

***The Role of
Transnational Corporations
In Promoting Global
Stability and Peace***

The Role Of Transnational Corporations in Promoting Global Stability and Peace

“For peace to be sustainable, it must take root in economic and commercial opportunity and development”

U.S. Secretary of Commerce, William M. Daley

(Commenting on the Middle-East Peace Process)

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In a world which is becoming increasingly international by nature, the role of transnational corporations deserves closer scrutiny in terms of their effect on the political landscape and socio-economic environment in the countries in which they operate. A plethora of literature exists in this area, most probing into the role which these firms play, from an empirical as well as purely descriptive standpoints¹. Economists in particular have analyzed the issues from various perspectives; from applying the rationale of the multi-plant firm to the phenomenon of transnational enterprises, to focusing on the firm's cost minimization decisions, to imposing the political economist's slant to the problem. Of the different approaches used, the most favoured in terms of theory perhaps arises from the game theoretic stream. Despite the vastness and depth of the current literature, to the author's knowledge, the potential capacity of transnational companies from an economic point of view to promote peace, has not yet been comprehensively handled in any published document. This paper is aimed at elucidating the arguments as to why such business enterprises may be ideally suited to the role of "peace promoters", and why global stability is in the best interests of such businesses. As well, we embellish upon the potential disadvantages which transnational companies may have in undertaking tasks which potentially lead to this end. Throughout this paper, the terms "multinational and

¹ Examples of this genre are numerous including Bailey, Harte and Sugden (1994), Wendt (1993), and Gray and Radebaugh (1984)

transnational” corporation will be used interchangeably to refer to an enterprise that controls and owns assets in more than one country.

In the most general of terms, this exposition may be divided into four main parts. The first section pertains to the reasons as to why most transnational companies would benefit from stability and peace². In the second section, we examine the advantage which transnational corporations would have in promoting stability and in direct participation in the negotiation of peaceful resolutions to conflict . Specific examples in which transnational firms have been involved in conflict resolution are canvassed in the third part of this paper. Furthermore, the much reiterated nomenclature of the so called “peace dividend” is examined in this section, with particular emphasis on what the Oslo Accord, subsequent negotiations and the wider peace process has meant to the ability of Israeli firms to do business with their Arab counterparts. The final section examines the possible disadvantages which transnational companies may have in endeavoring to negotiate peace *vis-a-vis* more traditional inter-governmental peace brokers.

Transnational corporations, by their very nature depend on a degree of geniality in the relations between the countries in which they operate. This is even more poignant from the viewpoint of firms which produce intermediate goods in a different country from that where the final commodity is assembled . In such a case, the resultant interruption caused by a military incident, or in the extreme case of war, would be significantly detrimental to this type of production process. It would indeed be in the interests of this class of transnational entities if friendly relations were maintained between the countries in which production takes place. Even if the multinational enterprise were set up in such a way that production in one country was unaffected by that in others, from a managerial perspective, an imbroglio of problems relating to chain of command, and ultimately direction would pervade if conditions were conducive to conflict between countries in which they do business. Often, it becomes impossible for the business entity to operate under such political constraints. Examples of this include instances where the government

² An exception to this would be companies which produce military weaponry

in one country legislates so as to deem it illegal for companies from that country to operate in another, sometimes in a broad context of industries, but often in relation to companies operating in specifically targeted activities. The United States in particular has tended to exercise this form of legislative knuckle slapping as a means of compelling the second country to comply with international³ wishes, America's trade sanctions against Cuba being a case in point. This political stance has meant that American transnational companies are effectively ruled out of such markets⁴. One could envisage that in such a situation where economic sanctions have not worked, there would be a greater role for business as intermediaries where diplomatic efforts have failed, especially in light of what multinational firms potentially stand to lose if these markets remain closed.

Aside from the interruptions to production and/or trade as a result of conflicts on the diplomatic or military front, there is a second reason as to why economic enterprises in general are not well served by either of the above, namely as a result of the inefficient allocation of resources. This reallocation of productive assets stem from three main sources. Firstly, the military option as a means of resolving conflict would see productive resources being utilized for the production of combat equipment and the like ; resources which if peace were to prevail would be used for more traditional uses. Thus the occurrence of military solutions to conflict, would immediately see a reallocation of resources in an economy towards industries that are seen to be instrumental to this end. Secondly, the effect which war-time resource reallocation has, is not only felt for the duration of the conflict , but inevitably changes the economic environment in which multinationals must function after the guns are silenced. New industries develop. Companies which use militaristic technologies, so important in times of war gain a footing in the domestic and international market as a result. In effect, the military solution to conflict brings about significant changes to the hierarchy of industries. Thus,

³ The author notes that there exists a degree of skepticism as to the extent to which the broader international community shares some of the United State's views as to the ultimate aims of these trade sanctions, particularly in relation to Cuba. However, this does not alter the potential financial disadvantage which American enterprises suffer as a result.

⁴ For an interesting overview of the extent of the use of this approach by the U.S. Administration, see Haass (1997)

for the basest of self-interested reasons, incumbent multinationals have a clear incentive to promote peace because of what this potential resource reallocation may mean. Most international incidents however do not become combative overnight, and diplomatic means are canvassed before it develops to such a stage. Even so a political/diplomatic standoff, if severe and prolonged enough creates a climate of uncertainty in which transnational firms are forced to operate. This uncertainty in turn creates distortions in the ability of investors to value the firm. Hence, in terms of at least the short-term health of multinationals, a political crisis does not need to become military in nature before it is a source of concern, and firms have an inherent interest in maintaining and promoting stability, and peaceful resolutions to conflict because of this.

It can, and has been argued by some⁵ that the prevalence of the multinational firms in this era of globalization significantly impacts on the power of the state. Undoubtedly, the phenomenon that is the transnational has increased in stature. The fact that the annual earnings of some of these enterprises surpass the gross domestic products of some small to medium economies, means that many hold a not insignificant amount of power. Whilst the importance of the multinational relative to that of the state remains open to discussion, these firms undoubtedly occupy a unique position in the global political landscape. As such, when it comes to promoting an atmosphere of global détente there is much which the transnational can offer.

The most obvious attribute which the transnational corporation brings to the process of resolving conflicts is proficiency in negotiating desired outcomes. In order to sell their product, firms undertake extensive research into the local market. Thus, in conjunction with the fact that they operate within a broad ambit of ethnic, cultural, and often religious contexts, transnational firms are better able to understand and apply their skills in negotiation relative to government emissaries because of their on the ground knowledge. Furthermore, due to the wide network of local businesses, government agencies and political players which these enterprises potentially come into contact with, transnational

firms are ideally suited to facilitating negotiations between business, governmental and non-governmental organizations. Thus, it can be asserted that the expertise of these firms in negotiation and mediation, coupled with local know-how stands them in good stead to being mediators towards conflict resolution. A recent example of where a multinational firm was able to succeed where the political alternative failed is in North Korea where Hyundai was able to enter into what traditionally has been a hostile market through the conciliatory efforts of Hyundai president Chung Ju-yung⁶.

Aside from the any skills which the multinational firm may possess in arbitrating disputes, because of the economic and often political clout which some of these possess, one cannot ignore the influence which multinational enterprises hold as a result of their sheer size. This would especially be the case where the transnational in question is a major employer, and/or comparatively large relative to other firms.

A distinct advantage which the multinational as a peace broker has over diplomatic agents, is that on the whole, the political motivations for mediating between two countries would not feature as prominently as the economic considerations. Regardless of the philosophical arguments about what the normative grounds for the advancement of peace from the viewpoint of the firm are, the fact that traditional production theory puts forward the maximization of profits as the primary *raison d'être* for a business is in this case is an advantage. The result is that the transnational enterprise can be seen as a politically unbiased adjudicator. A further consequence of this narrow, albeit one suspects predominantly accurate assessment of the multinational's goals is that although multinationals may operate in a variety of countries, they are not necessarily affiliated to any, beyond what their business activities would entail⁷. Although this promotes the image of the multinationals as heartless institutions, it can be seen as playing a politically impartial role in the advancement of peace.

⁵ Radice (1975), and Bina (1997) are just two examples in this vein. Others which dispute this proposition include Boyer and Drache (1996), and Capling (1994)

⁶ Source : Shin (1998)

⁷ Refer to appendix (Model 1) for a simple model showing how population mobility affects a game with simultaneous moves, and how this relates to the multinational corporation

On the governmental level, the obstacles which must be overcome when negotiating for peace are of a political nature. Under the democratic system where governments go to the poll every few years, issues of a particularly sensitive nature may not be handled in the same manner as in the case where this electoral accountability does not exist⁸. An advantage which firms have over governments in this respect is their longevity. In some respects, this makes them particularly suited to being brokers of peace. This is due to the fact that they do not have the same level of political accountability that governments contend with. Thus, multinationals as peace brokers are more likely to have a consistent approach to the process of advancing stability and peace as they are uninhibited by the electoral mechanisms that beset governments. Along with this, employees in these private corporations are on the norm, tenured for a longer period of time than the term of a government. Thus, there would not only be a uniformity in approach, but also consistency in personnel when it comes to negotiating toward, and promoting peace.

Having analyzed the potential areas of expertise which multinationals are able to offer, we now turn our attention to examples in which transnational enterprises have had a direct involvement in conflict resolution. One case in point is the Caux Round Table (CRT), an organization representing businesses from Europe, North America and Japan which promotes a greater sense of ethical responsibility among multinational corporations through dialogue. It arose out of what its founders saw as a need for a resolution in tensions as a result of trade imbalances. Intimated in the organization's Charter as being a key objective is "seek(ing) to address key global issues through cooperative efforts with governments, other institutions and local communities". One could conceive a similar role for individual multinationals or collectively as in the aforementioned example, in a wider political context, rather than in the strictest economic sense. One way in which this nexus between economic action and political change has been realized was through the implementation of the "Sullivan Principles" by many

⁸ Whilst most populations would desire peace, disagreements may arise as to the means by which this can be achieved. If serious enough, these can lead to the ousting of a government (as was the case with Peres Labor

American multinationals operating in South Africa during the Apartheid Regime. These Principles were put forward in 1977 as guidelines for the way in which multinationals could further the cause of the disadvantaged black community, via the way in which they conducted business. Ridiculed by some⁹ as being largely ineffective, it was hailed by others for providing a clear set of standards by which multinational corporations could strive to influence the South African Administration¹⁰.

There is a growing recognition of the way in which business partnerships and economic stability can act as precursors to peace. This led the Canadian government in the mid 1990s to establish "The Canadian Partnership", a private sector led group designed to encourage trade and investment relationships between enterprises in Ireland and Canada, with the view of supporting the peace process via economic means. Other examples where business has demonstrated an understanding of the important nexus between peace and economic development is the Middle-East North African (MENA) Economic Summits. Since the signing of the Oslo Accord, this has not only enjoyed Israeli participation, but has been more focused on providing an economic underpinning to the continuing process of building peace.

It is important to note that on the whole, the examples alluded to, where incentives by business has led to, or were designed to encourage further cooperation, have involved more than one multinational working together. There is an important point to make here concerning the "free rider problem" in relation to promoting peace and stability on the part of the multinational. Since these are not cost-less exercises, and the potential economic benefits should one succeed are large, there is no incentive for one multinational to take on the role of peace promoter unless it can be sure that it will capture all of these benefits. Thus, in relation to the role which multinational firms can play, the most economically logical vehicle for this to take place is through cooperation between the economic enterprises themselves.

government in the Israeli elections of 1996) or lead to threats/outbreaks of violence from those opposed to it (as was the case with the Paisley led Democratic Unionist Party in Ireland)

⁹ Gray and Karp (1993) and Prakash (1993)

In this post Cold War era where in recent years traditional enmities have been eroded somewhat through dialogue, there is a widespread realization that there are clear social and economic benefits arising from peaceful outcomes through negotiation. Recognizing the obvious vantage for business, peace is touted to have an ensuing “dividend”. The recent political headway in Ireland earlier this year is expected to reap economic benefits long into the future. Whilst the peaceful developments in this region of the world provides further evidence that mediation can work where the politics of violence has failed, it perhaps is still too soon to fully assess the economic and social impact of peace. Instead, we will focus our attention on a negotiated agreement which predates the aforementioned by nearly five years, namely the Oslo Accord. Specifically, we will ascertain how the progression towards peace in the Middle East, has impacted on the ability of Israeli firms to conduct business with firms in neighbouring countries.

The Oslo Accord has been instrumental as a stepping stone towards peace, demonstrating that discussion and mutual concessions can achieve a peaceful resolution. Establishing this framework for discourse meant compromises on both sides. For the Palestinians, it meant recognizing Israel’s right to exist and renouncing terrorism as a means of achieving political ends. On the part of Israel, there was the avowal of a possible Palestinian state. Whilst the subsequent years have proven tumultuous, there is the recognition on both sides that now that it has started, the process cannot easily be terminated. Despite the political obstacles and pitfalls, economically, this agenda has proven beneficial to Israeli firms which now have access to new markets. Furthermore, the extension of the Middle East peace process beyond the Israeli-Egyptian dialogue has seen Israel’s national income “some \$12 billion larger than they would have been without the peace process”¹¹. Moreover, there has been in the years subsequent to the Oslo Accord, a marked increase in the amount of investment in the Palestinian-controlled territories.

¹⁰ Paul (1989), Marzullo (1986), de Villiers (1986), and Weedon (1986) are some arguing this latter point

¹¹ Lapidot (1998)

Whilst the Oslo Accord and subsequent agreements has not guaranteed the end of violence in the Middle East, it has gone some way to providing a framework through which stability and closer economic cooperation may be attained in the region. A notable example in this process has been the overall improvement in relations between Israel and Jordan. Since the 1993 signing of the Israel-Jordan Common Agenda, there has been greater cooperation not only on the political front, but also in the economic arena. This economic relationship encompasses areas as broad as water and resource management, tourism and transportation. The Arab boycott of companies which conduct business with Israel, effective since 1949, also has, to a large extent been laxly enforced since these visible signs of progress towards peace in the Middle East. It has been estimated that in 1994, there was a welfare gain of \$89 million¹² due to the less stringent application of the boycott in the automotive industry ; a result of the headway made in the peace process. Furthermore, there has been a positive impact on the number of companies willing to invest in Israel, as a result of the looser enforcement of the boycott.

The Arab boycott of companies which conduct business with Israel is an example of where multinationals by and large have been, and are ineffective in bringing the parties to the negotiating table. In this case, where the boycott was enforced over a number of countries, and where the potential loss by complying with the boycott was relatively small in comparison with the alternative, many multinationals chose to exclude themselves from the Israeli market. This highlights three of the major disadvantages of transnational corporations as peace brokers over governmental players, which we will now examine.

Ultimately, the role of the firm is to maximize profit, and whilst this aim may be furthered by negotiating and promoting peace in relatively simple, two agent incidents, the contribution it can make to multi-party, more complex scenarios is limited. The reason for this is that the latter will tend to be more costly to facilitate, and the narrow objective of profit – maximizing firms may not be best served by such a role. Instead in these cases, inter-government discourse may prove to be the best method of negotiation .

¹² Fershtman and Gandal (1995)

The reason for this is that governments want to achieve a broader range of goals than those which encompass the ambit of a business enterprise. Thus, the cost of peace promotion between more than two countries, whilst potentially great for a single government, are more likely to be consistent with the policies of government rather than the narrower objectives of business.

Despite the growing stature and power of these firms, they are still obliged to operate within the legal milieu given them by the government of the host country. Whilst the debate rages as to the power of the multinational versus that of the State, the fact that former do not have direct legislative power means that whilst they can affect the environment in which they operate, ultimately, the legal context in which this occurs is the State's judicial prerogative. This was the case with the Arab boycott in that it encompassed such a large market and involved a complexity of issues, that firms were to a large extent unable to impact upon it.

An obvious disadvantage which firms as peace brokers have in comparison with their governmental counterparts pertains to the broad spheres of influence in which they operate. Whilst the multinational is a powerful entity, and recognition must be given to the role which economic cooperation can play in leading to broader understanding between countries, its domain of influence is through economic considerations. Important as this is, at times it is not enough. For instance where the problem between parties is of a largely political/religious nature, the firm may not prove to be the best vehicle for solutions, as is the case in the Middle East where political solutions were reached first, and as a result paved the way for economic cooperation. In short, one cannot expect economic solutions to always apply to non-economic impasses.

Transnational corporations have much to gain from operating in markets where peaceful conditions prevail. Furthermore, they possess inherent attributes which make them ideally suited to assuming the role of being promoters of peace and facilitators of negotiations towards greater global stability. Due to the nature of the way in which they conduct

business, multinationals not only enjoy a significant level of proficiency in negotiation, but also possess knowledge about the cultural aspects of the societies in which they operate. The traditional objective of profit-maximization for firms in its role as peace advocate is important, as multinationals to a large extent can be seen as being apolitical. Despite these factors, there remain limits as to the potential effectiveness of transnational firms in engaging in such a task. It has been noted that the most common way in which firms have advanced peace in the past, and indeed the most economically logical approach, is by working in tandem with other corporations. By doing this, they share the costs of such an exercise and to some extent, account for the free rider problem which would exist if this process was undertaken unilaterally by a firm. Multinationals, whilst powerful in many respects, are limited to advancing economic solutions. In instances where settlements can be reached only after political changes are implemented, the transnational firm will be largely ineffective in resolving conflict. Whilst advantageous in that it can be seen as being unbiased because of it, profit-maximization as the prime motivation for a firm provides a very narrow set of objectives. Whilst most transnational businesses would desire peace, they can work to such an end only within the broad context of the above constraint, and within the legal framework of their host countries.

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Appendix

Model 1

We will use a simple game theoretic approach to examine the way in which the international mobility of population will affect the tendency of countries to go to war. We apply the resultant findings to the case of the movements of business. We use a two country model in which there is autarky¹³. We assume however that the mobility of people between national borders is possible. Using a simple framework, we ask the question as to the effect which this would have on the equilibrium with regards to war and peace.

The Model

There are two countries (C1 and C2) , each producing a number of commodities which are not traded, but consumed domestically. At the beginning of each period of time (t), Nature makes a move which determines whether conditions are conducive to war¹⁴. When this is the case, it is up to the government of each country to decide on the best

¹³ This assumption is made for simplification, since the aim of this exercise is to demonstrate one possible way in which the movement of ethnic and familial groups, rather than commodities will have on the tendency of countries to go to war.

¹⁴ This in reality could be due to a number of factors including the refusal of one of the parties to adhere to an international treaty and so forth.

course of action given the likely payoff from each eventuality. We shall more formally define this decision set (D_j^*) as the strategy of both governments, given the aggregate utility function of the community as a whole as well as what it believes that the other country will do.

Notation

- D_j^* is the decision set which defines the best strategy for the government given all the available information, (where $j = 1, 2$)
- Q_{mj} is the amount of commodity m produced in country j , (where $m = 1, 2 \dots M$ and $j = 1, 2$)
- X_{mj} is the amount of commodity m that is demanded in country j , (where $m = 1, 2 \dots M$ and $j = 1, 2$)
- σ_{js} shows the “concern parameter” which somebody in country j has for his/her individual ethnic. In the case where there is no international mobility, $j = s$. In the case where this mobility is allowed, j and s need not be equal

Assumptions

- It is assumed that people of the same nationality/ethnicity maintain a filial affection for one another (A1)
- From the assumptions we have made thus far about autarky, we formalize this by assuming that
 - $Q_{mj} = X_{mj}$ (where $m = 1, 2 \dots M$, and $j = 1, 2$) (A2)
 - We assume that prices in both countries are identical (A3)
- The decision set (D_j (.)) is empty when Nature decides that conditions are not conducive for war (A4)
- Both countries make their decision about whether to go to war simultaneously. Thus this process by one party does not enter the information set of the other (A5)
- It is assumed that the payoff for each country is the aggregation of the utility of the population given a certain outcome

We begin our analysis by examining the factors which impact on the aggregate utility of the two nations. This national utility function is shown below for both countries to be a function of set G as well as the safety of the population's individual ethnic grouping (σ_j).

$$U_1 = F_1[G_1(\cdot), \sigma_{1s}] \quad (\text{Eq 1})$$

$$U_2 = F_2[G_2(\cdot), \sigma_{2s}] \quad (\text{Eq 2})$$

The Case with No International Mobility

Given the utility function functions of both countries, we can describe the payoff matrix for both countries as that which is shown below :

Fig A1.1

		C2	
		<i>war</i>	<i>peace</i>
C1	<i>war</i>	a, a	d, -c
	<i>peace</i>	-c, d	b, b

(payoff: C1, C2)

In the case where there is no international mobility in terms of the population, it since there are no filial ties between the populations of the two countries, we assume (and it is fairly logical to infer) that $a < b < d$. Given this payoff matrix, it is clear to see that the Nash equilibrium occurs at the top left hand corner of the matrix¹⁵. In fact the dominant strategy in the case of both countries would be to go to war.

The Case With International Mobility

Let us now examine the way in which the mobility of population impacts on the payoffs in this simple model. The payoffs with international mobility are shown below, where (*) denotes the payoff for each outcome when international mobility is allowed

¹⁵ Note that even if $a < 0$, as long as $a < c$ (a reasonable inference to make), this equilibrium holds as being the dominant one

Fig A1.2

		C2	
		<i>war</i>	<i>peace</i>
C1	<i>war</i>	a^*, a^*	$d^*, -c^*$
	<i>peace</i>	$-c^*, d^*$	b^*, b^*

(payoff: C1, C2)

Given our assumptions about the aggregate “concern parameter” (σ_j) and its ties to ethnic grouping, we can say that $a < a^*$, and that $b^* > b^{16}$. Given this, in order for the dominant strategy for each country to change from that of war, to peace, it is sufficient that $|a^*| < |c^*|$. Note that whilst the same result could be attained if there were altruism on the part of a segment of a population of homogenous ethnicity, as long as one accepts (A1), there will be the tendency for internalization in this manner to lead to a more peaceful equilibrium.

The same argument can be used to contend that if population mobility were replaced with mobility of firms between the two countries, there will be the tendency for this type of interaction to lead towards peace rather than would be the case if firm mobility were not allowed¹⁷. The result rests on this element of concern of international firms towards their home countries as well as the amount of political clout they have with those who make the decision (in this case, the government). Note that this “concern” need not stem from a selfless sense of altruism. The result would still hold if σ_j were a measure of the anxiety which a firm may feel over a decrease in the population from the point of view that they lose a segment of their market.

¹⁶ The effect of this on d^* and c^* are ambiguous. However, one may speculate that the likely tendency would be for $d^* < d$, and $c^* < c$, facts which support the ensuing contention

¹⁷ The type of ‘firm’ alluded to here is not perhaps the typical multinational enterprise, given the simplicity of the model and the assumptions made about autarky. However, an analogous example could be the case where the an established firm in one country is sold to a foreign enterprise, holding other assumptions the same.

