100 largest TNCs in the world were state-owned and accounted for 11 percent of global FDI. Also, state-owned TNCs cover a variety of manufacturing industries and services, contrary to the common myth that state-owned TNCs only concentrate on natural sources industries, such as the energy industry. Finally, developing and transitional economies host more than half of TNCs (UNCTD, 2011a). These figures show the economic power that TNCs have in the world.

As a result of their economic power, TNCs have become unofficial governments that participate in influencing and shaping foreign and domestic affairs of their home and host states. For example, China's corporations conduct billions of dollars of business in Africa, which gives China the power to intervene heavily in decision making processes in its TNCs' host countries (Tull, 2006). The same thing happens to other states that used state-owned TNCs to pressure host states (Clark & Chan, 1995; Farazmand, 2002; Newfarmer, 2001; Salidjanova, 2011). According to Farazmand (2002), "the rule of giant organizations and multinational corporations, backed by their supportive political and military-security organizations of powerful states, is so formidable that few if any can escape their effects." (p. 111)

TNCS AND GLOBAL GOVERNANCE

One of the controversial issues of state-owned TNCs is the influence of the government that owns a TNC on its strategies and operations. This influence can be used to deliver home states' political agendas in host states. A TNC's essential mission is supposed to be operating as a firm (i.e., increasing income and social responsibility toward home and host countries) without political agendas. However, the other side of the coin, which is the use of TNCs by home states to deliver their political agenda, has a long history. McLean (2003) argues that British colonies in India in the 1800s had similar practices, using Indian companies owned by the British government to deliver Great Britain's political agendas. McLean (2003) thinks that modern TNCs have the same vision, and he deems that globalization and the TNCs it produces constitute a new form of colonization. According to McLean (2003), "The new world economic order is built on this colonial legacy." (p.373).By contrast, some scholars argue that political activity is part of any organization, whether private or public, so TNCs are not unique in defending their rights and fighting for their interests by using political methods (Clark & Chan, 1995; Farazmand, 2002). Farazmand (2002) argues that "all organizations public, private and nonprofit are involved in politics and political processes and activities. Indeed, all organizations may be considered political institutions, for they all perform political functions in one way or another." (p. xix)

The influence of a TNC in its home and host states is both overt (in its entity and sales) and covert (in its political and administrative influence). This influence is also both direct (in providing jobs for citizens, bringing technology to its host state, and to some extent serving the community) and indirect (e.g., in its ability to influence the passing of laws or regulations that will serve its interests). This influence takes different shapes and forms. One of the most common forms is informal governance such as lobbying, especially in democratic states where a group of people with similar interests seek to influence an issue. In non-democratic states, other forms of informal governance appear, sometimes including illegal activities such as bribery and nepotism (Henderson, 2000). According to Henderson (2000), "today, global corporations are capturing global markets with foreign direct investment, globalizing production, outsourcing to weak states, and-often overlooked in conventional analyses-negotiating global standard-setting processes." (p. 1238).While it is the TNCs' right to fight for their interests, they sometimes become greedy, especially when there is a conflict of interest between the corporation's interests and the public interest. In such cases, the public tends to suffer the most, especially when the host state is weak and cannot defend its citizens' rights, which is the case in most developing and transitional states (Henderson, 2000; McLean, 2003).

TNCS AS POLITICAL ACTOR

State-owned TNCs have been criticized for being used by their owners (i.e., the governments of their home states) to deliver and push the owners' political agendas in host states. By contrast, privately owned TNCs have been criticized for their influence on their home states' governments to achieve their own interests, regardless of conflict with the public interest. According to United Nations Conference on Trade and Development (2011a),

State-owned TNCs are causing concerns in a number of host countries regarding national security, the level playing field for competing firms, and governance and transparency. From the perspective of home countries, there are concerns regarding the openness to investment from their State-owned TNCs. (p. xiii)

Rondinelli (2003) argues that TNCs have influence on every aspect of life, including influencing public opinion through media, affecting governments' decisions through financial aid, helping governments to solve problems such as creating jobs, and supporting candidates for public offices in democratic societies. According to Rondinelli (2003),

[T]he expanding public roles of transnational corporations in private foreign aid, in self-regulation and private certification of business practices, not to mention helping shape public policy, can be viewed as evidence of corporate citizenship and social responsibility or as a threat to democratic decision making and national sovereignty. (p. 13)

Another issue raised by Rondinelli (2006) is the exchange role between governments and TNCs. He argues that one of the clear results of globalization and the TNCs it produces is the fact that global corporations perform tasks that used to be performed by governments, such as influencing people socially and economically. Rondinelli (2006) stated that:

[A] less visible, though nonetheless significant, aspect of globalisation is the rapidly expanding roles that these corporations and their executives and industry associations have assumed in social, economic, and environmental policy – areas that had in the past been the primary or exclusive responsibilities of governments. (p. 15)

Over the 25 years, TNCs have become the largest provider of foreign aid in the world through their donations and NGOs that they have initiated (Rondinelli, 2006). The increasing economic and political power of TNCs causes governments to change laws and regulations either as a response to pressure from TNCs or to attract them to invest in the country. Henderson (2000) stated that "today, the state is everywhere in retreat and similar fears are now focused on the ascendance of markets and private corporate power in our globalized economy" (p.1232). Rondinelli (2006) goes even further by deeming that TNCs have an international influence rather than limited influence at the local level. According to Rondinelli (2006), "TNCs also influence international policy dialogues prior to national governments and international organisations enacting laws and regulations or attempt to influence the pace and direction of decisions by governments and international organizations." (p. 16)

Koenig-Archibugi (2004) shares Rondinelli's views and thinks that TNCs in some cases have more power than host states, where host governments are not able to hold TNCs accountable for their actions. According to Koenig-Archibugi (2004), "host governments might be unable to act effectively as agents of accountability between TNCs and citizens because of the lack of material and organizational resources for policy formulation and implementation." (p.244)

The economic and political influence of TNCs has spread throughout the globe, so no region or state is immune from TNCs' effects. "The growing economic influence of TNCs almost assures continued expansion of the public role of the private sector in international policy" (Rondinelli, 2003, p. 21). In the United States, for example, the massive bailout after the 2008 financial crisis raised a lot of questions regarding the amount and timing of the bailout, as well as the political power that allowed TNCs to influence the passing of the bill by Congress and the White House. In his study of the U. S government's actions to bail out giant companies such as GM and Ford, Harris (2010) argues that the massive bailout from the U.S. government to auto companies as a response to the 2008 economic crisis is clear evidence that TNCs have strong political and economic power that goes beyond countries' ability to control them. According to Harris (2006),

But auto is an indicator of a broader trend in which TNCs are increasing their monopoly over the world economy. Moreover, through all the global wheeling and dealing we see how government bailouts help promote transnational investments that blur the identity of national ownership. (p. 405)

The case of China will be presented as an example of state-owned TNCs in the following section. It is important to note that China's authority insists in many circumstances that Chinese state-owned TNCs have nothing to do with China's political agenda in the world. Also, statistics regarding China's TNCs activities are outdated because they are infrequently collected. Salidjanova (2011) in his study about the U.S-China economic relationship argues that "data most readily available from Chinese statistical sources generally have a reputation for inaccuracy and opacity" (p. 27). Finally, although most developed and developing economies have similar attitudes regarding state-owned TNCs, China is used in this article as a result of the increasing economic and political power of Chinese TNCs around the globe.

STATE-OWNED TNCS: CHINA AS STUDY CASE

Unsurprisingly, recent reports have concentrated on the economic crisis and various countries' efforts to survive. Many articles and reports have been introduced lately that cover China's government and China's state-owned TNCs and their involvement in helping governments financially (Salidjanova, 2011; UNCTD, 2011). A report by *Financial Times* shows that, as of 2011, China's lending to developing countries has exceeded lending from World Bank (Dyer et al., 2012). According to Dyer et al., (2012),

China Development Bank and China Export-Import Bank signed loans of at least $110bn (£70bn) to other developing country governments and companies in 2009 and 2010, according to Financial Times research. The equivalent arms of the World Bank made loan commitments of $100.3bn from mid-2008 to mid-2010, itself a record amount of lending in response to the financial crisis.

Although this report concentrates on lending to developing countries, other reports show the increasing direct and indirect support from China to all countries in need of financial assistance, such as Greece and African countries. Investing in treasury bonds and securities in countries like the U. S. (e.g., more than 23.3 percent of U.S Treasury Securities are held by China) is another example of the spread of Chinese investment all over the globe (United States Department of the Treasury and Federal Reserve Board, 2012).

On the other hand, China's FDI plays a major role in global FDI. According to *World Investment Report*, in 2010 China was the largest recipient of FDI among the developing countries with \$106 Billion as 11 percent increase from last year. In addition, outflows from China and Hong Kong increased 14.7 percent in 2010 to reach \$68 billion. The *World Investment Report* summarizes the increasing economic power of China and China's state-owned companies in the world as follows:

China's position as a leading investor in extractive industries has been strengthened. The country overtook the United States to become the world's largest energy user in 2010, and Chinese oil companies have continued their buying spree, spending \$25 billion on overseas assets, accounting for around one-fifth of all global deal activities. Mining companies from the country spent much less - \$4.5 billion - but are catching up, as highlighted by the \$6.5 billion bid for Equinox Minerals (Australia and Canada) by Minmetals Corporation. As a result of such investments, China has become the leading foreign investor in Australia. (UNCTD, 2011a, p. 48)

In other words, although there has been a decline in global FDI and global economic activities since the financial crisis of 2008, China and China's state-owned TNCs have been raising their investments around the globe. According to statistics from the Ministry of Commerce in China, Chinese investments are present in more than 177 countries around the globe (Salidjanova, 2011). Most of these investments are carried by Chinese state-owned TNCs, in which the Chinese authorities are heavily involved in directing operations and strategies that serve the political agenda of the Chinese government. According to Salidjanova (2011),

Behind much of the concern over Chinese investments abroad lies the fear of the Chinese state - acting through its large state-owned enterprises - acquiring increasing power and influence abroad, and potentially engaging in other actions to promote the interests of the state and the Chinese Communist Party. (p. 11)

In *China's Engagement in Africa*, Tull (2006) investigates the ways that Chinese state-owned TNCs and Chinese loans to African countries are used by Chinese authorities to influence internal and external affairs of the countries receiving these loans and host countries of the TNCs. He argues that Chinese authorities use business investments and loans to push the

Chinese government's political agenda. After reviewing statistics of China's investments in Africa, Tull (2006) argues that "China's political and economic involvement in Africa has a palpable impact on the domestic scene in many African states, which will increase should China continue to pursue a more globally oriented foreign policy, particularly towards non-Western regions." (p. 460).Chinese state-owned TNCs are spreading all over the globe, with increasing economic power. This economic power usually drives and results in political power as well, so it is clear the Chinese state-owned TNCs are a fundamental tool used by Chinese authorities to gain a bigger role in the global political system.

INTERNATIONAL ORGANIZATIONS (IOS) VS. TNCS

International Organizations (IOs) have been key players in the global political system since World War II. Many IOs have been established since WWII, such as the United Nations. In addition, as a result of globalization, increasing in FDI activities globally, and the increasing economic and political role of privately owned TNCs and state-owned TNCs, other IOs have been established, such as the World Trade Organization (WTO). Accordingly, there has been a debate among politicians, economists, and academics on the efficiency and effectiveness of IOs in pushing development, fighting corruption, supporting human rights and higher living standards, and maintaining good governance practices worldwide. Also, there is a debate among politicians with regard to the independence of decision-making process in IOs, where IOs have been accused of serving developed countries' interests. In the following section, IOs' independence and economic and political power will be discussed. Also, the increasing role of TNCs and the corresponding decreasing role of IOs will be explored.

Dreher & Voigt (2011) argue that being a member of IOs claimed to add credibility to members. According to Dreher & Voigt (2011), "membership in international organizations is often considered to have beneficial consequences for their member countries – as well as for the international community at large" (p. 2). However, in most cases, being a member of one or more of IOs is not enough to serve the country's best interest. Stone (2009) argues that informal governance is a necessary step for less powerful states to participate and benefit from international organizations, even though such actions may negatively affect on the credibility of IOs. According to Stone (2009), Leaders of these countries find that the only way to exert effective leverage over international organizations is to appeal to the leading states in the system—usually, to the United States—to exert informal influence on their behalf. This intervention tends to undermine the credibility and autonomy of the international organization involved, which may weaken its legitimacy vis-à-vis third parties. (p. 5-6)

Haftel and Thompson (2006) conducted research to study the factors that influence IOs' political independence and their ability to shape the global political system. They argue that "the independence of an institution largely determines its authority and influence - in short, its ability to shape international politics" (Haftel & Thompson, 2006, p. 254). The authors used three aspects of institutional design - decision making, supranational bureaucracy, and dispute settlement - to study to what degree an IO is independent in making decisions and adopting strategies. The study concludes that IOs' economic independence and their ability to shape the global political system are strongly correlated, so less economic independence means IOs will have less influence in shaping the global political system.

Accordingly, as a result of the increased economic impact of TNCs through financial aid and investments, privately owned TNCs and state-owned TNCs play an increasing role economically and politically compared to IOs in shaping the global political system. In addition, the financial crisis of 2008 gave an advantage to TNCs and countries with cash in hand, such as China, and their state-owned TNCs. Countries in need of financial assistance go to IOs such as IMF and World Bank or to countries with the financial ability to help, but since IOs have run out of money, countries ask strong economies such as China, Qatar, and UAE for help. In response, these countries offer help directly through loans or indirectly through investment from TNCs such as China Investment Corp. and Qatar Holding. However, "the ownership and governance of State-owned TNCs have raised concerns in some host countries regarding, among others, the level playing field and national security, with regulatory implications for the international expansion of these companies." (UNCTD, 2011a, p. X)

THOUGHTS FOR SUCCESS

The above discussion shows the importance of economic factors in shaping international relations, the world's political systems, and formal and informal governance. Many have called for the reorganization of IOs so that they will have economic and political independence from the influence of powerful countries in order to support human and governance development (Dreher & Voigt, 2011; Haftel & Thompson, 2006). Dreher and Voigt (2011) hypothesize that "the degree of delegation to international organizations can improve the credibility of nation-state governments." (p. 1)

The WTO and Kyoto Protocol are examples of organizations and agreements attempting to regulate and organize the world market in general and TNCs in particular, but due to the lack of political and economic independence of such organizations, their success is limited. These organizations also have limited success as a result of the conflict of interest between political and profitable issues, as well as the conflict of interest between developed countries (USA, Japan, and Western EU) and developing countries (China, Brazil, and India) (Bhagwati, 2005; Henderson, 2000; Jones, 2009; UNCTD, 2011a). Henderson (2000) states that "international agreements on full disclosure, accounting standards, and other measures to police global capital markets are still rudimentary." (p. 1236)

On the other hand, Rondinelli (2003) thinks that recognizing the important role that TNCs (both privately owned and state-owned) play in society and the global political system is the first step toward effective and successful human and governance development. Also, he argues that the only way to hold TNCs accountable for their actions at the global scale, and to make them work in the interest of the society of the host and home states, is to give NGOs, civil society, and governments the power needed to function as a 'watchdog' on TNCs' operations and tasks. According to Rondinelli (2003),

A more effective system of countervailing forces – allowing governments, NGOs and TNCs to apply checks and balances that reduce the potential of any of the major participants in the global economy of abusing their power or shirking their legitimate social responsibilities – depends on a better understanding of the types of public roles that TNCs are playing and the scope and magnitude of their impacts. (p. 21)

This suggestion relies on local authorities to protect the public interests, but it is missing the fact that TNCs, as discussed before, operate mostly in nondemocratic political systems where corruption and ‘bad’ governance practices are common (Henderson, 2000; Koenig-Archibugi, 2004).Bergsten (2008) studied the increasing influence of China as an economic and political power. He argues that the power China has gained as a result of massive donations and loans to countries overthrows the role of financial IOs such as IMF and World Bank. Thus, he argues that in the best interest of the U.S. government economically and politically, the U. S. needs to absorb China’s raising power by sharing “global economic leadership” (Bergsten, 2008, p. 1) with China. For economic and political reasons, Bergsten (2008) argues that:

Washington would need to accept China as a true partner in managing global economic affairs, the development of an intimate working relationship with an Asian country rather than its traditional European allies, and constructive collaboration with an authoritarian political regime rather than a democracy. (p. 8)

RECOMMENDATIONS AND FUTURE RESEARCH

A state’s economy is the cornerstone of its existence. Thus, economic crises are a critical situation for any state, in which they take every available step to minimize the consequences of such a situation. By contrast, TNCs and states with a good economic status take advantage of other states’ economic crises by increasing investments and increasing their economic and political power internationally.

Unfortunately, neither IOs nor most host governments are able to hold TNCs accountable for their actions (Henderson, 2000; Koenig-Archibugi, 2004). Koenig-Archibugi (2004) draws a picture of the situation of TNCs in host countries as follow:

The globalization of production exacerbates accountability gaps in the relationship between citizens and corporations. Some of these gaps stem from the difficulties that governments have in holding TNCs accountable under conditions of sustained capital mobility and opportunities for jurisdictional ‘exit’. Other gaps stem from the difficulties that citizens have in holding their government accountable when it colludes with, and receives support from, economically robust corporations – and TNCs tend to be robust in comparison to many host countries. Finally, sometimes governments are too weak to function as effective links in the accountability chain between citizens and companies. (p. 257-258)

Consequently, the economic crisis situation makes any international efforts by countries and IOs to organize TNCs' activities even harder. Thus, Scherer el al. (2006) correctly state:
In a globalized world, however, global governance - referring to rule-making and rule-implementation on a global scale - is no longer a task managed by the state alone. Today, transnational corporations (TNCs), as well as civil society groups, increasingly participate in the formulation and implementation of rules in policy areas that were once the sole responsibility of the state or international governmental organizations. (p. 506)

Therefore, International Organizations (IOs), civil society organizations, people, and even TNCs need to work together to reorganize the global political scene with new international agreements and IOs, because institutions and international agreements that initiated after WWII are not working affectively anymore. Also, the power of TNCs, especially state-owned TNCs, is increasing dramatically, so international community needs to act fast to develop effective ways to protect the public interests and support human and governance development.

This article raise concerns more than answers regarding the influence of the current economic crisis on formal and informal governance. A few of the questions that should be considered are as follows. Will the new tendency of states that are hit hard by the economic crisis to ask for help (both directly and indirectly) from other countries such as China change governments' priorities toward applying good governance practices that have been pushed by IOs such as the UN, IMF, and World Bank? Are we experiencing a new era of globalization and international governance as a result of the increasing economic and political power of TNCs and the declining power of IOs? What do local governments need to do to protect citizen rights' from the greediness and selfishness of TNCs? And finally, what should we as citizen and civil society organizations do to protect our interests? Each of these questions can be a research topic in itself, because unfortunately there is no easy answer.

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