INTERNATIONAL UNIVERSITY
INSTITUTE FOR EUROPEAN
STUDIES

2010

IS THERE A PLACE FOR FDI IN PEACE OPERATIONS?

by

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A thesis submitted in partial fulfillment of
the requirements for the degree of

MASTER In International Peace
Operators

UNIVERSITY OF TRIESTE

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ABSTRACT

Foreign direct investment (FDI) has become a central issue in the new global economy. In the last decades, it has become one of the most significant current discussions both in economic as well as political studies(…)In the same way, the concern about the role of FDI in conflict zones created three different approaches, one of which, embraced by this paper, believe in the necessity of FDI's presence and trusts its potential in promoting peace through conflict prevention .

In the context of The Financial and Economic crisis of 2008, FDI could potentially have a negative effect on maintaining peace as clearly after the crisis, the issue of protectionism has grown in importance (…)Given that the situation has produced an international concern combined with a loss of trust and uncertainty toward investments…

FDI could be potentially negative in peace operating contexts due to many reasons, it is vulnerable to crisis and has the potential of fuelling a conflict if not causing one, and this very same potential is the evidence of its importance in conflict prevention. Therefore, Peace operators should be aware of the necessity to give a major role to TNCs in order to shift their destructive powers in constructive ones.

ACKNOWLEDGMENTS

I would like to express my gratitude to Professor Berruti for his assistance in the preparation of this paper. In addition, my most sincere thanks to all Professors and friends who helped me generate several ideas during the writing phase of this undertaking. Thanks also to My mother, Camélia, Smahane, Andrea Stefanachi and Terrence(Telly) for their priceless love and encouragements.

INTRODUCTION

Foreign direct investment (FDI) has become a central issue in the new global economy. In the last decades, it has become one of the most significant current discussions both in economic as well as political studies. The importance of FDI raised from the post-war period economic actions initially led by the United States toward Scotland, south east of Britain , and afterwards spreading into other regions and countries. FDI knew then a dramatic increase that found ground in Globalisation, changes in the world economy , as well as changes in geopolitical and economic interests, mainly by investments from the far east ,those to the European Union as a single market, and the impressive boom of Mergers and Acquisition of the 1990s. Consequently the rise of FDI in the last decades remains unprecedented .

Numerous Studies have attempted to explain the mechanisms through which FDI operates, as well as the variables that condition Multi-national Enterprises (MNE) when choosing a specific host country to invest. Some of them fell into explaining the investment through explaining the apparatus of the investor, also called 'Ownership' variables, others analysed how the host country participates in conditioning the investors' choice through 'Location' variables. While many others tried a third set called 'internalisation' variables, with an attempt of grouping the three in The Eclectic Paradigm Theory proposed by J.H Dunning in 1977.The controversy in front of these variables raged statistically unexplained, due to the difficulty in manipulating all the variables (in addition to the existence of so many disturbing and natural variables),the difficulty in collecting the data ,as well as a lack of collaboration between economists and researchers from other disciplines.

Other studies raised from trade, capital and location theories, and tried to hypothesize about 'why investment instead of a trade of assets?'. The biggest trap however, was how some of these studies considered trade and investment alike, giving birth to a large body of literature that , by considering trade as a promoter of peace, simply concluded that Investment would operate in the same manner. There had been a great agreement that Trading countries aim not to enter into conflict so as not to unbalance their gains from trade and therefore naturally flew towards more peaceful relations. Several studies on FDI tended to focus on Trade's positive effects and apply them to FDI. Some of these studies, consequently, came to the conclusion that investment would even have a stronger impact on interstate relationships for what concerns promoting peace , due to its long term nature. A major problem was the strength of several arguments upon which these studies based their conclusions**(1).**These same arguments are going to be addressed in the second chapter , as they contradict the aim of my paper .

In the last decades, the world have witnessed a huge international capital flow, as trade and investments constituted economic forces that certainly, in a way or another, shaped global interstate and national intra-state relationships.

Consequently, as the issue of investments' presence has been on the agenda for decades now, we can not ignore the link, whether positive or negative, between their economic presence and conflicts**(2).**

In the same way, the concern about the role of FDI in conflict zones created three different approaches : (1) numerous approaches have considered foreign investments blameworthy for several conflicts and thus spoke out the necessity for FDI's withdrawals; (2) other approaches focused on the positive effects of FDI –such as creating employment, favouring development and raising the social and economic welfare of the host recipients- and had no reason in expelling

FDI; (3) the third approach, embraced by this paper, believe in a necessity of FDI's presence , and while considering the negative effects that FDI can present due to its very nature , trusts the huge potential that FDI can have in promoting peace through conflict prevention if investors decide to operate through a counter-conflict mechanism.

My paper is aiming to examine the following core question : Can investments potentially promote peace ; and do they have the potential to engage in conflict preventing activities ?

The paper is driven by two major observations : The first relies in the conflicting nature of FDI, manifested both in the change of some countries' attitude moving toward protectionism for what concerns FDI's policies, as well as FDI characteristics which make it, by nature, more likely to be fuelling conflict or participating negatively in ongoing conflicts (especially intra-state conflicts). The second observation relies on the potential that FDI can have in promoting peace, discussing the realistic dimension of employing these potential.

The first section of the paper will begin by defining and examining the importance of FDI in the last few decades and will be concluded by presenting the changing climate of several national policies in the last few years. Chapter 2 will begin by laying out a set of arguments that shows the negative natural characteristics of FDI. Chapter 3 will present the importance of the continuing presence of FDI in conflict zones presenting the counter-conflict conduct that through which investments should operate. Chapter 4 would serve as conclusion.

CHAPTER 1

In the context of The Financial and Economic crisis of 2008, the aim of this chapter is to discuss how FDI could potentially have a negative effect on maintaining peace. Clearly after the crisis, the issue of protectionism has grown in importance since investors are trying to rebound as quickly as possible from the FDI recession. Given that the situation has produced an international concern combined with a loss of trust and uncertainty toward equity investments, investors may consider a more protectionist and self-saving conduct.
While several companies as well as their fellow affiliates are seeing salvation from the crisis in seeking capital through further investments, far too little attention has been given to the hypothesis that investors could, even while disclosing optimistic forecasts, consider a different approach.

The first section of this chapter will give a brief presentation of *FDI*, *Multinationals*, and their growth under the phenomenon of *Globalisation*. The second section will discuss the latest growth of FDI mainly under the light of The Economic and Financial crisis of 2008. Two main questions would be addressed in this section : a) what is FDI ?, b)what is the climate created by FDI's reaction to the Global and economic crisis of 2008 ?

Globalisation ,FDI and Multinationals:

"Need is the mother of investment"
Mounia.Drissi

Foreign Direct Investments (FDI) nurtured in the sphere of Globalisation shaping our understanding of investments as somehow necessitating an internationalisation process. Different features of the Global economy are manifested in a mounting of the importance of tangible as well as non-tangible assets such as intellectual capital and services contributing to what could be called 'knowledge-intensive and supporting assets'. These non material assets usually need human force of white collars as well as an important source of services. Consequently , in seeking these assets, firms are more likely to collaborate in order to complement their knowledge and experience capabilities. At the same time, a host country that offers such assets might also be intellectually and potentially attractive**(3).** Global economy is also manifested in the progress of communication, and the decrease in the transport costs compensated by a difficulty of transferring intangible assets belonging to a specific location**(4).**
The growing interest towards seeking resources, markets, efficiency or strategic-assets makes the firms by nature, not limited to a border closed environment. Competitiveness as well made FDI grow more rapidly than expected. Moreover, other more technical reasons contributed to this growth, such as the rise of economies of agglomeration; the raising number of countries closer to the take off stage in development; the incentives presented by the host countries towards specific development projects; the uncut 'umbilical cord' between ex-colonizers and their ex-colonies, all of which made FDI on the rise in the last decades.

Foreign direct investment (FDI) stands for a flow of capital between two different countries. A Standard definition had been given by the Organisation for Economic Cooperation and Development (OECD) :

''Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy ("direct investor") in an entity resident in an economy other than that of the investor("direct investment enterprise"). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated"

Source: OECD.

Several points are found in this definition. The first resides in FDI 's objective manifested as a *lasting* or long term relationship between the Investor and the overseas enterprise. The second points is a *degree of influence* or control over managing that same overseas enterprise. According to the OECD Benchmark definition of FDI, the control stands for 10 percent or more of the equity capital or the decision-making (voting) power of the enterprise. As we will discuss further, this same '*degree of influence* ' point constitutes a fear of a foreign takeover manifested recently by regulatory reforms to investigate the investors' presence. The paper will not take into account other types of investments such as Portfolio investments, an acquisition of securities which does not represent this characteristic of 'control' over the overseas enterprise.

The third point would be the importance of the flow of capital involving a wide range of '*transactions'*, controlling by this, the inward and outward capital flow as '*capital transactions*' between the affiliates, both the incorporated and the unincorporated. The statistical calculation of FDI remains one of the most difficult parameter of analysis as it obeys to regulations, often decided between countries, on how to measure and statistically register FDI's components .In addition to that, OECD includes several component standing for different intra-relationships in the balance of payment of both the 'direct investor' and the 'direct investment overseas enterprise'. The four main constituents are 1)The retained earnings which constitutes the profits made and kept by the overseas enterprise; 2) The equity capital , whereby the acquisition of shares of stock on the stock market , or the acquisition of equity '*degree of influence* ' of a private company or a start-up; 3) The intra-company loans indicating credit given to the '*direct investment enterprise'* by the *'direct investor'* ; and finally 4) the intra-company borrowings from the host country and transferring them to the '*direct investor***'(5)**. On the other hand, if we consider calculating the effects of FDI , the difficulty rises not only from the existence of both direct as well as spillover effects, but also from the stretch of FDI in different countries especially when it comes to the hands of Multinationals.

Predating the age of Globalisation, interest has always been the major fuel in all economic activities. As simply as it goes, seeking interest in more than one country gave birth to Multinational Corporations (MNCs) in the post war period.

The interest of such firms , started taking advantages from producing directly in the host countries in order to reduce the transportation costs, reduce the corporate taxation, shape the product to make it more suitable to the host customer, and have an entrée to cheap labour and local capital.

The cooperation between these firms was manifested in the growth of service and knowledge intensive industries as well as mergers .Whether on a big ,medium or small scale, the nature of the alliances between firms could shape the interstate relationships by emphasising or blurring the enterprise boundaries.

Studies account for a minor interest towards Multinationals' definition which makes their nature a relatively new concern. Therefore, I find it appropriate to differentiate between the terms International, Multinational , and Transnational , all of which have usually been mistakenly employed to denote the same concept. International corporation is used only for the companies concerned exclusively with importing and exporting goods between the countries. The term Multinational, on the other hand, would be used to denote the firms that produce in another, or other countries, having a sense of adapting their product to local markets. Finally ,the term Transnational will be used to denote firms that reached a global importance to the point that their 'identity' became detached from their backing countries, while their affiliates still somehow obey to the their marketing and decision-making powers.**(6)**

These points are of a great importance in studying these organisations' systems of operating ,their importance relies in the existence of some 82,000 TNCs worldwide, with 810,000 foreign affiliates accounting for the third of the global exports of goods and services and employing more about 77 million **(7)**. According to UNCTAD World Investment Prospects Survey (WIPS) (2009-2011) ,most of their companies (around 85%) have been affected by the global economic and financial crisis of 2008 .

<u>FDI in evolution :</u>

''The larger the proportion of the decline in FDI flows ..the longer the recovery is likely to take.''

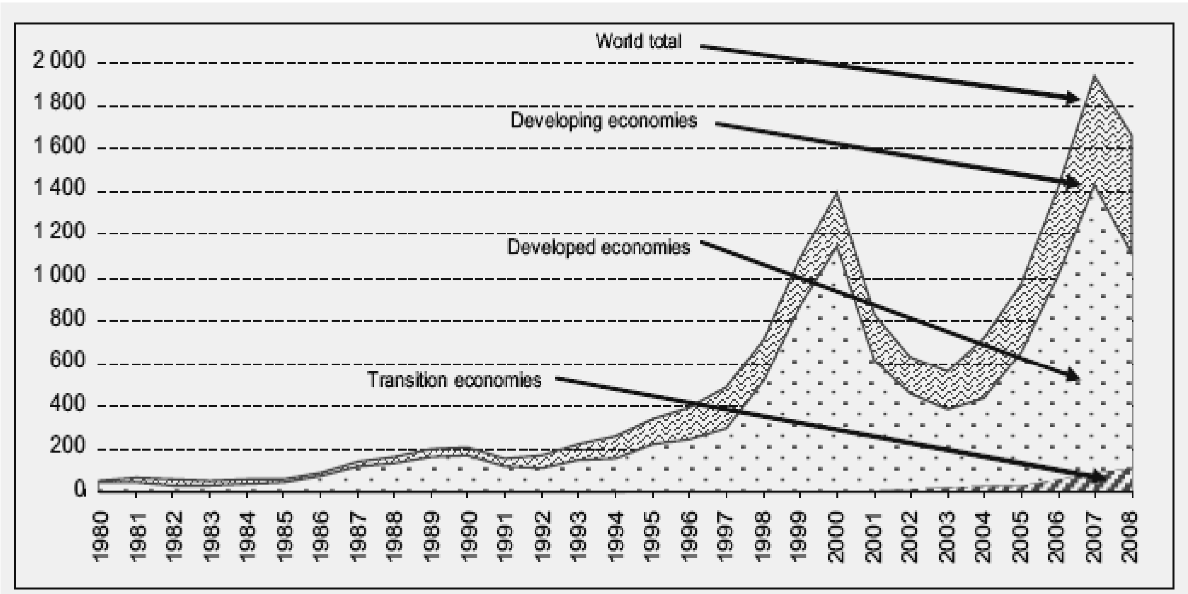
OECD report 2009.

Figure 1 shows clearly how the world's annual FDI inflows knew a notable growth raising from $50 billion (from 1980 to 1985) to reach a peak of $1,979 billion in 2007. Mainly thanks to an open conduct by investors, FDI knew an important development unprecedented in history.

From 2007 , global FDI inflows started decreasing to reach $1,687 billion in 2008 and continued to fall rapidly in 2009. According to the latest article that appeared the 19 January 2010 in UNCTAD official website, FDI is estimated to have fallen by 40% in 2009 from US$1.7 trillion in 2008 to US$1.0 trillion**(8).**

Figure 1 : FDI inflows, global and by groups of economies, 1980–2008

(Billions of dollars)



Source: World Investment Report 2009

www.unctad.org/fdistatistics

On the one hand, these dramatic changes in FDI flows could be explained by the global economic and financial crisis of 2008**(9).** The crisis affected the global economy in general touching only several countries in the first place but dragging the global economy for its internalization and internationalisation links. The crisis directly affected Investments, and not only BANK holding companies or financial ones, due to the general decline of the margins of profit, the fall in corporate profits, the probable rise of banks' charges, the restricted credit conditions and the diminishing of loans that financially prevented investors from investing. Also, the crisis created a sphere of doubt and uncertainty generating a fear from further global risks, manifested in the ' flight-to-quality' effect **(10)**.

On the other hand, these changes in FDI could also be explained by the fall in demand in developed-country markets that has been affected by the competitive production of developing and transition economy countries(e.g. China, India), and also by the lack of resources as well as several conceptual phenomena such as 'national security' that led to a strong investment monitoring.

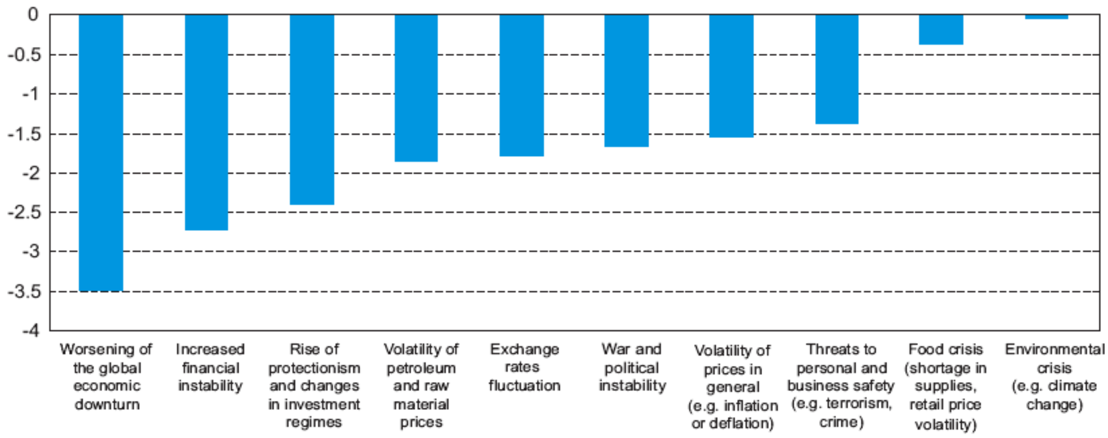
Concerning all four components of FDI, Equity investment dropped due to the decline of M&A, which constitute enormous problems for what concern measures of control over the overseas firm as well as liquidation. Reinvested earnings fell due to the small returns of foreign affiliates which could clearly give us an idea about the situation of their retained earnings while most of the reports focus only on the developed countries' collapse. Reconstruction of parent enterprises caused foreign affiliates to repay through loans (intra-company borrowing) leading naturally to a capital outflow from the host enterprise to the direct investor and resulting negatively in the balance of payments of host countries.

<u>The rise of protectionism and changes in investment regimes :</u>

The drop of FDI after the crisis has continued in 2009 as UNCTAD survey reported a further drop (40%) and measured a sense of concern among the companies. This is expected to surely shape the attitude of investors **(11).**

Figure 4 : The Importance of risk factors for FDI decisions, 2009–2011

(Average value of responses)



Source: UNCTAD Wold Investment Prospects Survey 2009-2011.

Note: -4 = large negative impact very probable; 0 = negligible impact very probable.

According to the survey of UNCTAD (**Figure 4**) , TNCs were especially worried about a worsening of the situation and considered more probable a further global economic downturn, an increased financial instability, a rise of protectionism and changes in investment regimes, and also volatility of petroleum and raw material prices as well as exchange rates fluctuations .It is important to note the

consideration of War and political instability as more probable than volatility of prices in general , which is a very direct effect to economic crisis.
The survey also pointed out how social progress do not constitute a concern for TNCs projects of FDI, since issues as food and environment changes were not viewed as probable problems. The evaluation of the probability of these events could also be heuristically misleading.

"*so far , the current financial and economic crisis had no major impact on FDI policies per se'*
UNCTAD World Investment Report.

The importance of FDI has always pushed governments to favour their investment policies in order to benefit both from a notable economic growth and a sustainable development .Encouraged by international organizations such as the World Bank, regulatory procedures have always been a major component of the economic reform programmes adopted by several developing countries.
Nevertheless, in the last few years, the world has been witnessing a new position that goes beyond regulatory reforms. As shown previously in **figure 4**, companies do estimate probable the rise of protectionism and changes in investment regime. More prominent at a national level, protectionist approaches are lately applied in some countries even in discordance with nations' disclosed intentions. Whether justified or not, multinationals remain not legally bound to respect or follow clear guidelines, and many of their protectionist actions would not even result against FDI rules. Protectionism itself could be ambiguous, as it could be confounded with other actions such as general regulatory agendas or actions toward the protection of national security. In addition, these actions are psychologically more

likely to be associated with the investors' position even if it can also be manifested by the host country in their actions of blocking inward FDI.

Protectionist conducts could be manifested by a prevention of outward capital flight in an action against foreign products, even in inducing people to prefer domestic products as a way to defeat the crisis. Also, it could be manifested in preventing banks from giving loans to foreign perilous debtors, in government procurement practice - when government uses a purchasing method to choose its suppliers of goods and services - as well as simply by applying the same liberal policies in a more rigid and discriminatory way.

In the last decades , regulatory reforms encouraging FDI , were complemented by International Investment Agreements (IIAs), Bilateral Investment Agreements (BITs), commitments for the protection of Investment, and liberalization of entry conditions.

Figure 6 :National regulatory changes 1992-2008

Item	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of countries that introduced changes	43	56	49	63	66	76	60	65	70	71	72	82	103	92	91	58	55
Number of regulatory changes	77	100	110	112	114	150	145	139	150	207	246	242	270	203	177	98	110
More favourable	77	99	108	106	98	134	136	130	147	193	234	218	234	162	142	74	85
Less favourable	0	1	2	6	16	16	9	9	3	14	12	24	36	41	35	24	25

Source : UNCTAD World Investment Report 2009

As shown in **Figure 6,** the focus on FDI protectionism predates the economic crisis as it naturally always manifested this part of investors that claim a firm protection of their interests .The risk relies, as the figure shows, on the number of governments introducing further rules that are less favourable to FDI .

Moreover, in the absence of a strong international investment regime, a considerable number of international agreements and double taxation treaties for both trade and investment has been implemented, protecting at the first place the interests of the investors. This conduct is manifested by regulatory changes through a scheme according to which investment plans had always operated, giving many responsibilities to the host countries, and many rights to the investors. As an indicator to a new conflicting situation , there have been a raising number of investor state disputes (**12)**.

Protectionist changes, at a national level or beyond it are affecting the international investment agenda through regulations on the investment treaties, and are fuelling protectionism by giving governments enough ambiguity or freedom to apply policies whether favourable or unfavourable to FDI. The decisions go to the home-host states and the investors have, through many bilateral investment treaties, the right to self-judge whether or not their actions are threatening national security for instance. Multinationals are also under laws and regulations of host countries who can block FDI aiming to a control of the production cycle or just out of fear of being under investigation from the omnipresence of the USA(**13**).

Whether the economic crisis would encourage FDI or not is not clearly known given the fact that most of the speculations are based on the latest survey of UNCTAD (WIPS) .On the other hand, we can not overlook the move towards protectionism manifested in a set of regulations and investment decisions unfavourable to FDI .

Obviously, since ''Free investment is not mentioned in the ten commandments '', none of the investors is obliged to express clearly a repositioning toward protectionism. However, a global concern about the rebound of FDI shows how it is extremely fragile and hardly resilient to the crisis. Claims about FDI presume its long term nature, making its recovery from the crisis a long and tough process. Besides, the bilateral nature of home-host nations' control over transactions makes protectionism much more probable being in the hands of different actors. This does not mean that encouraging FDI through its liberalization would not be favourable to upraise the firms from the economic crisis and recession, but as it takes two to invest, developing countries, hit less by the crisis, had not said their own for what concerns their liberalization and encouragement willingness.

We have spotted many reasons that could make investors' actions move toward protectionism . The major set of arguments discussed in this chapter is the raising presence of a climate that is unfavourable to FDI. Somehow it seems like saving the developed countries relies in the hands of developing and transition countries, therefore protectionist actions can be played by both sides to have a degree of influence on its proper cycle of production as an example .If host countries pull the cord harder through protectionism, then home countries' dependence on investment could potentially lead suffering multinationals to favour is rebound whether through peaceful market seeking or resource seeking, or through any other method including war.

CHAPTER 2

This chapter shall discuss how FDI could be potentially negative in peace operating contexts .
As I have argued in the introduction, several approaches have focused on the direct and spillover positive effects on host countries and assumed the necessity of FDIs' presence. The aim of this chapter is to show that even when these positive effects take place, FDI still has the potential of fuelling a conflict if not causing one, and this very same potential will be discussed as the evidence of its importance in conflict prevention .

Before an account on the risky nature of FDI, I shall state quickly evidence of FDI positive effects as I do not argue about their importance, a reason why I believe in the necessity for a continuing presence of FDI .
For what concerns the host country, FDI brings new job opportunities as well as specific assets through intellectual capital, and at times can do nothing but move the employment force from one region to another .It can create new technology production and bring new knowledge experiences. For that reason, the host country is much more attractive when decreasing the cost of its raw materials, of its labour force, when facilitating the investment juridical bureaucracy, when providing security to the home country, but also when the political system is enough chaotic to hide any informal or parallel economic activity. The Investor, on the other hand, benefits from a reduced cost of assets, transport, labour, an open door to resources, a step closer to local customers, as well as low corporate taxes and higher profits.

What makes FDI potentially dangerous is a series of natural constraints related to its very same nature rather than its moral and economic intentions. Logically, a concern for a conflict, when investors are neither direct actors nor victims, is slim to none .

The main observation that we need to clear up is the tendency to consider trade and FDI alike. This tendency , checked for by many scholars (**14)** , reinforces the similarities between trade and investment and overlooks the important gap between the two. Once we severe this tie, we spare ourselves the criticism of series of publications . The fundamental objection to this statement is that investments should be considered as a phase that would resemble trade, through which a certain reduction of conflict between the investor and the host country would be maintained in order to establish the investing plan, agree on the investing program, lower risks and increase benefits. Nonetheless, even if both move towards maintaining a peaceful interrelationships, this would not prevent MNC's presence from affecting intra-state conflicts (**15**). Trade, diversely, could survive neither the tension between the states, nor intra-state discriminations being directly monitored by the *de facto* state's responsibility. For all these reasons, intra-state conflicts will be used to illustrate several statements in these following chapters. Another fundamental objection is the fallacy of differentiating trade and investment only for their length. It is true that FDI is more of a long term action than Portfolio investment or bank lending as its contribution to the capital flow is much more significant and durable, a point that resides in its definition (chapter 2). Yet, it is not true to claim that the intention to hit the market again stands for 'NO cuts' in the investment; this in turn means that the long-term nature of investments' plans are no guarantee to their long term presence. During tough economic situations, investors can regard divestments, layoffs of employees as well as of the activity, closing down the markets or relocating them, and even abandoning or postponing the investment plans**.** Besides, enterprises in crisis that try to sell to the foreign companies at low prices, under the pretext to make them benefit from advanced assets, often leave the new managers dealing with providing funds for the leverage management buyouts (LBO); a considerable problem in front of a banking crisis. On the other hand, other types of FDI like reinvested earnings and intra-company loans and borrowings result even shorter, and therefore more secure, as they are characterised by the liquidity of their assets (mainly cash) and could be resolved by fiscal interventions.

More credible arguments for my claim is reviewing all industry sectors where FDI operates, and scanning the difference in their lengths backed up by the difference of the investors' motives. Companies specialised in primary sector are very few and employ around 9 % of the total international assets (in a survey on 5,000 top companies). Their potentiality is manifested in their huge size, reputation and internationalization that clearly exceed the other sectors. After the 2008 crisis, Greenfield projects (especially in mining) are expected to re-emerge after being on hold for almost a year. The intent of control over natural resources explains its difference from trade and its presence in resource-specific locations. The medium term nature of this sector explains an independence strategy from the host economy situation characterized by eventual abrupt cuts in investments making it very flexible to counter crisis as well as falls of demands and prices. Also, it is more expected, in front of its incapacity for a quick financial recovery, that it would consider extending the control over natural resources. Companies dealing with the manufacturing sector constitute more than 50% and possess more than half of the international assets. They are of a modest size and internationalisation and invest according to short and medium terms. The industries in the manufacturing sector employ a large amount of cash from which they derive their financial power. Due to this, as a counter-crisis mechanism, their presence should have a possibility for sudden cuts of investments as well. However, their trust in market is less evident than the trust put in services which explains how prospects for FDI recovery after the crisis in this sector are less optimistic(except from food and beverages industries). Finally, the service sector is the only sector were companies are less internationalised, and it consistently manifested more optimism due to the shortness of their business-cycle length.

For all three 'short length ' sectors , the abrupt cuts could cause a sudden change in the economies of the host countries as sudden outward investment flows could result extremely dangerous for their social and economic growth. The fragility of FDI in front of the crisis was comforted with statements delivered by the top companies, in the UNCTAD 2010 survey, announcing a quick recovery of FDI . But admittedly, such a recovery relies only in the hands of internationalisation; and as so many companies confirmed an intention to internationalise their sales offices these same companies expressed a difficulty in internationalizing functions such as headquarters finance and R&D considering it an elongated way out. Judged by these statements, in a context of a crisis that caused a blockage in manufacturing and services, FDI has created a huge economic tension. This takes us to the heart of the matter, as the importance of claiming a danger potential of FDI on the host countries' economic and social welfare relies in the incapacity of FDI to offer an economic and social stability.

The overseas stretched presence of multinationals, also called the 'alliance capitalism' by J.H Dunning indicates the existence a massive collaborative work between different firms, functions or departments through internationalisation, mainly in the primary sector. The boom of Mergers & Acquisition in the 90s is a clear example of these types of vertical and horizontal integrations. The nature of these transnational firms had been viewed by many scholars as both complex and threatening. Marxists also argued that the rise of multinationals is just a manifestation of a ' *sinister international expansion of capitalism*' (**16**). As countries might move in a 'race to the bottom', multinationals would initiate a 'race to the top' benefitting more from government incentives that respond positively to the regulatory frames of investing. Consequently, this would both re-enforce FDI's very own standards of operating, and also secure the long-term capital return without securing the long time presence as discussed previously. This view goes beyond scholars' disproportionate attention to mainly cost and labour, as labour has never exceeded a limit that would threaten TNCs balance of payments and even the high costs of training workers and establishing foreign plants are very well managed. More credible would be MNEs fragility to expropriation, renegotiations for obtaining concessions, security issues, a fear of international sanctions, and taxation .

Having said that, I shall move to other negative effects that FDI can present. For what concerns host countries, at times they can enter in competition with the investor when they have the aim to control the entire cycle of production, mainly when they own the primary resources as they can gain the technical knowledge sufficient to renew the activity without being dependent on the investor (**17)**.This aim, contradictory to the one of TNCs as seen in many forward or backward linkages, explains the choice of some investors to maintain high salaries for their workers in order to prevent them from choosing other independent alternatives. Another possibility is when host countries might have the intention, when seeking foreign investments, of promoting their own culture, lifestyle, institutions as well as political ideologies instead of adopting the foreign ones. The reality is that unless shaping the production, for an instance, results critical to local people's consumption, investors would have little sensitivity of these issues especially dealing with governments that do not reflect what the people want or require. At times, there is also a cultural lack of trust in the investor's capability to understand the host country's needs and requirements regardless of TNCs performances which could be stigmatised for political, cultural and religious criteria rather then economic ones. Besides, TNCs can not technically be held responsible for all the actions taken by their foreign suppliers or affiliates as they can conduct independent businesses .

Creating civilian infrastructures instead of resource seeking is one of the major problem that developing countries consider, but can unfortunately find little commitment for what concerns large scale infrastructure project, a situation that usually pushes developing countries to rely on private sectors and government contributions.

Following this, the fear of TNCs could be a result of the lack of international monitoring over their investing actions. MNE's behaviour is squared in a bunch of conduct guidelines that take part of the OECD Declaration on International Investment and Multinational Enterprises, and paradoxically consider difficulties that may result from these conducts' put in practice. By the same token, The observance of these guidelines, as stated in the guidelines text itself, is not legally enforceable (**18**).

Moreover, we can find a several bilateral tentative such as the New Partnership For African Development (NEPAD), World Trade organisations, Bilateral investment treaties discussed in chapter 1, UN departments as well as the World Bank and the IMF– these latter mirroring the foreign policy of the home countries- all of which do not legally influence the conduct of TNCs as these latter constitute *'independent actors in the international system' (Ohmae 1990).*

A whole different dimension tackled by a non sensitivity to Human rights is the abuse accusations brought to companies for their economic exploitation and human rights negligence. To begin with, systems that exploit the labour force and guarantee a cheap labour cost were the main accusation topics so far. However, I argue that this is just a façade to a much more rooted problem as while some

TNCs, for example, tend to pay disproportionally for the same service according to the investing host country, others do offer relatively high salaries in order to control labour, constituting by that an obstacle for other competing companies to invest; companies that may hold a vital industry to the social welfare of the host countries. Therefore, instead of accusations stigmatised with 'low wages', it is better to discuss a wage proportionate to international standards of work. In the same context, work conditions could be a much more primordial topic to bring to international attention (**19**) .The attitude by imperial TNCs in avoiding human rights accusations is a huge obstacle in bringing them to justice or to the press. Finally, The body of law of investments such as multilateral and bilateral agreements do not respond to any pressure from international human rights treaties(**20**)

Conflicts could arise in front of these incompatibilities and social neglects, but more importantly in front of a lack of understanding of mechanisms through which conflicts create future non destroyable nets. John Naisbitt, for example, identified the importance of these aspects in the near future. One of these robust structures is the long lasting structures created by financing .

"Pour faire la guerre avec succès, Trois choses sont absolument nécessaires:
premièrement de l'argent,
secondement de l'argent,
troisièmement de l'argent"
Maréchal Trivulce (1441-1518)

Essentially, we always need to look at financing as a key element not only for conflict emergence and maintenance, but also as a reassurance for reconstructions after conflict. Financing could also be at times critical for the conflict's recurrence. External help does not always reflect TNCs' direct willingness in financing a conflict. The logic of seeking external financial help lies in the fact of hiding the identity of the financer in order to avoid a targeted international blame and responsibility for the conflict. External financers usually create networks with internal actors in a way that blurs the distinction line between what is external and internal, and at times between aggression or repression, and between local and global **(21**). As cases of intra-state conflicts show how external-financing makes the international position hard to take, financing remains the only trace evidence for conflict financers to be caught. If budget inspections remain difficult to spot due to their secrecy as well as the existence of informal and criminal financing movements, the question may therefore be how can these conflict financers be concretely uncovered in order to bring them to conflict prevention ? The answer resides in a wide understanding of all methods of conflict financing so as to check whether certain investors fall into the list of suspects. Financing can either seem internal, especially when the actions resulting from it are affecting internal actors; or external, when the actions necessitate, by nature, an external assistance. On the one hand, in intra-state centralised conflict, whereby conflict over territory, taxation is important for financing the central state making, war making, and counter-insurgency movements. The budget of defence as well, in mobilising for the probability of an armed conflict, could also seek help from the state's central bank but also from international organisations if a counter terrorism concept primed the demand. International borrowing involves other state -allies financing, depends on their diplomatic and economic inter-relationships, and usually hopes for a recognition of the *de facto* state position or its territorial sovereignty. For what concerns conflict goods, exploitation of resources, taxation of traders or exploiters, and contracts and licenses, they all constitute a source of financing for the conflict actors not only when the budget is not sufficient, but also so as not to overpass the condition of International Financial Institutions according to which military interventions should never bypass the 2% of GDP. In that specific case, controlling other parallel financing such as informal corruption, paramilitary support and even criminal financing could help us understand more the force of mobilisation of the intra-state conflict. Yet, do TNCs have any role in that ?Certainly. Investing companies also result beneficial for logistics and specialised services needed in conflict emergence, and therefore their presence is much more probable; and even though rationally investors would avoid conflict zones for security reasons, they can not be region-selective when it comes to resource seeking. Companies can peacefully enter conflict territories to inspect natural resources, yet payments for the licences would go to a particular actor in the conflict. We also have to look through TNC as shareholders in weapon manufacturing companies (**22**), as they could indirectly employ the capital from resource exploitation in providing weapons with lower prices. As FDI helps also increase the GDP, a good index of social welfare, it could also be a good indicator of a stronger military mobilisation and mean an index for repression instead. Last but not least, misallocation and misuse of funds revenues from TNCs can deepen the gap between intra-state different groups and may be the reason of a new conflict.

To illustrate the awareness of the negative potential that companies hold in conflicts, a series of complains mainly raised from micro levels, express a grass root frustration against multinational new imperialism. Nike, Reebok; Liz Claiborne, The Gap; Coca Cola, Walt Disney; British Petroleum, Freeport Mc Moran, The Swiss TNC Nestlé are just few cases of companies that were accused- through boycotting, NGOs' pressure; trade unions, media and grassroots' coalitions (**23**) - for human rights abuses or conflicts' degeneration. Yet, many of which still receive a passive international attention .

Finally, the last negative point to discuss against FDI could be governments' complaints from the loss of national sovereignty as well as the loss of tax revenues in front of a difficulty in applying protectionist policies for their local industries. This point is the only incompatibility that could make the only breach in the investor-sovereign state constructed structures.

CHAPTER 3

This chapter would not have made sense without discussing FDI potential in making conflict. This is not a contradictory statement, as one can not have the power in preventing a conflict unless it is an organ that has or had a decisive power over the actors of that same conflict. Decisive powers can be direct -being actually one of the actors- or indirect -being an independent body that displays a power over the actors-. These decisive powers can raise from political, religious to economic ones. Recently there is a new awareness of the fact that conflict prevention, peacekeeping and peace building should incorporate larger actors including economic ones (**24**). This chapter is going to discuss the economic potential that TNCs can display if adopting strategies to counter intra-state conflicts emergence, regeneration or recurrence. FDI's role in that case would be more efficient in societies witnessing a state failure in preventing intra-state conflicts.

Before tracing a frame of conduct for peace operators giving TNCs a protagonist position, we should trace back a series of fatal mistakes that should not be repeated again. Firstly, as some international organisations such as UN , IFI, OSCE mistakenly embrace the way of negotiating with TNCs, my approach argues the proviso for peace operators to be incorporated in the internal system of TNCs as well as the political structures that TNCs deal with, having the scope of dismantling the mechanism through which conflicts rise or resuscitate. Concretely speaking, the most striking actions taken by peace operators managed to work within TNCs, as holding shares of TNCs remains proportionate to having a decisive word in the company. A successful example of that is Reverend Leon Sullivan in trying to operate as a member of General Motors (**25**). Unfortunately, this does not reflect the political reality where positions denote both decisive power and responsibility, and where the only influential position over TNCs rely in the executive power. A further mistake, is to think that conflict is inherent in one actor whereas it resides in the interaction between the actors themselves, whether both willing to establish peace, or both motivated towards conflict resurgence.

While solutions to counter conflicts could not go against the negative effects related to the nature of FDI, a point which explains the position taken by many scholars in pushing away FDI as a potential danger to peace; other strategic conducts that peace operators should undertake in making FDI join conflict prevention actions are the following points .Asking for a transparency of TNC working structure is important in understanding the financing and budgetary flow of their capital. An understanding of the multinational structure helps both separating independent businesses and affiliates that can not respond to the mother company's actions, or processing the structure through which TNCs gain their immunity to prosecution. For what regards monitoring, a strict regulatory reform as supported among peace operators would only scare FDI away. Peace operators should first and foremost stop putting trust in the hands of organisation such as IMF and World Bank, where the majority of votes fall in the hands of the countries backing the top biggest investing companies. Secondly, discussing the need for a clear code of conduct for TNCs – so far negotiated in vain – is a very elongated way in conflict prevention. Although the grass root approach through striking consumption proved to be efficient in putting TNCs under pressure in several cases, a number of modifications need to be applied to this approach. The massive willingness of many activists in shaming and naming TNCs is inappropriate as the diversity of their goals and strategies does not mobilise their movements or pressure companies considering their broad dimension through multinational markets. The effective way is not in attempt to mobilise a broad range of opinions as lately expanded through using internet; for the broader is the subject, the further it gets form the national public opinion's concern. Thus, narrowing it, making its consequences concrete to the public's minds and daily interests; asking little from their contributions, and making the objective of the mobilization as clear as possible would prove to be much more efficient. Even a massive boycotting if tending to overlook these points can be senseless, and might make fatal errors such as avoiding discussions with TNCs, making the boycotting objective very abstract to both investors and boycotters; and also using a bad organised approach giving no clear deadline and no decent alternatives to the costumers. A capacity of imagining concrete solutions can psychologically result efficient through presenting successful previous tentative or parallel situations where citizens has been positively rewarded .

For what concerns human rights, hostility to the business community is not a good strategy to adopt against TNCs as it could deter the investment action itself or make it simply withdraw. Due to the failure of international human rights treaties in deterring abuses committed by TNCs, pressuring local governments in screening TNCs for human rights' violations could only work realistically through using informal techniques such as a strategic misinterpretation of human right abuses for terrorist actions giving governments the obligation to review the investment actions and investigate their threat .

As noted already in chapter 2, conflict creates strong structures of '*clientism'* that get easily resuscitated in a post conflict period. The observe of this phenomenon is when peace operators would do nothing but shift the trust from one actor to another- by either employing a positive discrimination (from strong actors to the weak ones), or shifting trust between internal and external actors- which has no effect whatsoever on the strength of these client structures that mainly favour informal and criminal financing. Trying to dismantle *clientism* after its establishment is almost impossible, unless by specific strategies. Firstly, just like energy in physics, dispersing energy would weaken its power, and so *clientism* should loose its exclusivity; then, spotting true or even false accusations where the thin line between what is internal and external falls would lead political structures to avoid social responsibilities and conflict financing, thus creating a disclosed separation between the two. Since conflict operate through *corporatism* as well, manifested in the vertical structure created by conflict supporters, peace operators should work upon breaking these links by dismantling the tie that these actors have surely established to major national banks and try to tie them to external ones.(**26**)

As national unity is a huge subject of concern for conflicts over territory, in intra-state conflicts as well, peace operators should disrupt negotiating powers between TNCs and nationalist parties by clearing up the legitimacy façade claimed by the *de facto* state over a territory explaining how its destiny can turn in disfavour of the TNCs investing plan. This can be obtained through convincing TNCs that the social *clientism* they create is both against the "social contrast" that favours enlarging markets, and against the close presence to promotional affiliates and users especially in knowledge intensive sectors.

The economic crisis is a good timing for transferring economic activity from TNCs to a broader range of investors and this involves a clearer way in spotting co-option and state *clientism* structures.

CONCLUSION

FDI have received numerous accusations of destabilizing governments, neglecting human rights, encouraging terrorism, promoting conflicts, threatening the national sovereignty…etc. While there is no doubt that FDI is vital to the host and home economies, these fears were enough to diverge opinions around welcoming or pushing FDI away. The dilemma would still persist as many of these negative and positive effects are both related to the nature of FDI; but putting a point to it resides in favouring discussion that still have faith in FDI while putting a limit to how far this concept can be taken. In other words, there is no doubt that FDI would be of a vital help in developing social welfare and economy of the host country and by hat promoting 'peaceful' ways of living, yet, it is also true that FDI's negative effects will always be present due to its cocooning greedy nature and hedgehog reaction to crisis, as well as to its direct and indirect conflict financing. A further concern can rise from FDI's potential danger in promoting terrorism, protectionism and threatening the national sovereignty…etc.

The points I did consider for this paper are related to understanding the nature of FDI in the last decades, as well as a probable re-dimensioning of investors positions towards FDI . Then, negative effects of FDI were presented in order to embrace the fact that we can do little about their understandable nature, while we can do something about FDI direct and indirect financing. A peace operating perspective could then be manifested in a strategic conduct, knowledgeable of these previous effects and constructed structures. The necessity in bringing multinationals in conflict prevention is explained by a necessity to avoid their potential to engage or promote conflicts.

Tracing peace operators' frame of conduct will surely result extremely complex due to several constraints. Majorly, they will be related to realistic dimensions such as the interest dimension in economic fields which will always favour a group over another; or simply reject any peace intervention action. Besides, being realistic in monitoring funds and revenues of corporations can be very difficult due to their secrecy as several investing contracts prevents any disclosure about payments thus sanctioning the violation of these rules. The other block of obstacles can result from the already established informal and criminal structures between TNCs and the national state .

All in all, before operating in a conflict context, peace operators should be aware of the necessity to give a major role to TNCs in order to shift their destructive powers in constructive ones. This conduct should not repeat several fatal mistakes due to which many peace operations failed, and should therefore operate always from within the TNCs or the political executive power influencing TNCs. Other techniques would be avoiding the loss of energy in negotiations aiming to dismantle an already constructed beneficial relationship between the host country and the investment and shifting this energy in dismantling the hiding nets of *clientism* .

Finally, in order to spot the most influential actors in conflict emergence, dismantling the ambiguity between what is internal and external would help striping off several independent bodies in order to engage them in conflict prevention or make them susceptible to international monitoring .

NOTES

1- See , for example, Globalization And International Conflict: *Can FDI Increase Peace As Trade* Does? By Solomon Polachek, Carlos Seiglie, and Jun Xiang.

2- The involvement of companies in conflicts has received particular attention because of their economic and financial implications in conflict areas. Their involvement is estimated around USD 150 billions invested annually in countries with ongoing armed conflicts .

3- Countries often compete through offering incentives in order to attract MNEs in a process denoted as the 'race to the bottom through which a certain competition between host countries can be negative for the outcome. ('Is Globalization Causing A 'Race To The Bottom' In Environmental Standards? '(PDF). *worldbank.org*

4- The decline in transport costs could facilitate the flow of assets through importing and exporting and could favour trade more than investments. In fact , there is also an increase in the difficulty of transferring non-tangible assets that sometimes make closeness between the host and home countries beneficial for such investments. Besides, non transferable assets such as assets that form an immobile cluster are characterized by a complementary value-added and could mount when combined with the real value-added and the business value-added activities .

5- See the Office for National Statistics .(1996)

6- See Moosa (2002). Hines Andrew in *'Get Your International Business Terms Right'.*

7- See UNCTAD report (2009).

8- See unctad.org.

9- The global credit crisis was precipitated by the subprime lending mess as borrowing became more diffused and banks didn't screen the value of their underlying assets carefully. People couldn't make their mortgage payments which led to a fall of market going down to 20% first half of 2008. In September 14 Lehman Brothers' episode in dollar terms failure was 5 times bigger than other bankruptcies and was followed by similar other episodes.

10- The 'flight-to-quality' effect means replacing risky assets with safer and secure ones .

11- '*'Results from WIPS point to a significant worsening of the situation in 2009: 57% of respondent companies reported that they expected their FDI expenditures to decline this year compared with 2008. Only 22% of respondents reported their intention to increase* *such expenditures in 2009, compared with more than 60% in mid- 2008* ''UNCTAD 2008.

12- See more on Investment state disputes in www.encharter.org/index.php?id=213.

13- The United States is a good example as one of biggest sources of FDI , as the top recipient of FDI inflows, and also as a nation that knew a considerable concern for its national security after the acts of 11 September. In 2007 the United States codified the role of the Committee on Foreign Investment in the Unites States CFIUS giving it the obligation to review any investment action and investigate on its threat to national security .(see Karl Sauvant in 'The rise of protectionism')**.**Other countries embracing protectionist actions hold the biggest investors for what concern FDIs. France, Japan, China, Germany, Russia , all passed regulatory reforms to monitor FDI. For instance, following the CFIUS to protect the national security, Germany considered an amendment to review firms threatened by a foreign takeover.

14- See Polachek, S and Seiglie.

15- See Royal Dutch/Shell in Nigeria , McMoRan Copper & Gold Inc in Indonesia, Talisman Energy in Sudan and many more.

16- Source Routledge for Multinational Corporation definition .

17- Iran and the control of the entire cycle for producing nuclear fuel .

18- See www.oecd.org/daf/investment/guidelines/conflict.htm.

19- An example of a recently unveiled case is the ship breakers in Bangladesh . For more info see the CBS website for http://www.cbsnews.com/stories/2006/11/03/60minutes/main2149023.shtml

20- ''*As these attributes expand the power and profitability of the multinational firms, they also make them vulnerable ''*; see 'Human rights and foreign direct investments' by Leaonardo lapalorcia (2007)

21- See 'Protectorates and spoils of peace' by Michael Pugh.

22- _Idea proposed by A.Stefanachi .

23- See , for example, The free Burma coalition.

24- For an analysis and a review of different campaigns , See ' The Corporate Accountability Movement" by Cavanagh and Broad. http://pdf.wri.org/iffe_corporat.pdf

25- See *Moving Mountains: The Principles and Purposes of Leon Sullivan* (1998)

26- For a deeper explanation of mechanisms of clientism and corporatism see works published by Michael Pugh.

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