

## Cozen Currents: Corporate America Caught in the Political Crossfire

### The Cozen Lens

- The culture wars continue to present a challenge for corporate America, resulting in diminished influence of the “Chamber of Commerce” business perspective in Washington. But the bipartisan legislative successes of the past two years provided meaningful support to specific industries, suggesting that businesses still have the ability to effectively shape policy outcomes.
- One of the most prominent culture war issues that Republicans and Democrats battle over is the application of environmental, social, and governance factors to the private sector, with companies caught in the middle.
- US-China policy used to be greatly influenced by corporate considerations, but the role of businesses in the relationship between the world’s two largest economies has diminished in recent years as national security concerns overshadow commercial interests.

### Corporate America and the 2024 Elections

**Culture Wars.** In our polarized country, Americans often expect corporations to intervene in political debates over social issues – but on their side.

- Today’s C-suite faces pressure from customers, shareholders, and employees to get involved in culture war issues. They can face pushback no matter what position they take (or don’t take), and a clumsy response can make it worse for the company.
- Bud Light became the poster child for the culture wars this spring when its partnership with a transgender social media influencer sparked a backlash from conservatives and a call for a boycott. A noncommittal response from the CEO then fueled a counter-backlash from LGBTQ+ advocates. More recently, Target pulled LGBTQ+ Pride Month merchandise from its shelves after the products led to heated confrontations from some customers.
- All signs indicate that the culture wars will heat up further in the run-up to the 2024 elections. Governor Ron DeSantis (R-FL) is running his campaign for the GOP presidential nomination to appeal to the hard right, not moderates. In the first Iowa speech of his campaign, DeSantis spent more time on conservative social issues than criticizing President Biden. “The fight for the soul of the party isn’t about tax cuts or trade deals,” Jeff Roe, a top adviser to a pro-DeSantis super PAC, told Axios. “It is this cultural combat that we have as a country.” Even fellow presidential candidate and former UN Ambassador Nikki Haley, who does not have a reputation as a culture warrior, used a recent CNN town hall as an opportunity to criticize transgender girls in sports.

**Major Policy Stakes.** Though the culture wars occupy the headlines, 2025 will be a crucial juncture for policy that could have a significant impact on business.

- The 2024 election will determine control of the White House, the House, and the Senate. Either party has the potential to gain a governing trifecta, which would allow them to advance legislation through the budget reconciliation process on a party-line basis. This is the procedure that was used to pass the Tax Cuts and Jobs Act in 2017 and the Inflation Reduction Act in 2021.
- Much of President Biden’s regulatory agenda relies on a second term, such as net neutrality, for example, as Democrats on the deadlocked Federal Communications Commission have been unable to advance this policy. Other ambitious rules under consideration, such as the Federal Trade Commission’s privacy rulemaking and the Environmental Protection Agency’s proposed auto emissions standards and power plant rules,



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may require a second term to finish.

- The Congressional Review Act allows both chambers of Congress to vote to overturn regulations by a majority vote within a certain time window after they are finalized by the White House. If Republicans win the House, Senate, and White House, they will be able to cancel rules finished during the last part of Biden's term. Republicans deployed this tool effectively at the beginning of the Trump administration to rapidly undo rules enacted under President Obama.

**Don't Buy the Head Fake.** As the culture wars rage and dominate the headlines, it's important for corporate America to eschew the partisan blood sport when possible while remaining engaged in the governing process.

- Despite the constant headlines of gridlock in Washington, there is a governing majority. During the first two years of Biden's term, Congress passed several major bipartisan pieces of legislation, including the Infrastructure Investment and Jobs Act, the CHIPS Act, and a bill to protect same-sex marriage rights. More recently, Biden and House Speaker Kevin McCarthy (R-CA) successfully negotiated an agreement to raise the debt ceiling, despite protests from the right flank of the House Republican conference.
- Building long-term relationships around substantive issues matters. Members of Congress seek corporate funding for their campaigns, but lawmakers also look to corporate America to contribute expertise on legislation and for help building the economy of their district and state.
- While the C-suite may occasionally have no choice but to weigh in on the culture wars, this should not be the only way they engage with the policy world. It's essential to interface with government officials who are making a difference in passing legislation and promulgating regulations, not just those on cable news making a point.

#### Corporate America and ESG

**The Rise and Plateau.** The future of investing that takes environmental, social and governance (ESG) factors into account is on hold after catching the political spotlight.

- Investing with a purpose isn't anything new. But in a time where executives are rethinking the roles of corporations and many consumers are looking for ethical investments, ESG was the modern promise of making green by being green. Eighty-five percent of executives believe customers are more likely to engage and do business with sustainable brands.
- What exactly counts as ESG is up for debate as the industry settles around standards but the sector exploded by any measure. One industry group estimates ESG held around \$8.4 trillion in assets last year, or around 12 percent of all US assets under professional management.
- However, this meteoric rise has been halted after being caught in the middle of a political crossfire. Morningstar Direct found investment flows to US sustainable funds were negative last year for the first time in a decade.

**A New Target.** Republicans are united in their quest to defeat all things woke, and ESG fits the bill.

- The traditional GOP didn't have a bad thing to say about corporations. The new populist, Trumpist party views shifting cultural mores as a primary threat and is more than happy to target big businesses when they take liberal stances on social issues.
- In a party often divided, taking on "wokeism" and, by proxy ESG, is the one thing every faction can agree on. From former President Trump to former Vice President Pence to Trump critic Senator Romney (R-UT) to liberal Governor Sununu (R-NH), all agree: "go woke, get broke." In the House, Republicans have launched a working group tackling the topic and will likely propose relevant legislation soon.
- Eighteen GOP states have passed anti-ESG legislation so far and 99 more bills have been filed this year. The largest push has arguably come from Florida, where Governor Ron DeSantis (R-FL) signed a sweeping bill this year cutting off state assets from the practice.

**The Future of ESG.** With Republicans cracking down and Democrats coming to ESG's aid, the politicization of investments is leading to a bifurcation between red and blue states.

- Concerns about ESG are currently mostly being driven by elites and donor interests. Most people, even Republicans, have not heard of the term and don't have an opinion. But with the upcoming 2024 race a sprint to prove who's the most conservative, being "anti-woke" is such a winner among the GOP base that it is not difficult to imagine the term expanding to cover many disparate topics, even investing.
- Investment firms have been quieter since the attacks began. BlackRock backed fewer climate-related shareholder proposals in 2022 and has voted down both liberal and conservative shareholder proposals this year. With companies facing bans from working with states, they're being forced onto an ever-narrowing tightrope.
- Democrats are pushing back with pro-ESG laws of their own. Blue states are explicitly using ESG in investing. The Securities and Exchange Commission proposed a Scope 3 climate emissions disclosure rule (that might be relaxed) that California may also implement.

### Corporate America and the US-China Relationship

**A Changing Paradigm.** Historically, business considerations were a major factor in the US-China relationship and a significant driver behind the push to incorporate China into the global economy.

- In the past, corporations were able to have an influence on the US's approach to China and push for less confrontational policies. The pitch from the business community, and the hope of many politicians, was that the economic engagement would lead to a move toward a capitalist democracy in China, an outcome that would be beneficial for all.
- This framework though has now been replaced as the economic relationship between Washington and Beijing has been increasingly influenced by national security considerations and has led to a lower impact of corporate lobbying on the US's China policy. This began under the Trump administration and has continued under President Biden, resulting in a trend toward decoupling in sectors deemed to have military applications. China has responded with its own trade restrictions and corporate raids, a reminder that the growing divide is not one-sided.
- In response to this shift in US policy, while the business community is still aiming to operate in China, there has been an uptick in reducing reliance on China. Few corporations have entirely cut off business with China, but have sought to hedge against rising tensions while still maintaining some presence there.

**A Spring Thaw.** After a tense start to the year following the Chinese surveillance balloon incident, the US resumed its quest for more increased diplomatic engagement with China and the latter has finally relented in recent weeks.

- While Biden has still yet to meet with Chinese President Xi Jinping this year, this is expected to happen "at some point" according to National Security Advisor Jake Sullivan. Still, for the last month, there have been a number of high-level meetings between officials and Secretary of State Antony Blinken is expected to travel to China this week. Deliverables have been minimal from these discussions, but that is to be expected, as the goal is simply to restart the dialogues that had been lost.
- Although these conversations have found new life, there is also an expectation that targeted decoupling, or so-called "de-risking," will continue. One US policy that is widely anticipated is an executive order (EO) to screen, and potentially block, certain outbound investments into China. The EO will be narrow in scope and is predicted to focus on semiconductors, quantum-computing technologies, and certain applications of artificial intelligence. The White House has not offered a time frame for the EO's release, but it is likely to come at some point this summer.

**Not All is Well.** Despite improving tensions around most economic issues, the defense relationship still seems to be an area that has yet to experience a similar thaw.

- This was highlighted earlier this month when Defense Secretary Lloyd Austin was denied a meeting with his Chinese counterpart, Li Shangfu, on the sidelines of the Shangri-La Dialogue. The refusal came as somewhat of a surprise given that Chinese Commerce Minister Wang Wentao had recently met with Commerce Secretary Gina Raimondo and US Trade Representative Katherine Tai.
- Further spotlighting the ongoing military tensions was a close encounter between a Chinese

warship and an American destroyer in the Taiwan Strait. The US passage of these waters has been a focus to highlight that they are international waters while China contends that they are part of its exclusive economic zone. Incidents like this are also why US military leaders want to ensure that there are open communications with their Chinese counterparts to avoid unnecessary escalation or mistakes from maneuvers that are intended to be symbolic.

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