FOREIGN INVESTORS IN CONFLICT ZONES: NEW EXPECTATIONS

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Dilemmas of Foreign Investment in Zones of Conflict

Corporate critics have complained for decades that foreign investors have propped up dictators, destabilized governments, abused human rights, and generally worsened a bad situation in many developing countries. The height of this criticism, and its most potent expression, was the divestment campaign to undermine apartheid in South Africa. The campaigners wanted foreign investors to sever ties with an illegitimate regime and withdraw from South Africa. With the end of apartheid and emergence of a "third wave" of democratization and economic reform around the world, a new era ensued in which many developing countries welcomed foreign investors and competed to attract them, hoping to gain the benefits of capital investment, technology transfer, and effective links to global markets. Despite a generally favorable environment for foreign investors in the 1990s, many voices continued to speak out about the dangers of foreign investment in unstable or conflict-ridden states.

The continued concern about the impact of foreign investment in the developing world produces diametrically opposed positions: (1) some take the stance that foreign investment produces or exacerbates conflict, government repression, and corruption, and therefore call for foreign investors to withdraw; (2) others believe that foreign investment produces or facilitates economic development and job creation, and ultimately reduces conflict and corruption, and therefore they call for foreign investors to stay. Both sides assume a link between economic factors and security, but they see it operating in very different ways.

A compromise position has emerged in the last decade, however. Pragmatists have begun to preach a middle course in an attempt to have the best of both worlds: investment and development along with stability and democracy. They argue that foreign investors should stay, but engage in conflict prevention activities. They justify this by claiming it would be beneficial to the local society, it would demonstrate corporate commitment to responsible action, and also that it simply makes good business sense. This position may be incredibly ingenious, because it gets one of the biggest, most influential actors in a developing country involved in promoting peace. On the other hand, it could also be dangerous, since in essence it promotes the intervention of multinational corporations in the domestic politics of their host countries.

In either case, the issue of business behavior in unstable areas of the world has been on the international agenda for a decade now. Despite the attacks on the World Trade Center, the war on terrorism, and intervention in Afghanistan and Iraq this attention has barely wavered. As I describe below, a number of corporate conflict prevention initiatives have been launched in the last few years, and interest in this area within the international community has remained high.

Violent conflict typically forces most companies to withdraw from a country if they have a choice of investment locations. Levels of foreign direct investment declined significantly over the last few years, due to a combination of economic slowdown and a loss of business confidence after 9/11.(UNCTAD 2003)[1] However, there are many situations where the violence is localized, foreign business is not targeted, and production activities can continue to operate successfully, as in the case of oil companies operating in Angola during the civil war there. (Berman 2000) Most extractive industries have few other choices of location if they want to continue to develop natural resources. In "failed states," where the government is weak, ineffective, and under attack, the contributions of foreign investors to peace and war may be a central link between economic and security affairs. (Berdal and Malone 2000; Ballentine and Sherman 2003)

Is the pressure for corporations to engage in conflict prevention activities a permanent change in expectations about corporate behavior, or simply a policy fad? In order to explore this question, we need to have a better understanding of the factors that led the international community to promote a new role for corporations in conflict prevention. In this chapter, I argue that the corporate accountability movement is in the process of establishing new norms and expectations about corporate behavior, but they are still only weakly institutionalized.[2] Major political actors– states, NGOs, and international organizations– are attempting to re-work the identity of economic actors by promoting the adoption and internalization of corporate social responsibility as a guide to appropriate behavior. Just as state security interests may be shaped by cultural factors, as argued in recent theoretical work in the security field, so too may the "security interests" of corporations. (Katzenstein 1996) As I describe in the rest of this chapter, new norms emerged out of debates over corporate social responsibility in other issue areas, such as labor and the environment. These norms were strengthened by the integration of the conflict prevention agenda with those of development and sustainability. Increasing acceptance of the idea of international intervention in response to systematic violations of human rights and humanitarian disasters may have led to creative ideas about the potential use of corporations as new instruments of intervention and conflict prevention. These factors facilitated the creation of new initiatives and policies by states, international organizations, NGOs and corporations that go beyond the old dichotomous choice between "engagement" and "divistment."[3]

This links the security and political economy fields in ways that have so far been under-explored in the existing literature. Typically, the political economy of security studies has examined the role of industry only by analyzing: (1) strategic industries such as oil and the potential threat to national security posed by those who control oil supplies; (2) the arms industry and arms trade, including debates over dual-use technology, and how changes in these sectors might affect military preparedness and military competition with other states; and (3) the linkage of economic competitiveness with security and foreign policy through concepts such as "economic security" or "grand strategy." All of these have contributed greatly to our empirical and theoretical understanding of how political economy and security interact, but they are limited in explaining some of the new developments in which corporations play a significant role in security affairs.

In addition to these traditional analyses, it is useful to explore the relations between state and non-state actors through a sociological or constructivist lens. Approaches to norms and identity, I argue, can be applied to economic actors, and this has not been a focus so far of theoretical attention. (Finnemore and Sikkink 1998) Norms tell us what is appropriate behavior in particular situations for particular actors. Norms are by definition held collectively, and are the product of acquired knowledge, socialization, and historical social development.(Weil 2003; Finnemore and Sikkink 1998) They are developed as a collective project through repeated interaction over time, and gain force and effect through institutionalization in law and organizations. An emerging norm may be carried by only a few groups, but given the right environment and effective strategies, it may be adopted by more and more people until it reaches a "tipping point." Many norms are so well internalized that they are uncontested, while others are the subject of continued political debate as they evolve over time.(Finnemore and Sikkink 1998; Florini 1996; Weil 2003)

Corporate social responsibility norms are in the early stages of development, but each year they appear to be gaining more force and acceptance.(Haufler 2001) New norms regarding the role of corporations in conflict prevention and peace promotion are beginning to be institutionalized through the programs of leading governments and international institutions. This institutionalization is in its early stages and may yet fail. Nevertheless, the initiatives launched under the banner of corporate conflict prevention have shown remarkable resiliency in the face of challenges posed by the war on terrorism, the challenges of post-conflict reconstruction in places such as Afghanistan and Iraq, and the natural resistance of the private sector to these issues. (Banfield, Haufler, and Lilly 2003) We can see some of these changes reflected in current efforts by the International Criminal Court to consider corporate culpability in the war in the Congo, or recent initiatives in the financial sector to mandate that companies borrowing money assess the conflict impact of their major projects.[4]

In the next sections, this chapter discusses trends in corporate social responsibility; the linkingo of development, sustainability, and conflict agendas; and the evolution of thinking about intervention. These constitute the environment in which efforts to integrate corporations into conflict prevention emerged. The chapter then goes on to explore the evolution of norms regarding corporate conflict prevention in general. The conclusion discusses some of the impact of recent changes in the security environment on these trends, and speculates about their longevity and impact.

The Intersection of Corporate Social Responsibility and Conflict Prevention Agendas

There are over 61,000 multinational firms in the world today, with over 900,000 foreign affiliates.(UNCTAD 2004) In the past decade, a growing amount of foreign investment has been going into the emerging markets in the developing world, though the majority of investment is still located in the triad countries of the US, Japan, and European Union. Many markets are now dominated by oligopolistic firms, and the largest firms have revenues that exceed those of a small, industrialized country. As competition in global markets has increased, corporations have been moving into ever more socially and environmentally sensitive locations. (Christiansen 2002) Even as corporations have extended their reach farther into new countries, they have been followed by the eyes of the rest of the world– through activists and modern media. As Deborah Spar has said, corporations are "in the spotlight" everywhere they operate around the world. (Spar 1998)

The context of foreign investment has changed dramatically over the last two decades, and so have expectations about the role of corporations in society. (Haufler 2003) We can see these changes most clearly in three areas: (1) the evolution of corporate social responsibility norms across a diverse set of issues and policy domains; (2) the merging of conflict prevention, development, and environmental agendas in policy and scholarship; and (3) changing ideas regarding the conditions under which it is acceptable for the international community to intervene in the domestic affairs of states. These all provide the context in which corporate conflict prevention has become an important issue on the international agenda.

What exactly do we mean by "corporate conflict prevention initiatives?" One example stems from the international outcry against so-called "conflict diamonds" mined in west Africa, particularly Sierra Leone. The sale of these diamonds into international markets has provided the funds for continuing rebel and government fighting, and prolonged the bitter conflicts there. The international campaign against conflict diamonds pushed the diamond industry to agree to develop a regime to certify the origin of rough diamonds and regulate the trade (the Kimberly process). The idea behind this was that industry action was critical to undercutting the continued flow of money to combatants. (Smillie, Giberie, and Hazleton 2000) Similar campaigns exist for other commodities, such as coltan and timber, although these so far have not gained the attention of the international community in the way that diamonds did.

Another example is international concern regarding the way in which major extractive industries hire security to protect their people and facilities–hiring the services of either government or private security forces. When these forces committed violence against local populations or were involved in various forms of criminality and corruption, the corporation that used their services found itself accused of collusion. Policymakers in the U.S. and U.K., where many of these companies were based, became concerned about the attacks on their companies. They responded by facilitating negotiations with activists and companies to develop what became known as the US-UK Voluntary Principles on Human Rights and Security.[5] These establish guidelines for the provision of protection services to companies operating in regions of instability and violence. A number of NGOs are now pressing companies to perform a conflict impact and risk assessment prior to investing in a location and before expanding operations.[6]

Another major area of concern is the way in which tax revenues paid by the extractive sector can be used to fund corruption and continued war. Recently, the World Bank developed a radical new revenue-sharing agreement with governments and oil companies as part of a project to build a Chad-Cameroon gas pipeline. A large percentage of the project revenues would be deposited in a development account for the country, overseen by a group of experts. The purpose of designing this revenue management system was to avoid feeding the corruption that plagues Chad and Cameroon, and limit the ability of existing elites to procure arms to fight a war.

All of these examples demonstrate that corporate conflict prevention has become an area of both concern and action. Policymakers, scholars and analysts now wonder *how*– not *if*–business should be incorporated into conflict prevention initiatives.(Haufler 2001; Nelson 2000; Guaqeta 2002; International Peace Academy 2001; Sherman 2002)

The Emergence of Corporate Social Responsibility Norms

The initial impetus towards a corporate social responsibility agenda can be traced back to the 1960s, and perhaps before. This is the period of time when American corporations dramatically expanded their presence abroad. By the 1970s, many newly independent developing countries became concerned about the power of multinational corporations, and successfully pressed the United Nations to establish the Centre on Transnational Corporations, and to launch negotiations to develop a Code of Conduct for Transnational Corporations. After a decade of effort, however, the negotiations were quietly ended without results in the 1980s, when many countries even in the developing world had lost interest, and the Reagan Administration in the U.S. declined to continue negotiations.(Kline 1985)

What Cavanagh and Broad label the "corporate accountability movement" really began with the anti-apartheid movement.(Broad and Cavanagh 1998; see also Bendell 2004) As part of this, the Reverend Leon Sullivan established guidelines for corporations operating under apartheid. As a member of the Board of Directors of General Motors, he sought to crack the system from within by pressuring foreign corporations to adopt policies of racial equality within their organizations. The Sullivan Principles, launched in 1977, did not entirely succeed in undermining apartheid from within, but the effort helped establish the principle of corporate responsibility. The second phase of the anti-apartheid campaign–the divestiture movement–took that principle further. Major investing institutions such as universities were pressured to divest themselves of their shares in companies with investments in apartheid South Africa.[7]

While the anti-apartheid movement demonstrated the potential effectiveness of targeting multinational corporations, it was not until the 1990s that a real "movement" could be said to begin.[8] Many groups active on issues of the environment, development, health, labor standards, and human rights began to develop guidelines, principles, and codes for multinational corporations to adopt. But their influence was weakened by the diversity of their goals and strategies. Some groups remained intensely hostile to the business community, while others were willing to work with individual companies. Different groups busily advocated on separate and often narrow issues, without sufficient coordination. They were more effective at stimulating consumer awareness of the importance of a specific issue or corporate scandal than they were at developing common standards. (Broad and Cavanagh 1998)

By the end of the 1990s, there were a variety of separate and disconnected campaigns against corporate misbehavior, but each narrow and targeted campaign increasingly became linked into larger initiatives. Many international NGOs began to forge relationships with local ones in campaigns against foreign investors that highlighted the ways in which companies undermined labor standards or polluted the environment. At the same time, prominent international advocacy groups, such as the World Wildlife Fund or Amnesty International, began to engage in dialogue with corporations to launch specific voluntary programs in their areas of interest, combining carrot and stick tactics. Within the private sector itself, new corporate social responsibility initiatives were developed in an effort to ward off outside pressure and the threat of potential government regulation. (Haufler 2001) These initiatives carried forward new norms about the appropriate role and behavior of multinational corporations operating in the developing world.

There is mixed evidence so far on the degree to which these new norms have been incorporated into company practice. There are reports of improvement in some areas and continued violations in others–sometimes by the same company. One thing is clear, however–throughout the 1990s, the range of issues, networks, campaigns and multi-stakeholder partnerships developing corporate social responsibility programs expanded dramatically. Every major corporation now has a corporate code of conduct; most of them also have adopted internal management systems to implement those codes, often involving external auditing; a number provide regular reports on their activities, similar to financial reports, and many are involved in a variety of partnerships with NGOs, governments, communities, and international organizations. Governments have helped institutionalize some of these changes through policies that provide incentives for positive corporate performance, for instance, through regulatory relief. Consumers and investors are also reinforcing this trend through, for example, social investment funds that screen companies on the basis of a number of social and environmental criteria.[9] A recent survey of corporate social responsibility (CSR) experts revealed a number of trends: that CSR is slowly moving into mainstream business (though some experts are more pessimistic about this); that CSR itself is deepening in degree of commitment by the business sector; and that governance (including transparency and integrity) is one of the top CSR issues. (Strandberg 2002)

It is against the background of these developments that the debate over corporate complicity in human rights abuses and continued conflict in developing countries emerged on the international agenda. Voices in the international community called for the withdrawal of corporations from investment in countries with illegitimate governments or unstable political environments. They began to debate whether there was a role for corporations in conflict prevention initiatives, and proceeded to develop standards for corporate behavior when they operated in zones of conflict. (Haufler 2001)

Merging of the Development, Environment and Conflict/ Security Agendas

Foreign investment has always been considered a key element in the development of the poorer countries of the world. But the way in which it fits into policy has changed with shifts in the development paradigm. And that paradigm has evolved in significant ways over the last few decades. In the 1960s and 1970s, development theories and policies emphasized investment in infrastructure projects, state intervention in the economy, and import substition policies that meant selective restrictions on foreign investment. In the 1980s and 1990s, there was a decided move towards liberalization policies that welcomed trade, privatized national infrastructure, and encouraged unrestricted foreign investment.

Today, the development agenda emphasizes concerns about state failure, corruption, and the need for "good governance." Along with this has come more attention to the links between development and security, and between environmental degradation and insecurity. This new agenda supports policies that promote both foreign investment and corporate social responsibility.

After World War II, with the establishment of the World Bank, a new development community of practitioners emerged with ideas about how to promote development in poorer states. In these early years, both aid workers and many host governments worked from a state-centric paradigm. Donor governments and agencies financed and implemented projects through the host government and often in partnership with state-owned companies. Many developing countries adopted import-substitution policies, and up to the 1970s many also nationalized, expropriated, or heavily restricted foreign investment. The model of the "strong" developmentalist state such as Japan was attractive to many countries, particularly in East Asia. (The Fridtjof Nansen Institute 2000 p.17; Haggard 1990)

Over the past fifteen years, the development paradigm has shifted, both in the donor community and in the developing countries themselves. The "Washington consensus" among the World Bank, the IMF, and the U.S. Treasury promoted liberal policies of free trade, deregulation, and privatization as a means to promote economic growth. The rapid globalization of markets swept up regions of the world that had previously been isolated from other economies. Heightened economic competition affected both states and foreign investors, as the former sought to attract investment, and the investors competed with each other for newly opened markets and resources. As investment became a large percentage of financial inflows to many developing countries, many people raised concerns about the concomitant externalities, in the form of both environmental degradation and repression.

A few years after the Berlin Wall fell, the World Bank and others began promoting a new "good governance" agenda. The end of command-and-control economies, the crises experienced by welfare states, the state-led development of east Asian economies, and the collapse of states in some areas of the world all led the World Bank to examine the role of the state more closely in its 1997 development report.(World Bank 1997) It sought to determine how to increase the capability of states to "undertake and promote collective actions efficiently."(World Bank 1997 p.3) Attention was focused on the failures of state capacity in many developing countries, the need for more transparency in their policymaking, and the negative impact of corruption on development. The World Bank and others sought to limit rent-seeking by the state through economic reforms, especialization privatization and other policies that would limit the discretionary power of the government. This went along with democracy promotion, which became a significant component of development programs. The focus on state capacity inevitably linked the development and security agendas, as there was greater recognition of the role that conflict and corruption play in retarding development.[10] In many ways this new development agenda was intrusive into domestic politics in way that would not have been acceptable during the Cold War. It entailed taking a more active role in promoting political change in many areas of the world.[11]

One of the most prominent lines of research today that links development and security, and also highlights the role of corporations in both areas, is scholarship on the so-called "resource curse" or the "paradox of plenty." The sudden development of natural resource wealth is tends to undermine economic development and industrialization, increase political conflict, and ultimately retard democratization; it brings failure and not success in both economic and social terms.[12] (Ross 1999, 2000; Collier 2003; The Fridtjof Nansen Institute 2000; Berdal and Malone 2000; Woodrow Wilson International Center for Scholars and International Peace Academy 2001) For instance, Terry Lynn Karl analyzed the role of oil in the political economy of a number of oil-exporting states, particularly Venezuela, and concluded that when government owns the petroleum sector (the "petro-state") it becomes predatory in the collection of "mineral rents." There are few incentives to develop an efficient private sector or effective administrative system. (Karl 1997) Paul Collier and his colleagues at the World Bank have conducted empirical research indicating that the more a country is dependent on one or a few highly valuable commodities for a majority of its export revenues, the more likely it is to suffer from corruption and underdevelopment. (Collier 2000, 2003) One implication of this is that corporations should be more cognizant of the impact they have on local politics when they develop new natural resource wealth.

Parallel to this literature is one on the links between environmental degradation and security. (See Kahl, this volume) It is in some ways the opposite of the resource curse approach, positing a link between resource *scarcity* and conflict, corruption and weak governance. The development of natural resources can lead to their depletion, or to the degradation of land and water upon which people's livelihoods depend. Thomas Homer-Dixon and his colleagues have been at the forefront in this area, exploring the paths through which environmental degradation and depletion cause or exacerbate differences among groups and become an important source of domestic conflict. (Homer-Dixon 1999; Homer-Dixon and Blitt 1998; Gleditsch 1998) Homer-Dixon argues that resource scarcity drives elites to capture existing resources and marginalize others, which becomes a source of grievance. On the other hand, Conca and others argue that there is a potential to promote peace through environmental cooperation.(Conca 2002) Most of those exploring this environment-security-peace nexus, however, do not pay particular attention to the role of foreign investors, despite its obvious relevance. Foreign investors who operate in an environmentally sustainable manner may in fact be a critical ingredient of conflict prevention and good governance initiatives. (Switzer 2002)

Globalization, led by multinational corporations, is itself posited as a new source of threat to developing countries. Economic transactions span the globe through networks of intermediaries, including both legitimate and illegitimate businesses. These networks may be instrumental in facilitating the use of revenues from resource extraction to fund the purchase of weapons, and provide sustenance to rebels and repressive governments alike, as the issue of "conflict diamonds" has demonstrated.(Duffield 2000; Reno 2000; Smillie, Giberie, and Hazleton 2000) Increasingly, these global markets are implicated in transnational organized crime and even terrorism. (Williams 2002) Even reputable companies may be incidentally linked into these networks and thus contribute to destabilizing forces.

Norms of Intervention

Non-intervention in the political affairs of a state has been a dominant norm in the international system for centuries. The principle of sovereignty was established with the Treaties of Westphalia in 1648, and enshrined in the United Nations charter at its founding.[13] (Weiss 1996 p.435) During the Cold war, the United Nations was constrained not to intervene by a narrow interpretation of its Charter. It dealt only with recognized governments, and worked through those governments when it did intervene. During the 1960s and 1970s, the UN supported intervention to free people from colonial domination, but that is all. (Jonge Oudraat 2000 p.5) The Cold War competition between the U.S. and U.S.S.R. further reinforced this principle, and any violation of it was interpreted in the light of superpower rivalry. Even though the founding of the UN system also enshrined the principles of human rights, there was no enforcement mechanism and no presumption of intervention in cases of gross violations. The Human Rights Charter itself is meant to be signed by states and its principles carried out by national governments. Up until the end of the Cold War, intervention of any sort was rare, and when it occurred it was often condemned.

After the end of the Cold War, the United Nations and leading states such as the U.S. and other NATO members became more enamored of humanitarian intervention in crises.(Jackson 2000) There has been an ongoing debate over the when intervention is justified, and by whom.(Jonge Oudraat 2000) Under the UN Charter, the Security Council can ignore non-intervention principles if a problem is a threat to international peace and security–and in the 1990s the Security Council became creative in how it interpreted such threats. "By the end of the 1990s, the idea that states should not be allowed to hide behind the shield of sovereignty when gross violations of human rights take place on their territory had firmly taken root."(Jonge Oudraat 2000 p.4) The International Commission on Intervention and State Sovereignty declared there is a "responsibility to protect" those most in need. (2001)

The impulse to intervene has been strengthened by the emergence of an international human rights regime. International and regional laws now enshrine the principles associated with human rights. The rights of individuals and the rights of specific groups (including women and indigenous groups) have become entrenched in world politics. The UN now has a Human Rights Commission that monitors conditions around the world, the US Department of State regularly reports the human rights status of countries, and the Canadian government adopted "human security" as the basis of its foreign policy. The norms surrounding the human rights regime are now well accepted in theory, although not always in practice. This has made it more likely that governments that violate these norms will be subject to scrutiny and sanctions.[14] (Rodman 1997) The US, for its part, has been quick to impose economic sanctions on a number of countries that have violated various principles of human rights. (Jonge Oudraat 2000) In recent years, the United Nations Security Council has imposed sanctions, for instance on Angola, and then published a report by an expert panel of an investigation of sanctions-busting. These highlight the commitment of the international community to upholding sanctions against incorrigible regimes.

Most states still reject the *unilateral* right to intervene for humanitarian purposes, as reaffirmed by the General Assembly in the past few years.[15] Furthermore, most would agree with the conclusions of the International Commission on Intervention and State Sovereignty, which stated that "sovereign states have a responsibility to protect their own citizens from avoidable catastrophe...but that when they are unwilling or unable to do so, that responsibility must be borne by the broader community of states."(International Commission on Intervention and State Sovereignty 2001 p. viii) In other words, it is states that are still expected to protect their own people. The problem in recent years, as noted already above, is that many states do not have the capacity or the will to do so.

The debate over intervention does not admit any role for the private sector. Nevertheless, there may be some spillover to expectations regarding corporations that operate in zones of conflict. To the extent that the private sector is seen as a tool of states and international organizations in their efforts to attain peaceful goals, then there is some room for corporations to become more directly and officially involved in host country politics. In most regions where conflict occurs, "responsible engagement" has become a significant theme. (Bomann-Larsen 2003)

The emergence of corporate social responsibility norms; the linkages now being made among development, environment, and conflict; and changing attitudes towards intervention all set the stage for the intersection of corporate social responsibility and conflict prevention initiatives. This linkage has been made most forcefully by NGOs with an interest in ending the suffering of the victims of war and repression. The idea of this has been taken up by governments and international organizations that would like to find some way to promote economic development via foreign investment while avoiding the negative externalities detailed in so much of the literature. Certainly, from the point of view of those in the donor and conflict prevention communities, it may seem as if foreign corporations may be the best functioning institutions in societies suffering from state failure.

Extractive Industry Revenues: Norm Entrepreneurs and Institutionalization

Sikkink and Finnemore have described how "norm entrepreneurs" promote new norms that eventually are adopted by a sufficiently large number of people that they reach a kind of "tipping point." They may become so widely accepted that they overturn old ways of understanding appropriate behavior, and become institutionalized into society.(Finnemore and Sikkink 1998) We have not reached that point in the development of corporate social responsibility norms, particularly for conflict prevention. In fact, there are many factors militating against institutionalization of such norms: the material self-interest of corporations; the rejection by societies of corporate intervention in domestic affairs; competing norms of free markets, and of sovereignty; and others. Nevertheless, in the following section, I will describe recent initiatives regarding the treatment of revenues from natural resource extraction–oil and gas in particular– in terms of norms, norm entrepreneurs, and institutionalization, and speculate on the durability of this trend.

In the era of globalization, politics–not just economics– has become increasingly globalized. Activists today organize in ways that transcend national boundaries, bringing together interested parties across the globe. (Lichbach 2002; McAdam, Tarrow, and Tilly 2001; Keck and Sikkink 1998) While the general statement that "all politics is local" remains true, what has changed is that the local political situation is now visible and of interest to political interests abroad. When local activists become frustrated with their inability to change government policy because domestic political channels are blocked, they bring in pressure from abroad in the form of transnational activist networks, in a "boomerang effect" against the government. (Keck and Sikkink 1998) Increasingly, such a boomerang may also be aimed at foreign corporations operating in unstable political areas.

The notion of bringing business into conflict prevention efforts emerged from activism over oil in Angola, diamonds in Sierra Leone, and the use of security forces in Nigeria and Colombia. (Global

Witness 1998, 1999; Freeman 2000) Norm entrepreneurs such as the NGO Global Witness highlighted in the global media the role of specific companies in profiting form turmoil in Africa. The agenda for corporate conflict prevention was set by the ground-breaking report *The Business of Peace*, produced by the Council on Economic Priorities and the Prince of Wales Business Leaders Forum. (Nelson 2000) This report made the economic and moral case for why business should view conflict prevention activities as being in their own self-interest. Interest in this topic was reinforced by the United Nations Global Compact. The Global Compact brings together corporate leaders with three agencies of the UN system, in which the businesses commit to nine principles drawn from UN conventions on the environment, labor and human rights (with anti-corruption as a recently added tenth principle). In the first Policy Dialogue sponsored by the Global Compact, participants from the private sector, international organizations, and NGOs discussed a number of issues raised by the role of business in stimulating conflict and corruption, both directly and indirectly. Through this Dialogue, the participants—with UN leadership—were beginning to disseminate new norms about the corporate role in conflict situations. (United Nations Global Compact 2002) A policy-oriented literature emerged that attempted to tease out the economic elements of conflict, the potential role for foreign investors in conflict prevention, and the actual practical policies that this might entail. (Guaqeta 2002; International Peace Academy 2001; Sherman 2002; Anderson and Zandvliet 2001; Banfield, Haufler, and Lilly 2003)

For the extractive industries–petroleum in particularly– two issues relating to the revenues that flow from corporations to host country governments serve to illustrate recent changes: the debate over the allocation of such revenues within society; and the transparency of those payments to the public. How a government allocates revenue is of course a responsibility of sovereign states, and typically is not considered an issue for external interest or intervention. However, a misallocation or misappropriation of these funds can deepen divisions between different groups within society, as some are advantaged and some are disadvantaged. In the case of natural resources such as oil or diamonds, the revenues can be huge, dwarfing all other sources of income in the country. The result may be that the development of natural resource wealth may stimulate competition to control revenues, fueling corruption and strengthening the position of some elite groups within society at the expense of the poor and disenfranchised. The revenues themselves may become what different groups fight over, as greed and grievance combine in ways that lead to state failure. (Collier 2000)

Many observers argue that the very secrecy surrounding the payments made by large companies to host governments facilitates corruption. They argue that one mechanism to encourage a better distribution of revenues is for companies to provide the public with information about what they pay in tax revenues and fees to host country governments. With that information, observers are often able to trace the funds that are "missing" from government coffers, and bring public scrutiny to bear. Transparency and revenue-sharing as issues go hand in hand, and more and more outsiders–NGOs, international organizations, and donor states–are putting pressure on companies to ensure that revenue figures are made public, and revenue-sharing formulas include a better distribution of wealth for the purposes of development. One barrier to private sector adoption of more transparency is that in many cases contracts with governments forbid disclosure of information about payments; firms that violate this clause may be expelled from the country.[16]

Today, unlike in decades past, the idea has been firmly planted that firms, particularly in the petroleum sector, should establish mechanisms to stamp out corruption and ensure that oil revenues are used for wider societal development. Concerns about corruption in international bidding for major oil exploration and development contracts has existed for many decades, but those concerns are subject to global debate today that has not been seen before. The first step in the evolution of concern for corruption was taken in 1977, when the United States passed the Foreign Corrupt Practices Act. It was the only state to have a law banning bribes in commercial activities.[17]

In the 1990s, activists and development specialists began to view corruption as a barrier to development and a precursor to social breakdown. Since the war on terrorism began, corruption has also begun to be viewed as an element of security. Transparency International, an NGO dedicated to changing law and regulation regarding corruption issues, launched a highly successful campaign to "name and shame" countries by publishing its annual Corruption Perception Index of the most corrupt political environments. It promotes the negotiation of "Integrity Pacts" between business and government.[18] Member states of the OECD in 1997 finally passed a Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The World Bank, as part of its program of good governance initiatives, began to incorporate anti-corruption elements into its development programs, and it supports the idea that both government and the private sector need to provide better information about commercial transactions. As a sign of its commitment to fight corruption, the World Bank has instituted strict rules about its own procurement system and actually debars those found guilty of bribery from doing business with the World Bank.(World Bank 1997) The Publish What You Pay Campaign[19] and the UK Extractive Industries Transparency Initiative[20] both aim to increase the transparency of revenue payments. Recently, a group of ten major investors called for extractive companies to be more transparent about the payments they make to governments, arguing that mis-used funds can pose a significant business risk. (ISIS Asset Management 2003)

Another more dramatic example of the convergence of concerns about state failure, changes in norms of intervention and development, and transnational activism is the revenue-sharing agreement that is part of the Chad-Cameroon pipeline project. The World Bank used its leverage in 2001 to structure a gas pipeline project in Chad and Cameroon in a new and innovative way. In return for World Bank participation, the energy companies and governments had to agree to a new kind of project conditionality. Most of the revenue from the gas pipeline development will go into a separate account for improving public services and funding development projects.[21] An "International Advisory Group" will monitor the use of pipeline profits and ensure a certain degree of transparency. This revenue-sharing agreement may be unique, but others are looking to it as a model for dealing with oil development under weak and ineffectual governments. (Bennett 2001; McPhail 2002) In this case, the World Bank was seeking to prevent both corruption and conflict in a major development project in some very poor countries at the same time as it promoted resource development and more equitable distribution of the proceeds.

This brief overview of recent trends reflects the intersection of new norms about corporate social responsibility, and concern over conflict and conflict prevention. Particular norm entrepreneurs, such as leading NGOs, the UN, and the World Bank, have sought to both raise the profile of the discussion of corporate conflict prevention and institutionalize anti-corruption and conflict prevention policies. These policies often rely upon the private sector for implementation, and bypass local host governments. By doing so, they transform the relationship between issues of security and economics.

Corporations and Terrorism

A little over a decade ago, we spoke of war in terms of bloodshed between nation-states, with fears of an East-West conflict always in the front of our minds. With the end of the Cold War, the talk turned primarily towards the civil wars and internal conflicts of the "failed states" of the periphery, in which neighbor turned on neighbor. Since September of 2001, we speak primarily of the war on terrorism, and how it is linked to the intractable conflicts of the Middle East and the long-running internal conflicts in countries struggling with corrupt or ineffective regimes.

The private sector can directly or indirectly, deliberately or accidentally, aid terrorists through a number of different routes. Companies and individuals within companies may deliberately aid terrorists in whatever way they can, and in this case, they may be operating outisde the law. But even legitimate companies can produce products or provide services that are used in terrorist activity, whether they intend to or not. These include armaments, chemicals, financial services, and many other goods and services. (Alexander 2004)

There are three main areas in which legitimate business has a direct role in the fight against terrorists: in regulating financial services; in protecting facilities and products from terrorists; and in developing the technological systems that will help defend against terrorists. (Alexander 2004; Rothkopf 2002) One of the most stringent actions against terrorism has been the tightening up of regulations about money transfers and financial fraud. The Financial Action Task Force of the G8 countries has established extensive multilateral rules about money laundering, and publishes a list of companies that comply and those that do not. Financial institutions must report to governments any suspicious banking activity by their customers. Recent financial scandals, such as the one involving Riggs Bank and its relationship with Saudi clients, highlight the degree to which the private sector has a role to play in cutting off the sources of financing for terrorists.

The private sector also has a role to play in securing the very products and services they provide legitimately. For instance, the chemical industry produces the materials that can be used to produce a bomb or chemical weapon. Chemical facilities themselves provide a potential target of attack that could make a relatively small explosive into a large disaster; the accidental explosion at Bhopal, India which killed and sickened thousands demonstrates the potential risk posed by these facilities. To date, the chemical sector in the U.S. has resisted efforts to impose security regulations on their production, but many of them have adopted relatively strict security policies on their own, in a form of self-regulation. The transportation sector, particularly airlines, have of course already been subject to increasingly stringent regulations. Many companies have shown themselves to be quite willing to partner with government, especially in the U.S., to provide information to assist in security measures, such as sharing customer lists. Finally, another significant role for the private sector is in developing new technologies that will help detect and prevent attacks. New screening technologies, for instance, have already been developed for the travel industry. The Pentagon began directing money towards the technology sector some years ago, and the CIA has a venture fund called In-Q-Tel to support innovation in relevant areas.

A number of people have begun calling for the development and institutionalization of public-private partnerships to combat the threat of terrorism. Dean Alexander, in his recent book *Business Confronts Terrorism*, points out how the need to deal with terrorists has pushed government to assist industry, and industry to assist government, in a symbiotic relationship that is not without some tension. (Alexander 2004) In an article on "Business versus Terror," Rothkopf points out that public-private cooperation has been inadequate so far in the U.S., and therefore "a vital resource in defending the nation remains underutilized." (Rothkopf 2002)

The arguments for a public-private partnership in the war on terror mesh well with recent interest in engaging the private sector in conflict prevention. But despite the incentives for integrating industry into both peace building and anti-terrorism, the long term consequences of the war on terror may ultimately undermine many of the goals of conflict prevention. The war on terrorism is a return to "high politics," though without the state-centered focus of the past. This may mean that "low politics," including foreign policies that facilitate foreign investment, may be given a lower priority by governments. Certainly the decline in foreign direct investment worldwide over the last two years reduces the possibilities for corporate conflict prevention. Host societies may become increasingly suspicious of foreign investors and place barriers and restrictions on their operations in the name of security (though this has occurred more in the U.S. than elsewhere). The fight against terrorism itself is already putting a costly burden on producers everywhere, but especially in regions on instability. We may see less commitment to the norm of transparency and more efforts to increase secrecy, and this might affect the ability of corporations to engage in public reporting and local community dialogue. A number of companies have already expressed concern that publishing information about, for instance, their toxic releases might provide terrorists with the information to pinpoint facilities that could then be targets of attack. On the other hand, the effort to sever the link between legitimate business and terrorist financing may actually promote more extensive regulation and self-regulation in this area.

The Future of Corporate Conflict Prevention

Do corporate conflict prevention initiatives actually reduce the potential for conflict? We do not yet have sufficient evidence to make a judgment about their effectiveness. There is no reason to think that widespread adoption of conflict management policies by corporations would not be helpful, and certainly some initiatives, such as the Kimberly process for diamond certification, appear to have reduced financial resources for continuing conflict in west Africa. But there exist a number of barriers to widespread adoption of corporate conflict prevention that make it difficult for companies, host governments, and activists to pursue this strategy successfully. While numerous persuasive arguments have been made that such policies are in the long-term best interest of corporations, not all company managers are persuaded. Most still operate in a short-term world where the added costs of conflict management outweigh the benefits. There are few immediate political benefits from engaging in anti-corruption efforts, transparency, or local dialogue. For instance, BP stood alone when it published figures on its payments to the Angolan government, and other oil companies and the Angolan government condemned its public reporting. The costs of conflict itself often do not fall on the private sector; after all, foreign investors always have the option to withdraw entirely from politically difficult situations. Government policies so far provide few incentives for positive action by companies, although some are now considering what they might do. (Banfield, Haufler, Lilly 2003).

One of the key barriers to private sector action is of course the host governments, which resist outside interference in their affairs. Many governments have only limited sovereignty, and activist foreign investors may undermine their legitimacy in ways that simply exacerbate instability. Intervention from outside, as Cerny argues (this volume), can create backlashes that further destabilize the environment. It is host governments that have regulatory power over companies, and in response to challenges from the private sector, they can withhold their license to operate in the country. Attempts by private sector actors to contribute to local community development, protect human rights, redistribute resources, or resolve divisions within and between societies have been beset with unintended side effects, insufficient expertise, and accusations about the lack of accountability and illegitimacy of the firms. While it may sound positive to have companies engage in conflict prevention activity–and it certainly sounds bad to have them ignore the impact of their operations on local politics– an official policy of encouraging this may give them license to intervene more directly in host country politics, which may pose more problems than it resolves.

Some of the activist groups that are committed to humanitarian causes remain ambivalent about the corporate presence in developing countries. For many of them, corporations remain a source of political division and grievance, and nothing they can do will ameliorate the negative externalities they impost on host societies. It is not clear that activist NGOs and corporations have much room to reach a consensus on what action to take, and what would be the indicators of success. While the possibilities for corporate conflict prevention are of great interest, there is a possibility that they will go unrealized.

Nevertheless, the international community appears to be inching its way, step by step, towards promoting a more significant role for corporations in the politics of states that have failed to meet the standards of democracy, transparency, respect for human rights and the environment. This is not to say that corporations are free to intervene directly in the political process. There is still a strong prohibition against, for instance, allowing a company to undermine or overthrow a government. Foreign investors who financially support one political party over another in a democratic system are still regularly condemned (in both developed and developing countries). The intervention proposed here is more indirect and generally accomplished in partnership with actors that have more legitimacy in this realm, such as governments and international organizations. These partnerships would have been unthinkable a few decades ago.

Theories of international relations and international political economy have relatively little to say about the trends and challenges discussed in this chapter. The traditional literature on security has been supplemented by a literature on the “new” security agenda, but this new literature has not done a good job of theorizing a role for corporations. The extensive empirical work on conflict certainly provides us with a better understanding of civil war and instability and the contributions of resource wealth to societal breakdown. Neither of these, however, has engaged directly the literature on conflict prevention, which is a more policy-oriented topic.(Crocker, Hampson, and Aall 2001) International political economy has provided us with a way to understand the many facets of globalization, although the scholarly debate over its character, extent and effects has not reached any consensus.(Hirst and Thompson 1995; Keohane and Nye 2000; Stiglitz 2003) This literature also does not wrestle particularly well with the place of multinational corporations in theory and policy. Recent theorizing in a constructivist vein about transactional activist networks and norms provides us with a framework for understanding some of the dynamics of this new agenda, but do not provide answers to some of the practical questions we have about how norms may be transferred by activists to the business community, and how those might interact with other opposing interests and norms.

The dominant motif of the globalization debate has been the power of corporations and the declining capacity of the state. (Strange 1996; Greider 1997; Derber 1998; Korten 1995) Liberal policymakers have promoted a minimal role for governments. Many critics decry the weakened authority and ability of governments even as pro-market enthusiasts trumpet the ability of the private sector to be innovative, efficient, and forward-thinking. All of these ideas point us towards the business community as both the source of and solution to current problems, bestowing upon them a certain legitimacy even when they act outside of their traditional market role. (Cutler, Haufler, and Porter 1999)

The idea of corporate social responsibility has been adopted by a wide array of actors in a transnationalized political community. The end of the Cold War and a global war on terrorism provide the space for ideas and options to considered today that would not have been possible previously. In a seemingly more complex political world, the idea of involving the private sector in areas previously reserved to the state may spread rapidly among policy entrepreneurs, and become a focal point for action. (Schelling 1978; Avant 2000; Finnemore and Sikkink 1998) As this trend has expanded in recent years, participants could easily believe it is a logical extension to move from environmental and labor standards, where most of the action is now, to human rights, corruption, equity, and conflict. Note that this is not about seeking to redefine or reconstitute the capitalist system itself, unlike the claims and demands of many of the anti-globalization activists. (Berejikian and Dryzek 2000) The participants are simply redefining behavior at the margins by shifting the focus from corporations as the source of problems, to corporations as the potential source of solutions.

The evolution of expectations regarding corporate behavior in foreign countries seems to have taken much of the private sector by surprise, although the change did not happen overnight. Experts and activists alike now propose higher standards for corporate conduct, expecting them to behave in ways that promote wider normative goals, such as social justice and equality. (Kapstein 1998/99) At the moment, most proposals are still for voluntary action. In the future, will the world community consent to stronger restraints on global corporate behavior? Multilateral investment agreements have failed in the past, for a variety of reasons, and do not appear to be any closer to being concluded than in the past. Narrow agreements are more possible, such as the Kimberly process for diamond certification. In some ways, these authoritative and traditional legal instruments should be welcomed by the corporate community. The hope is that they could establish clear and stable expectations that would have an authority and legitimacy that purely voluntary actions would never have.

The idea that the private sector could contribute to human rights protection, democratization, and the elimination of corruption turns our notions of world politics upside down. States are supposed to be sovereign and in charge. They are the central actor in world politics, especially on issues of war and peace. Private interests are traditionally viewed as selfish and uninterested in the impact their operations may have on social and political divisions within society. Many people equate globalization with the growing power of multinational corporations. They also equate it with the increasing division of the world into haves and have-nots, exacerbating local and international points of contention. Globalizers believe that economic interests have become so strong that markets replace politics at home and abroad. On the one hand, corporations cannot legitimately perform the functions of governments, and should not be asked to do so. But on the other hand, in dire situations, there might be no other actor able to intervene effectively.

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[1]. The sharpest downturn in inward FDI was in the U.S., U.K., and the Netherlands. The unstable or failed states of concern here generally received little FDI to begin with, and their declines were not quite so dramatic.(UNCTAD 2003)

[2]. Norms are typically defined as “collective expectations for the proper behavior of actors with a given identity.”(Katzenstein 1996 p.5) The whole idea of corporate social responsibility is an attempt to reshape collective expectations about the proper behavior of multinational corporations..(Haufler 2001)

[3]. The divestment option is still clearly on the table, however. The international community has put extensive pressure on companies to withdraw from Burma, for instance, where a brutal dictatorship rules.

[4]. The head of the International Criminal Court has declared an interest in investigating the ways in which corporations took advantage of the conflict in the Democratic Republic of the Congo to exploit its natural

resources. The U.N. Commission on Human Rights has also declared a similar interest. A number of businesses in the financial sector, in response to criticism, recently adopted the so-called "Equator Principles" which deal with responsible investment behavior.

[5]. Initially only a handful of companies participated in the early negotiations, but more have now joined, and a number of other governments have also either joined or expressed some interest in joining.

[6]. Political risk assessment examines how political factors will affect the local operations of an investor in a particular country. Conflict impact assessments examine the other side of this–how those operations affect local politics in ways that may increase political risk. (Anderson and Zandvliet 2001)

[7]. A similar code also was established for American companies investing in Northern Ireland, called the McBride Principles. These are intended to foster religious tolerance and equality.

[8]. Cavanagh and Broad are not entirely certain whether this qualifies as a full-fledged social movement, given the diversity of its aims and membership.(Broad and Cavanagh 1998)

[9]. Not all of these criteria are what would be considered "progressive." While the social screens that eliminate gun manufacturers and known polluters from an investment portfolio have received a lot of attention, there are also screens based on religious preference, or objections to abortion and family planning.

[10]. Duffield argues this is a radical project on the part of the North–the incorporation of conflict resolution and societal reconstruction within aid policy entails a transformation of society and a new form of global liberal governance.(Duffield 2001 p.2)

[11]. The Millennium Development Goals adopted by the UN General Assembly in 2000, and endorsed by the multilateral development banks, do not directly mention any issues related to the political efficacy of regimes. It is in the implementation of programs to achieve these goals that institutional capacity becomes a leading factor.

[12]. The resource curse is often linked to the "Dutch disease," in which the sudden vast development of one resource for export leads to an increase in the exchange rate, which makes other sectors uncompetitive, and weakens fiscal discipline. The country becomes progressively more dependent on that one resource. The Dutch suffered this problem in the early 1960s, in developing its natural gas resources.

[13]. The character and extent of sovereignty from Westphalia onwards has become a subject of intense scholarly debate. See, for instance, (Krasner 1999)

[14]. In a recent speech to the Business and Human Rights Roundtable, Mary Robinson commented that "business leaders were unsure about where their responsibilities for human rights begin and end. They were concerned that by expressing their commitment to international standards such as the Universal Declaration of Human Rights, they would be going beyond their proper role."(Robinson 2003)

[15]. States in the developing world have spoken out against any intervention at all, even in a humanitarian crisis, since they know that it is the powerful states of the North that probably would be doing the intervening in the South–and not vice versa. China, India and Brazil have been particularly vocal on this point.

[16]. BP made a commitment to fiscal transparency by publicizing the signature bonuses it paid in Angola. The company has made a strong commitment to increase the amount of information it provides publicly about its operations, and to put in place systems to prevent corruption and bribery by its employees.(Christiansen 2002) As a result of publishing those bonuses, however, the company stirred up controversy in Angola, among other oil company partners, and among those who criticize the payment of signature bonuses as a form of corruption itself.

[17]. The US commitment to the Foreign Corrupt Practices Act is being tested today by a major investigation of US companies involved in competition for oil contracts in the Caspian region.(The Economist 2003) For more details, see also (Tsalik 2003) It will be tested even more in the bidding for contracts to rebuild Iraqi oil facilities. The entire process of contracting out for the rebuilding of Iraq will

be subject to extreme scrutiny, but the likelihood of corruption is high. Recently, Transparency International challenged oil companies planning to operate in Iraq to publish what they pay.

[18]. One innovative initiative is the new NGO TRACE–"Transparent Agents and Contracting Entities"–an organization which has established strict standards for anti-corruption through due diligence regarding intermediaries to transactions. These include sales agents, suppliers, contractors, and consultants who are essentially certified as to their integrity.

[19]. George Soros, wealthy financier and philanthropist, funded the launch of the Publish What you Pay Campaign.

[20]. British Prime Minister Tony Blair put forward the Extractive Industry Transparency Initiative at the 2002 World Summit on Sustainable Development in Johannesburg. Other governments have joined the campaign, including Italy, Norway, Indonesia, the Central African Republic, France and South Africa. A number of NGOs, the World Bank, and the UNDP have also become involved.

[21]. The intent was to head off corruption and conflict, though the government of Chad almost immediately used signing bonuses from the oil companies to purchase arms.