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The role of multinational corporations in conflict-affected  
countries - The case of El Salvador

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## **Abstract**

The aim of this thesis is to examine and elaborate the role of multinational corporations and investment in conflict-affected environments, in the phase of post-conflict reconstruction. Throughout the thesis, the concept of peace-building, process of economic liberalization and relation between peace-building and economic recovery are analyzed. The concept of multinational corporations and foreign direct investment, its impact on fragile states and the connection between multinational corporations, conflict and development are discussed as well.

In order to answer the research question of the study whether multinational corporations have a positive impact on peace-building in post-conflict environments, the case study of El Salvador is analyzed, referring to conflict which lasted for more than a decade.

This thesis finds that the role of multinational corporations and investment in conflict-affected environments is of great significance by having a positive impact on post-conflict environments, prevention of conflict revert and enhancing peace sustainability. Nevertheless, due to its predisposition to be capable of both enhancing and aggravating complex situation in conflict-affected regions, there is no unique solution and prescription that could be generalized and applied in different contexts. Regardless, within its social corporate responsibility programs it is shown that multinational corporations may have a significantly positive impact on the environment and society where they operate, especially in those societies encountering post-conflict phase.

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## Introduction

This thesis aims to provide an insight into the role of multinational corporations in conflict-affected countries – The case of El Salvador. The overall purpose of the thesis is to provide the reader with an overview of the background of the study.

The theoretical framework aims to provide an insight into the most important details of establishing and maintaining peace in conflict-affected environment during the post-conflict phase through multinational corporations, private sector, and investment. When it comes to conflict affected countries, the main aim is to encourage peace-building, stability and justice in such situations. The main sources of fragility are the high unemployment rate and the lack of economic opportunities. Therefore, when considering reconstruction of economy in conflict affected countries and region, the development of private sector is considered to be a crucial point in such cases. Thus, it is important to elaborate factors that contribute to economic development in such a context as well as society and peace stability. Theoretical framework regarding peace building, economic globalization, multinational corporations and investment, will be provided. This will be done by providing several explanations of different theorists. For instance, Galtung<sup>1</sup> was the first to elaborate the notion of peace-building, while Banifield, Gündüz and Killick<sup>2</sup> advocate the importance of including corporate social responsibility within the processes of peace-building. Furthermore, Richmond<sup>3</sup> also discusses liberal peace, while Collier<sup>4</sup> elaborates theory for identifying rules and models for the society development, and based on the studies done by him and his collaborators, discusses the great influence of inequality and poverty on conflict. With regard to inequality and its impact, the elaborations of Milanović<sup>5</sup> and Džuverović<sup>6</sup> who discuss its influence and importance, are also mentioned. That is also a significant segment of the thesis since it reflects the connection between inequality,

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<sup>1</sup>Galtung, J. (1996), *Peace by peaceful means: Peace and conflict, development and civilization*,: Sage, 112

<sup>2</sup>Banfield, J., Gündüz, C., & Killick, N. (2003), Oslo: International Peace Research Institute; London; Thousand Oaks, CA *Local business, local peace: The peace building potential of the domestic private sector*. International Alert: London

<sup>3</sup>Richmond, P.O., (2011), *A Post-Liberal Peace*, Routledge, New York

<sup>4</sup>Collier and others, (2003), *Breaking the Conflict Trap*, Civil War and Development Policy, p.53

<sup>5</sup>Milanovic, B., (2012), *Globalization and Inequality*, Edward Elgar Publishing Limited, UK

<sup>6</sup>Džuverovic, N., (2012), "Reducing Economic Inequalities as a Precondition of Peace: The Case of Latin America", PhD thesis, Faculty of Political Sciences, Belgrade

impoverishment and peace stability. Paris<sup>7</sup> argues negative impacts of economic and political globalization on peace stability, while Gerson<sup>8</sup> elaborates the importance of economic opportunity and employment in order to maintain effective peace treaties, and decrease impoverishment and inequality. Barbieri defines the notion of multinational corporations, while the importance of foreign direct investment to the process of development is elaborated in the World Bank studies. On the other hand, Gissinger and Gleditsch<sup>9</sup> elaborate criticism indicated by several development theorists regarding a negative impact of foreign investment, but nevertheless suggest that there is a connection between conflict, multinational corporation investment and development.

The aim of this thesis is to determine the role of multinational corporations and foreign direct investment in conflict affected countries. The main focus is centered on determining the impact of multinational corporations on post-conflict reconstruction and its effect on society. Through theoretical framework and findings from the case study of El Salvador, the overall objective of this thesis is to answer the following research question: Do multinational corporations have a positive impact on peace-building in post-conflict environments?

This thesis is divided into two main sections. After introducing the reader to the starting point of this thesis, to its purpose and design, the problem definition is defined, the research question and the aim of the research are discussed, and the research design is described. Theoretical framework that is literature review, which will be divided into two subsections, will be elaborated in section one. The first subsection will elaborate peace-building and economic globalization which will comprise and elaborate three subsections; the concept of liberal peace-building, economic liberalization and inequality, and the connection between private sector, peace-building and reconstruction. The second subsection will focus on multinational corporations and foreign direct investments, and will also comprise three subsections; the concept of multinational corporations and foreign direct investment, the impact of multinational corporations and foreign direct investments on developing countries, and the connection between multinational corporations, development and conflict. Furthermore, the second section will elaborate the case

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<sup>7</sup>Paris, R., (2002), "International Peacebuilding and the 'Mission Civilisatrice'," *Review of International Studies*, British International Studies Association: 28, pp. 637-656

<sup>8</sup>Gunduz, C., Banfield, J., (ed.) & Killick, N. (ed.), (2006), *Local Business, Local Peace: the Peacebuilding Potential of the Domestic Private Sector*, *International Alert*, London p. 4

<sup>9</sup>Gissinger, R. and N.P. Gleditsch (1999), "Globalization and conflict: Welfare distribution and political unrest", *Journal of World Systems Research*, University of Pittsburgh, Volume 5, Issue (2): p.327

of El Salvador, and it will also comprise and elaborate three subsections; conflict in El Salvador, post-conflict recovery, and foreign direct investments in telecommunication sector. Subsequently, summary of the thesis and conclusion will be shown, as well as concluding observations and limitations.



# 1 Literature Review

## 1.1 Peace-building and Economic Globalization

Understanding the manner in which economic globalization may influence the dynamics of civil war is more than necessary in order to terminate a violent conflict. When it comes to violent conflicts, it is of great importance to understand political and economic relationship within a global context and the manner in which inequality and power are reproduced from such a relationship. If it is not considered as such, it is less possible for strategic peace-building to occur. When discussing globalization, it could be said that globalization refers to progressive concentration of economic and political power in the global context. Multinational corporations appear to be the principal bearers of economic globalization. Within the global context, in accordance with the profit maximization principle, they coordinate production and apportion resources, and as such, consider their rapid worldwide expansion they significantly influence remolding of the global economies operations and their macroeconomic mechanisms.<sup>10</sup>

Therefore, since globalization affects and shifts political and economic power, and multinational corporations are one of the greatest bearers of economic globalization, the importance of multinational corporations should be recognized in both developed and developing states. Contemporary countries are considered to be embedded within compound sets of political and economic dependencies, as well as number of other actors, such as civil society groups and multinational corporations. Intra-states conflicts are usually seen as a consequence of such extensive set of ties, and those seemingly localized conflicts actually hinge upon resource flows that spread abroad the national borders.<sup>11</sup>

Peace-building interventions have been seen as "transmission mechanisms" of neoliberal models of the state. According to Paris by approaching "world revolution of Western liberalism", multilateral peace-building interventions refer to liberal market democracy as a primary model

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<sup>10</sup>Shangquan, G., (2000), "Economic Globalization: Trends, Risks and Risk Prevention", *Department of Economic and Social Affairs*, 2 United Nations Plaza, New York, CDP Background report no.1, p.1-8

<sup>11</sup>Smith, J., (2009), "Globalization and Strategic Peacebuilding", in D. Philpott and G., Powers, editors *Strategies of Peace* New York: Oxford University Press, pp. 247-269, p.3-4

for domestic governance. In order to do so, they: 1) support parties to include political and economic liberalization allotments into peace agreements; 2) offer technical support in constitution-writing and similar governance projects; 3) enforce economic and political conditionalities on parties as substitute for receiving financial and other support; and 4) perform governance actions in transitional states.<sup>12</sup>

Peace-building actions as well as other international activities, such as multilateral development lending and agreements regarding the global trade, have significantly influenced and supported the reproduction of neoliberal economic policies. Peace-building actions support economic liberalization by such means which refer to encouragement of economic growth as a manner of achieving violent conflict reduction as well as rapid reconstruction.<sup>13</sup>

### **1.1.1 The Concept of Liberal Peace-building**

The notion of "Peace-building" first appeared in the work of Johan Galtung in 1970s.<sup>14</sup> Within his work, he indicated that providing support to peace management and conflict resolution indigenous capacities, and accentuating violent conflict root causes, would result in creating peace-building structures which would aim to promote and encourage sustainable peace.<sup>15</sup> The end of Cold War peace-building began with approaching multidimensional tasks and other tasks regarding judicial, political, economic, and civil society institutions as well as disarmament of warring parties.

The concept of peace-building was mentioned in "An agenda for peace", which was written within the United Nations following the Secretary-General, Boutros-Ghali's 1992 report, where peace-building was described as an activity prone to consolidate peace and avert return into violent conflict.<sup>16</sup> Afterwards, the definition regarding peace-building was elaborated by numerous schools, departments, scholars, institutions and agencies, and therefore brought to

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<sup>12</sup>Paris, R.,(2002), "International Peacebuilding and the Mission Civilisatrice", pp.637-656

<sup>13</sup>Smith, J., (2009), "Globalization and Strategic Peacebuilding", pp. 247-269., p.4-5

<sup>14</sup>Issifu, A.K., (2016), "Corporate Responsibility in Peace-Building, Conflict Prevention and Development: The Role of the Mining Sector in Ghana", *Journal of Interdisciplinary Conflict Science*, 2(2). Retrieved from <http://nsuworks.nova.edu/jics/vol2/iss2/2.14/12/2017>, pp.10-11

<sup>15</sup>Galtung, J. (1996), "Peace by peaceful means: Peace and conflict, development and civilization", Sage, 112

<sup>16</sup>Boutros-Ghali, B. (1992), "An agenda for peace: preventive diplomacy, peacemaking and peacekeeping", *United Nations*, New York: pp.201-218

several diverse definitions of peace-building. For instance, according to Call and Cousens, peace-building and the operations embarked by national or international actors prone to institutionalize peace, are described as an absence of violent conflict, which refers to negative peace, and a type of sharing politics, as an element of positive peace that could be maintained in the case of the international peace actions deficiency.<sup>17</sup>

Likewise, peace-building was described by Porter as a process which includes involvement of several processes prone to; create positive relationships, meet basic needs, encourage moral agency and are democratic, support equality, respect rights, cure wounds, repair esteem, provide feelings of safety, appease differences, and which are fair and inclusive.<sup>18</sup> According to peace psychologists<sup>19,20,21</sup>, peace-building could be also seen as being prone to encounter solution for conflict resolution, decrease or terminate inequality and oppression, satisfy basic human needs, and be proactive. Peace-building could also be described as a holistic process which accentuates structural motives for violent conflicts, including formal and informal mechanisms, and recognizing the importance of business environment while creating a peace-building process.<sup>22</sup> Since economic unstableness and inequality are considered to be one of the strongly influencing factors contributing conflict instigation, we may say that economic stability and decline of economic inequality might be one of the strongly influencing factors contributing peace-building. Therefore, private sector and multinational corporations might be seen as great contributors to economic recovery and stability, and as such also contribute to peace-building and peace stability.

It is shown that variant role of multinational corporations is of great significance in peace-building processes, especially in contemporary times. As it is suggested by Banifield, Gündüz and

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<sup>17</sup>Call, C., & Cousens, E. (2007), *Ending wars and building peace*, Working Paper Series: Coping with Crisis, International Peace Academy, New York, pp.1-21

<sup>18</sup>Porter, E. (2007), *Peacebuilding: Women in international perspective*, Routledge, London

<sup>19</sup>Christie, D. (1997), "Reducing direct and structural violence: The human needs theory", *Peace and Conflict: Journal of Peace Psychology*, 3, pp.315-332

<sup>20</sup>Wessells, M. (1992), "Building peace psychology on a global scale: Challenges and opportunities", *The Peace Psychology Bulletin*, 1, pp.32-44

<sup>21</sup> Abu-Saba, M. (1999), "Human needs and women peace building in Lebanon", *Peace and Conflict: Journal of Peace Psychology*, 5, pp.37-51

<sup>22</sup>Christie, D. (1997), "Reducing direct and structural violence: The human needs theory", pp.315-332

Killick, by implementing corporate social responsibility (CSR), corporations propagate peace and conflict prevention and therefore play the role of great importance for peace-building processes.<sup>23</sup>

Similarly, Rieth and Zimmer indicate that companies positively impact conflict prevention and peace-building in the context of political order. Companies support transparency initiatives, the rule of law and human rights in conflict affected countries, by propagating peace-building via political order.<sup>24</sup>

For example, it is suggested by Christian Aid that corporate social responsibility is used as a crucial mechanism for propagating peace and human right protection by trade unions, industries, non-governmental organisations (NGOs), and multinational corporations.<sup>25</sup> What is more, corporations may also have a positive impact on peace-building processes in the context of socio-economic development. As it is suggested by Deitelhoff and Wolf, by decreasing poverty and fighting against social divisions through social actions, corporations have a positive influence on security and peace-building in terms of transforming the economies of conflict affected countries.<sup>26</sup>

Similarly, corporations positively impact peace-building in the socio-cultural context. Through education, independent media, and by creating programs on peace, development and security, it could be said that corporations significantly propagate the culture of peace.

### 1.1.1.1 Criticism of Liberal Peace-building

Actions prone to prevent the return of conflict known as a "post-conflict peace-building" have taken place in numerous affected countries since the termination of Cold War, including Mozambique, Bosnia and Herzegovina, Angola, Cambodia, Rwanda, Nicaragua, Namibia and El

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<sup>23</sup>Banfield, J., Gündüz, C., & Killick, N. (2003), *Local business, local peace: The peace building potential of the domestic private sector*

<sup>24</sup>Rieth, L., & Zimmer, M., (2004), "Unternehmen der Rohstoffindustrie, Möglichkeiten und Grenzen der Konfliktprävention, In": *Die Friedens-Warte, Journal of International Peace and Organization* 79(1/2), pp.75-101

<sup>25</sup> Christian Aid. (2004), *Submission to the office of the United Nations High Commissioner for Human Rights: Responsibilities of transnational corporations and related business enterprises with regard to human rights*, (Accessed on 12 April 2015) from [https://www.ssoar.info/ssoar/bitstream/handle/document/34782/ssoar-zfwu-2005-3-weissbrodt-Corporate\\_human\\_rights\\_responsibilities.pdf?sequence=1](https://www.ssoar.info/ssoar/bitstream/handle/document/34782/ssoar-zfwu-2005-3-weissbrodt-Corporate_human_rights_responsibilities.pdf?sequence=1) 16/12/2017.

<sup>26</sup>Deitelhoff, N., & Wolf, K. D. (2010), "Corporate security responsibility: Corporate governance contributions to peace and security in zones of conflict In": Deitelhoff, 48 Nicole/Wolf, Klaus Dieter (eds.): *Corporate security responsibility? Corporate governance contributions to peace and security in zones of conflict*, Basingstoke: Palgrave Macmillan, pp.1-25

Salvador.<sup>27</sup> According to former United Nations (UN) Secretary-General Boutros Boutros-Ghali, peace-building interventions are prone to distinguish and encourage structures which aim to reinforce and consolidate peace in order to avoid revert to conflict.<sup>28</sup> Such interventions have included a number of international actors, such as; international financial institutions, Non-governmental Organizations (NGOs) and other national and multinational actors involved in multiple operations, referring to reconstruction of infrastructure, providing financial and humanitarian aid, training and assisting the security staff and judicial officials, advising and regulating elections, refugees repatriation, and if necessary temporary overtaking the governance of the country.

As Paris states, a single paradigm-liberal internationalism- seems to be in charge of managing operations of great number of international organizations involved in peace-building process. The main focus of such a paradigm is the presumption that the safest basis for peace, within and among countries, is a market-oriented economy and a liberal democratic policy, that is, a market democracy. Nevertheless, it is shown that such a paradigm is not always a successful model for qualitative peace establishment. In fact, side effects in conflict-affected countries caused by processes of political and economic liberalization impeded the establishment of peace and in certain situations even led to revert to a violent conflict. For instance, in Nicaragua, Mozambique and El Salvador consequences of economic liberalization led to a possible risk of reverting to the conflict. In Angola and Rwanda political liberalization led to the return of conflict, and in Bosnia elections caused separations instead of reconciliation of the confronted parties.<sup>29</sup>

The liberal peace has also been seen as a framework through which Western-led agency institutions and epistemology have sought to create a hegemonic system on a global level, that replicates social, economic, and political systems and liberal institutions and norms. As such, during the last decades it has been expanded to approximately fifty to sixty developing and conflict-affected states. Therefore, it could be said that peace in such a context is more probably to be observed as a contract, rather than as a local production, or as an international gift. Thus,

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<sup>27</sup> Paris, R., (Autumn, 1997), "Peacebuilding and the Limits of International Liberalism", *International Security*, *Published by: The MIT Press* Vol. 22, No. 2, pp.54-56

<sup>28</sup> Boutros-Ghali, Boutros (1992), *An Agenda for Peace: Preventive Diplomacy, Peacemaking, and Peace-keeping*, p.32, para.55

<sup>29</sup> Paris, R., (Autumn, 1997), "Peacebuilding and the Limits of International Liberalism", Vol. 22, No. 2, p.56

when it comes to peace, governmentality and conditionality appear to be the outcome of the burst of emancipatory reasoning.

Richmond suggests that in both Central or South American and African backgrounds, there has been a prolonged debate regarding different dynamics of agency, comprising gender, inequality, socioeconomic, class and neopatrimonialism questions, when it comes to establishing the sound ground for peace-building in those contexts. Such diverse dynamics have served to point out the tensions regarding liberal peace method, as well as the outage of local actors when it comes to identifying the long-term peace. Thus, local omissions to apply the liberal peace framework were usually seen as a fault of local actors, politicians, acquisitive conduct and the deficiency of liberal peace utility comprehension affecting a certain state.

Such inefficiency of analysis grounded on the liberal peace framework occurs as a result caused by numerous reasons. It could be said that its principal restriction represents its numerous omissions when it comes to incorporating with local actors, ranging from community up to state level, and encompassing the views, histories, influences, customs, cultures, or social, political, economic system that is present, or including such a system in interlinking local and international peace operations. This has ascended because liberal peace depicts the biases of a certain group of actors, epistemic community and knowledge framework, related to a restricted set of norms, techniques, interests and institutions, acquired from these.<sup>30</sup> Nevertheless, its subjects have withstood, it has split the hegemony of liberal peace and displayed local ownership as external regulation.

In numerous conflict-affected countries, local aspect regarding focus on liberal peace project and its state-building, suggests that it has been prone to double standards, non-cultural, ethically bankrupt, relatively indifferent in terms of public services or social welfare and necessities, not really sensitive when it comes to its subjects, as well as conditional and coercive. Truly, such scantiness may even have instigated hindrance, resulting from the emergence of a local post-colonial history referring to liberal peace-building approbation of an international-local link, outlined as conductor and subjects. Yet, until now liberal peace project has not been a topic of conjunctive ethical deliberation. On the contrary, its authenticity leans on the praxis of liberal policies that are already peaceful and educed from the multinational level.

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<sup>30</sup>Richmond, P.O., (2011), *A Post-Liberal Peace*

In short, liberal peace model, according to Richmond, relies on the apprehension of liberal-internationalist idea, on international law, on liberal-institutionalism, on equilibrium between regulations and individual freedoms, and free market and democratic peace hypothesis. Therefore, these are implanted in the state and in liberal concept, through a liberal social contract.

Nevertheless, as Richmond suggests, the manner in which a notion of liberal peace-building is propagated in developing and conflict affected countries, seems to be highly challenging.<sup>31</sup> The principles of liberal peace-building such as market values, liberal human rights, centralized secular states, consolidation of societies into globalization, and liberal democracy, are not always seen to be generally suitable values.

Finally, Peace-building operations have a great influence on the environment when they occur. Therefore, questions of great significance are raised, regarding the role of international organizations in terms of seeking the best option in order to terminate civil war through propagation of specific economic and political models. In certain contexts, certain approach techniques and values might be contradictory to accomplishing durable peace. Thus, such a case might be seen when they propagate neo-liberal economic agenda, which may instigate, aggravate or hinder the reintegration of displaced people, and economic or social tensions, or where sectarian divisions and political relations are aggravated by the propagation of democracy. As Paris observes, "the process of political and economic liberalization is inherently tumultuous: It can exacerbate social tensions and undermine the prospects for stable peace in the fragile conditions that typically exist in countries just emerging from civil war".<sup>32</sup>

### **1.1.1.2 Wealth Creates Peace**

If we consider that democracies are usually opulent, then we can say that it would be hard to distinguish their influences. One refers to economically developed, strong-growing, and politically stable states, and indicates that the expense of any conflict occurred on or somewhere close to their boundaries, with another developed state, seems to be remarkably hazardous. During the history, conquering the territory was the major motive which led to numerous

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<sup>31</sup>Newman, E., Paris, R. & Richmond, P.O., (2009), *New Perspectives on Liberal Peacebuilding*, United Nations University Press

<sup>32</sup>Paris, R., (2004), *At War's End: Building Peace after Civil Conflict*, Cambridge University Press, Cambridge: p.IX

conflicts that occurred. Nevertheless, the territory of developed industrial state would not often reimburse the expenses of demolition, and issues of settling recently integrated large groups of people, caused by conflict and war.<sup>33</sup> Subsequently, the deterrence would be strongly enhanced when it comes to mutually dependent economies, which undergo great detriments reflected on both parts of territories, which would eventually hazardously affect sources of imports, markets, and investments. Therefore, reciprocal dependence also produces groups with acquired interests in further economic interchange.<sup>34</sup>

Arguments according to which opulence creates peace are strongly linked to the one that peace is created by international interests of investment and commerce as well. Nineteenth-century writers such as Joseph Schumpeter, Karl Kautsky (the Marxist), and Richard Cobden (liberal), polemicized that the mutual economic dependence network would propagate international peace. Nevertheless, imperialism protagonists such as Lenin and others conceived it differently.<sup>35</sup>

Other variable of the opulence creates peace perspective accentuating growth and development. Approximately, during the last half-century, numerous democratic states have experienced decent coherent economic development. Fast developing states may often be less prone to instigate war. Motives for that resemble to those referring the link between the absence of conflict and opulence.<sup>36</sup> Yet, a specific case could be made when it comes to the development of democracies. Countries usually become involved in international conflict in order to distract attention from their principal domestic issues. Such challenges might be hazardous to democratic governments, and they usually instigate international debates during the recessions or economic stasis. However, fast developing democracies would not face such a temptation which could eventually lead to mutual instigation of conflict.

The diversionary impacts of economic unstableness are connected to those of political ones. Countries that experience sustainable and stable political systems will not be prone to expand local inquietude, and develop it into violent conflict with other states. Furthermore, they will not be willing to involve in conflict with other politically stable countries.

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<sup>33</sup>Mueller, John. (1989), *Retreat from Doomsday: The Obsolescence of Major War*. New York: Basic Books; Shepherd, W. Geoffrey, (1986), *The Ultimate Deterrent*. New York: Praeger

<sup>34</sup>Rosecrance, Richard, (1986), *The Rise of the Trading State*. New York: Basic; Milner, Helen, (1988), *Resisting Protectionism*, Princeton, NJ: Princeton University Press

<sup>35</sup>Russett, B., (1993), *Grasping the Democratic Peace: Principles for a Post-Cold War World*, Princeton University Press, Princeton, New Jersey

<sup>36</sup>Levy, Jack S. (1989), "The Diversionary Theory of War: A Critique", In *Handbook of War Studies*, ed. Manus Midlarsky, Unwin Hyman, Boston, pp.259-88



## **1.1.2 Economic Liberalization and Inequality**

### **1.1.2.1 Market Liberalization and Development**

It is suggested by Collier and his collaborators in an insignificant research study supported by the World Bank, that the failure of economic development is the principal cause of conflict.<sup>37</sup> Those societies affected by intra-state conflicts are usually the same ones affected by poverty. Therefore, since there is a visible link between poverty and conflict, economic development could be a strong influencing factor on conflict prevention and rapid reconstruction when it comes to conflict-affected and developing states. Hence, propagating market liberalization, spreading the states access towards the world markets as a manner of propagating economic growth, is shown to be a crucial tactic for fracturing what Collier names the "conflict trap".

Controversy regarding economic growth and trade liberalization impact, imparts contradictory results, but the magnitude of modern work that appears indicates that commencing optimism regarding trade liberalization development was considerably overrated. For example, the World Bank global profits emissions from trade liberalization were decreased from \$832 billion to \$287 billion, which is approximately by two-thirds. Moreover, the proposed profits to the developing states were decreased from \$539 billion to \$90 billion, which is approximately more than 80%.<sup>38</sup>

It was indicated by the UNDP Human Development Report, that proofs which advocate the assumption regarding import liberalization instant benefits for development are feeble.<sup>39</sup> It is suggested by the trade analysis provided within the UNDP report that, even though trade liberalization may have impact on the growth and development in certain states, it seems that direct relationship between growth and economic liberalization is not shown. Hence, the significance of other variants necessary for elaborating when and how liberalization might assist

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<sup>37</sup>Collier and others, (2003),*Breaking the Conflict Trap*, p.53

<sup>38</sup> Timothy A. Wise and Kevin P. Gallagher, (2006), "Doha Round and Developing Countries: Will the Doha Deal Do More Harm than Good?" *Research and Information System for Developing Countries*, New Delhi

<sup>39</sup>*Human Development Report*(2005),*International Cooperation at a Crossroads*, United Nations Development Programme, New York: p.119

in endangering growth and when it cannot is shown.<sup>40</sup> In other words, the automatic link between the two of them is not shown. Thus, regardless of extreme economic liberalization policies and approximately doubled increase of global exports in the last decades, we may witness a great number of non-developing low-income countries endangering stability and the world peace.

Other framework that appears based on information on global tendency, regarding imports and exports, indicates that profits of commerce for impoverished states cannot by any sense be compared with the profits generated from the wealthy ones. Such an assumption might result in doubting trade liberalization as an efficient model for providing assistance to impoverished states in order to successfully avoid conflict traps.<sup>41</sup> At the same time developing countries are considerably dedicating most of their domestic resources and efforts to propagate exports, but still they have not accomplished to generate solid profits in terms of global market shares. For example, regardless of solid growth in exports approximated between 40-55%, it is shown that African states share of global markets was increased in 1990s by only 0.3%.<sup>42</sup> Likewise in India, regardless of the intermediate yearly growth of 10%, its share of global trade was increased just by 0.7%. Such a way of economic expansion may only aggravate rising inequalities among and within states.<sup>43</sup> If taking into account social and environmental costliness related to developing states raised involvement in global markets, it could be said that there is not much gain from trade in sense of expansion of resources accessible to the greatest part of population in the mentioned regions.

Since successfully maintained peace-building managements rely on constant and prognosticated economic environment, it is shown that policies relating profane and unpredictable global economy to conflict prone states are bringing multiple difficulties.<sup>44</sup> Proofs indicate coherently that the early industrialized and wealthier part of global south (that comprises mainly developing states) has received more beneficial gains from trade liberalization than the impoverished one. Hence, it seems that Collier is right to claim that antecedence must be centralized on policies that propagate peace over those that propagate development through markets.<sup>45</sup>

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<sup>40</sup>See, eg., review in Roberto Patricio Korzeniewicz and William C. Smith, (2001), "Protest and Collaboration: Transnational Civil Society Networks and the Politics of Summity and Free Trade in the Americas", North-South Center, University of Miami

<sup>41</sup>Collier and others, (2003), *Breaking the Conflict Trap*, p.6

<sup>42</sup>*Human Development Report* (2005), p.117

<sup>43</sup>*Ibid.*, p.117

<sup>44</sup>Smith, J., (2009), "Globalization and Strategic Peacebuilding" p.7

<sup>45</sup>*Ibid.*, p.9

Detailed analysis and practicable policy framework have been expanded as a result of globalization criticism, with an aim to rectify the deficits of neoliberal economic frameworks. This approach basis is centralized on the production for domestic necessities, domestic ownership and control and focuses on contexts of social and environmental nature. Such tactics might represent a way of rapidly regenerating public services and endanger economic returns that are necessary in order to avoid possible escalation of conflict. They have benefits of supporting the boost of the direct stakes which all residents would possess in post-conflict peace agreements. Therefore, while development and reconstruction might last for longer period of time, the actions of involving local population and providing any possible resources in order to support local involvement and entrepreneurship contribute to the boosting of courage and will also generate efforts and skills of local population for the benefit of peace-building process.

### **1.1.2.2 Economic Liberalization and Inequality**

On the other hand, it is shown by Collier and his collaborators that states which have experienced high inequality levels are at the highest risk of intra-state conflict.<sup>46</sup> Nevertheless, there is no specific prescription within the study for enhancing the issue of peace-building. Rather, there is an inherent presumption that the issue of inequality can be resolved by policies that promote economic development. Such a presumption might be cogent, but considering that there is a firm relationship between inequality and conflicts escalation, it would require implication of further study elaboration and examination.

Hence, if economic liberalization accelerates development and development contributes to inequality reduction, in such a situation economic liberalization represents beneficial policy framework for conflict-affected environments. Nevertheless, if economic liberalization does not achieve to contribute to impartial and just distribution of opulence, and particularly if it aggravates inequality, in such a situation the role of analysts and policy makers in post-conflict environments must be seriously reconsidered.

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<sup>46</sup>Collier and others, (2003), *Breaking the Conflict Trap*, p.4

It is shown that during the last decades of economic globalization, global inequality has been increased. Approximately half of the world revenue is managed by the wealthiest 10% of the global population, where only 5% of the world total revenue goes to the 40% of the most impoverished ones.<sup>47</sup> Such an imbalance is even broader when wealth is used as a measure instead of income. Information offered by the UNDP indicates that inequality is highly represented in the global South and moreover it is in high increase. Therefore, as such, it is hindering economic development and contributing to the raise of poverty. It is suggested in the report that inequality represents an issue to the international community, because not only does it hinder economic development and effectiveness of the market, but it also sabotages democracy and social cohesiveness which are essential prerequisites necessary to abridge the possibility that social conflicts will become violent ones.<sup>48</sup>

Since we have recognized the significance, impact and rise of inequality, we will try to further elaborate it.

As Milanović indicates, between 1988 and 2008, globalization mostly had a negative effect on societies living in post-communist countries, Africa and Latin America.<sup>49</sup> The severity of such a situation was shown through a large decrease of income in those societies. For instance, an African, who obtained median income of the continent during the 1988, actually received an income of approximate to two-thirds of global median, which until the 2008 was reduced to approximately one-half. As we mentioned, a decline in income affected the countries of Latin America and post-Communist countries as well, which indicates that those parts of the world failed to successfully adjust to globalization.

Subsequently, when discussing globalization and inequality, Milanović accentuates the difference between Globalization I, which was present during the period 1870-1914 and Globalization II which we witness nowadays. Globalization I comprised a greater movement of labor when compared to Globalization II, more humble world financial integration, and decreased share of

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<sup>47</sup> *Human Development Report* (2005), p.4.

<sup>48</sup> Sen, Amartya, (1995), *Inequality Reexamined*, Food and Agriculture Organization, 2006, *The State of Food Insecurity in the World (2006): Eradicating world hunger - taking stock ten years after the World Food Summit*, Oxford University Press, New York

<sup>49</sup> Milanović, B., (2012), "Global Income Inequalities in Numbers: in History and Now" *Policy Research working paper*; DC: World Bank, Washington, noWPS, 6259

global yield when it comes to international commerce.<sup>50</sup> Therefore, it was relatively expected that the effects of the first and second globalization would be different.

Milanović also classifies several types of inequalities, such as those between people, classes and nations. Nevertheless, when we comprise all of the mentioned inequalities, it leads us to recognize the issue which is currently of great significance and which was brought as a part of the globalization process, to which we refer as a global inequality, that is inequality among all people worldwide.

Observing the history in order to expand the picture regarding consequences which inequality bears and determining its power and influence, through the analysis of Džuverović, we can see that a high rate of economic inequality does not necessarily cause escalation of violent conflict within and between states. Moreover, it is shown through the mentioned analysis that within certain parts of the world such as Western Europe inequality rate was significantly high during the 1950s, but it was not shown to be the principal motive and cause for the outbreak of conflict. If we exclude the exceptional examples such as Guatemala within the mentioned period, we may conclude that during the period between the Second World War and the beginning of 1980s, economic inequality was prone to be seen as an additional rather than principal cause of conflict instigation within a state. Nevertheless, the extraction of broader implications regarding economic inequalities and violent conflicts cannot be based exclusively on the mentioned period, because it does not comprise extreme modification of organizational pattern regarding economic life which was represented commencing from the end of 1970s and which caused an extreme increase in global inequality.

Commencing from the mentioned period, neoliberal system became a new major and global system which started to be strongly represented as a consequence of international circumstances and expansion of new technologies. Within that period neoliberalism began to affirm the dominance of the market over society, which became its integral part. In the meantime, such a

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<sup>50</sup>Milanovic, B., (2012), *Globalization and Inequality*, (Furthermore, he suggests that global inequality may be divided in two parts. The first part or "class" component refers to the national income, which indicates that such part of overall inequality appears as a consequence of significant divergence in incomes between wealthy and poor part of the nation. When we consider all of these inequalities on a national level, it could be recognized that global inequality is strongly affected by such. Other one is considered as "location" component, which is the second component and it is regarding the divergences between incomes worldwide, that is incomes between the countries globally).

period was also seen as a starting point of global privatization followed by high deregulation and liberalization of economic life, where instead of the principals of solidarity and public good, efficiency and individual freedom were imposed as imperative. Therefore, by creating the environment in which market barriers and strictly regulated labor market do not exist and where security social networks cease to be the basis of social policy, economic inequalities become an even more significant issue, because of the created possibility for their further expansion.

Džuverović also suggests that during the last three decades internal economic inequality was increased in all states which were prone to accept such an economic model. It is shown that nowadays inequality is increased by 30% more than it was during the end of 1970s, taking into account that in certain cases such as in countries of Eastern Europe and post-Communist countries inequality is even doubled nowadays. In his analysis, he also concludes that such an extreme increase during the last three decades appeared as a consequence of neoliberal economic system whose structure and manner of functioning are adequate for high inequality rates. It is also shown that the extreme rise of inequalities besides the economic may cause other consequences, among which an increased conflict potential is also found within societies where such rise is presented.<sup>51</sup>

Cornia and Martorano suggest that in several Asian and Latin American countries, the decrease of inequality was achieved by adopting public policies regarding labor, taxation and society, even in the case of open economy. What is more, through their work it is shown that globalization and liberalization which occurred during the 1980s and 1990s instigated and broadened income inequality and instability. Subsequently, they indicate that labor absorption arise is of great importance when it comes to a decrease of income inequality, and that is shown through the example of China debunks and European economies in transition.<sup>52</sup>

Considering mentioned arguments and analysis, we can see that in the context where economic inequality is highly represented, it makes no difference whether it represents principal or additional motive for conflict instigation, without any doubt it does create space and conditions for the escalation of one. Therefore, we can note that providing economic stability and rapid

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<sup>51</sup>Džuverovic, N., (2012), "Reducing Economic Inequalities as a Precondition of Peace: The Case of Latin America"

<sup>52</sup>Cornia G. A. and Martorano B.,(2012), *Development Policies and Income Inequality in Selected Developing Regions 1980-2010*, UNCTAD, Geneva, No.210, p.28

economic recovery within developing and conflict-affected states would contribute to economic inequality decline and therefore would contribute to the stability within society, and more effective peace-building.

Subsequently, since segments of population who lack economic benefits are the same ones that could easily be mobilized and involved into violent conflict, it is of great importance for those who advocate peace-building to clearly state if those impoverished groups of population, whose number is increasing as a consequence of increased global inequality, actually benefit from the system that propagates open economic liberalization, while lacking the efforts and attempts to rectify inequality. Hence, it is indicated in the Paris's study regarding post-conflict peace agreement, that it is necessary to do more to prioritize and accentuate the issue of inequality rather than just apply the policies regarding traditional trade liberalization.<sup>53</sup>

Furthermore, it should be added that systematic diminution in the political power of laboring people together with inequality does not only sabotage the probability for durable peace agreements, but it also contributes to the exacerbation of conflict. It is suggested by Collier and his collaborators, that high unemployment conditions heighten the possibility of mobilizing combatants in intra-state conflicts.<sup>54</sup> Likewise, both empirical studies and theory regarding the effectiveness of trade liberalization indicate that employment deficiency is leastwise a fleeting outcome, since failures in globally non-competitive sectors are the consequences of a contemporary increase in exports.<sup>55</sup> So far experience indicates that the decline in employment preponderate increased employment in contemporary rising business, leastwise in the short and medium periods. If we consider that peaceful environments have difficulties to make their employment sectors acquire the necessities of the world economy, then those societies affected by civil conflict will face much greater impediments when developing policies propagate theirise of employment which they need in order to expand their markets so that they could keep up with international imports. Hence, the employment disturbance provoked by trade liberalization might enhance sustainment rather than curbing of intra-state conflicts.

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<sup>53</sup> Paris, R., (2004), *At War's End: Building Peace after Civil Conflict*, pp.200-205

<sup>54</sup> Collier and others, (2003), *Breaking the Conflict Trap*

<sup>55</sup> Thomas, C.&Trachtman, J., (2009), *Developing Countries in the WTO Legal System*, Oxford University Press, New York

The endurance and particularly the rise of inequality globally, represent grave menace to both global peace and localized peace-building attempts. They represent a menace because they sabotage the authority and legitimacy of present institutions. Taking into account that economic inequality and lack of work opportunities could facilitate mobilization of combatants into civil war, we may conclude that supporting the private sector on a both local and international level could be seen as a great contribution factor in both terms of conflict prevention and conflict reconstruction.

### 1.1.3 Connection between the Private Sector and Peace-building

From the beginning of 2000 when the first UN resolution<sup>56</sup> regarding collaboration between the private sector and UN was announced, and when Jane Nelson published *The Business of Peace: the private sector as a partner in conflict prevention and resolution*<sup>57</sup>, private sector has turned into the main attraction for both external and internal agencies looking for collaborators in durable peace-building establishment. Commencing from then, private sector actors such as domestic organizations including all sectors and sizes, commerce unions representing multiple interest, and multinational corporations, it became the principal aim to include them in peace-building operations and activities varying from those of implementing procedures regarding demobilization of fighters, up to those of centralizing the victims' necessities and the reconstruction of vanished economies.

According to Doane<sup>58</sup> and Vogel<sup>59</sup>, the reasons for involving private sectors comewith a fact that a great number of companies achievement is undermined in the context of violent conflict. Therefore, if private sector might positively influence conflict reconstruction and decrease the possibility of conflict return, and if peaceful environment might positively affect private sector operations and improve its business activities in general, then a great potential for mutual contribution could be identified.

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<sup>56</sup> United Nations, (2001), Cooperation between the United Nations and all relevant partners, in particular the private sector <http://www.un.org/documents/ga/docs/56/a56323.pdf>, 15/01/2018.

<sup>57</sup> Nelson, J.,(2000), *The Business of Peace: Business as a Partner in Conflict Resolution*, International Alert – Prince Of Wales Business Leaders Forum, London

<sup>58</sup> Doane, Deborah. (2005), "The Myth of CSR.", In *Stanford Social Innovation Review*, Leland Stanford Jr. University, Retrieved 3 December (2009), from [http://www.ssireview.org/pdf/2005FA\\_Feature\\_Doane.pdf](http://www.ssireview.org/pdf/2005FA_Feature_Doane.pdf) 19/01/2018, pp.22-29

<sup>59</sup> Vogel, D.,(2005), *The Market For Virtue: The Potential and Limits of Corporate Social Responsibility*, DC: Brookings Institution Press, Washington



Regardless of multiple attempts, states and international organizations involved in peace-building operations, based on their experience, indicate that both enhancing economic reconstruction through private sector involvement aimed to procure resources for durable peace, and including the private sector in particular processes of peace-building is not as easy to achieve as it seems.

With regard to the enhancement of economic reconstruction through private sector involvement, it is suggested by Tripathi that investors are prone to withdraw from violent contexts or post-conflict reconstruction since such situations may rarely succeed to procure sufficient security and necessary return on investment.<sup>60</sup> Furthermore, with regard to the inclusion of private sector in peace-building processes, after the achievement of specific private sector peace-building activities, attempts for the future involvement of private sector seem to be insufficient. It seems hard to expand "converted" firms, since those who were euphoric in the beginning when it comes to the enhancement of peace-building attempts, have withdrawn from further involvement, or even categorically refused to be involved in such activities.<sup>61</sup>

Nevertheless, the significance of private sector as a principal mechanism for obtaining necessary resources, skills, knowledge and institutional capability for peace-building has not been vitiated. Numerous arguments have been created to represent the explication of how, on the one side private sector requires peace in order to prosper, but on the other hand that peace requires private sector and business in order to prosper and maintain stability and durability .

### **1.1.3.1 The Private Sector and Peace-building**

A new point regarding contemporary literature refers to seeking for different manners by which business may propagate conflict; even to the limits that environments are dependent on foreign investment, states periodically involve in activities to defend private interests, both domestic and international, and most usually with an expense to local population. For instance, the example of

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<sup>60</sup>Tripathi, Salil,(2008),"Corporate Social Responsibility", In Michael Pugh, Neil Cooper, and Mandy Turner (eds.), *Whose Peace? Critical Perspectives on the Political Economy of Peacebuilding*, PalgraveMacmillan, New York, pp.85-102

<sup>61</sup>Rettberg, A., (2010), "The Private Sector, Peacebuilding and Economic Recovery – A challenge for the UNPBA", *Norwegian Institute of International Affairs Centre for International Policy Studies*, University of Ottawa, p.6

this might be described with the murder of conductors that occurred in Nigeria, by the Nigerian state forces in order to defend huge oil Royal Dutch/Shell's operations.<sup>62</sup>

As Le Billon<sup>63</sup>, Schwartz & Gibb<sup>64</sup>, and Shankleman<sup>65</sup> indicate, similar examples of how private sector impacts conflict are corrupt recompenses for obtainment of profitable arrangements and money laundering, which deviate capital from peaceful or developmental activities.

On the other hand, Rettberg suggests that private sector has been seen as a crucial collaborator in surmounting conflict, since business is able to manage and procreate capital, and since it has the power to sabotage peace-building operations, if it is managed appropriately it might also contribute to such.<sup>66</sup> Within the internal domain, private sector endorsement, in any sense, is shown to be of crucial significance for peace-building operations in order to prosper. The growth of private sector is considered to be a crucial point when it comes to economic recovery and its projects in post-conflict environments and there is a high expectation that it will produce necessary resources for creating practical and durable peace-building policies, particularly in terms of reducing external support and financing. Numerous reformations that have been suggested in post-conflict stages are proposed based on the necessity to arouse and defend inactive or initial activities of private sector. Also, because of its broad managerial knowledge, the possibility to offer jobs and invest, and also because it procures political legitimacy in order to keep up with processes of peace-building policies, private sector is considered to be a crucial collaborator in such actions.<sup>67</sup>

According to Bendell<sup>68</sup> and Tripathi<sup>69</sup>, attempts to surmount conflict rely on policymakers' capability to emphasize moral responsibility within the corporate sector by accentuating the

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<sup>62</sup>Wheeler, D., Fabig, H., Boele, R., (2002), "Dilemmas for Stakeholder Responsive Firms in the Extractive Sector: Lessons from the Case of Shell and the Ogoni", In *Journal of Business Ethics*, Kluwer academic publishers, printed in Netherlands, 39(3), pp.297-318

<sup>63</sup> Le Billon, Philippe, (2003), "Buying Peace or Fueling War: The Role of Corruption in Armed Conflicts", In *Journal of International Development*, Hodges Angola, 15 (4), pp.413-426

<sup>64</sup> Schwartz, Peter, & Blair Gibb, (1999), *When Good Companies Do Bad Things: Responsibility and Risk in an Age of Globalization*, John Wiley Publishers, New York

<sup>65</sup>Shankleman, Jill, (2007), *Oil, Profits, and Peace: Does Business Have a Role in Peacemaking?*. DC: United States Institute Of Peace Press, Washington

<sup>66</sup>Rettberg, Angelika. (2007), "Business and Peace in El Salvador, Guatemala, and Colombia", In *Journal of Latin American Studies*, University Press, Cambridge, 39(3), pp.463-494

<sup>67</sup>Rettberg, A., (2010), "The Private Sector, Peacebuilding and Economic Recovery – A challenge for the UNPBA", p.6

<sup>68</sup>Bendell, Jem, (2005), "In whose name? The accountability of corporate social responsibility", In *Development in Practice*, Oxfam, Taylor & Francis (Routledge) 15(3-4), pp.362-374

characteristics of globally responsible corporate resident and tendency of private sector to bear expenses that imply peace-building activities. Material costs, possible higher taxes, as well as higher risk and opportunity costs are considered under such expenses. Crucial decision if they will remain or they will transfer operations somewhere else is to be made by multinational corporations. Also, a peace dividend, both existing or potential, must be transferred to the private sector as a crucial stipulate for retriggering effective activity in a conflict affected state, enhancing capital recovery, and overall, for private sector peace-building to happen. With regard to this, promoting peace to business sector as beneficial task seems to be one of the principal challenges for policymakers who aim to create durable and sustainable peace.

According to Hogan, economic reconstruction as a stipulation for enduring peace has been propagated leastwise since the Second World War.<sup>70</sup> As indicated by Mills elaboration of huge foreign investment strives as the Marshall Plan to reconstruct damaged European post-conflict economy, and holds on the communistic progress.<sup>71</sup> During the last decades, international rules, models, and accords have fulfilled such matter by highly referring to the exigency for direct involvement of private sector as powerful economic component when it comes to peace-building. Nowadays it is unusual for any international accords to miss out containment of at least perfunctory credit regarding to private sector.

Several authors such as Berman<sup>72</sup>, Haufler<sup>73</sup>, Killick, Srikantha&Gündüz<sup>74</sup>, Jamali& Sherman<sup>75</sup> and others, indicate that practically the link might describe the reason why inclusion of private sector within peace-building operations is prone to procrastinate after particular verge; as it is seen in the experience of organizations and states prone to include private sector in peace-building, just those particularly specific corporations are prone to correspond. Those companies, who do become included, are considered to be:

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<sup>69</sup>Tripathi, Salil, (2008), "Corporate Social Responsibility", In Michael Pugh, Neil Cooper, and Mandy Turner (eds.), *Whose Peace? Critical Perspectives on the Political Economy of Peacebuilding*, Palgrave Macmillan, New York, pp.85-102

<sup>70</sup> Hogan, Michael J. (1987), *The Marshall Plan: America, Britain, and the Reconstruction of Europe, 1947 – 1952*, MA: Cambridge University Press, Cambridge

<sup>71</sup> Mills, Nicolaus, (2008), *Winning the Peace: The Marshall Plan and Americas Coming of Age as a Superpower*. NY: Wiley, New York

<sup>72</sup> Berman, Jonathan, (2000), "Boardrooms and Bombs: Strategies of multinational companies in conflict Areas", In *Harvard International Review* 22 (3), pp.28-33

<sup>73</sup>Haufler, Virginia, (2001), "Is There a Role for Business in Conflict Management?", In Chester A. Crocker et al. (eds.), *Turbulent Peace: The Challenges of Managing International Conflict*, DC: The United States Institute of Peace, Washington

<sup>74</sup>Killick, Nick, VS Srikantha&CananGündüz, (2005), "The Role of Local Business in Peacebuilding", In *The Berghof Handbook for Conflict Transformation*, Berghof Center for Constructive Conflict Management, Berlin

<sup>75</sup> Sherman, Jake, (2001), "Private Sector Actors in Zones of Conflict: Research Challenges and Policy Responses", *International Peace Academy*, New York, pp.1-14

1. Most often linked and contingent on external trade and network of consumers prone to castigate incorrect corporate conduct by lowering its revenue or market admittance;
2. Larger size companies, that are prognosticators of magnitude investments in peace-building operations and vulnerability to risk;
3. Creating benevolent custom preparing them to undertake responsibilities regarding peace-building, and;
4. Facing increasing expenses of operations as a consequence of violent conflict or connected political and economic convulsion.

In rigid contexts, or situations such as Zimbabwe and Darfur, where hyperinflation furnished the currency value, economic activities might regress to bartering. It is of great importance to realize that even in such situations, private sector proceeds with its activities in one way or another. For instance, the usage of informal networks grounded on confidence and affinity, funds sent by relatives from other countries usually strive to distant environments even in the period of violent conflict. Financing in terms of sending remittances seems to be crucial and effective support to great number of families, especially in the cases when external investment and official development support is not able to provide them with assistance. Such kind of financing usually funds activities which state is not capable to provide at the present moment, such as sanitation, education and health care.<sup>76</sup>

It might be said, that even though private sector might not be ruined by violent conflict as other societal segments might be, it is definitely harmed by such. Therefore, acquired actions in the prompt stage of post-conflict reconstruction are the determinative steps for framing the future of private sector and reestablishing it.

During the post-conflict period, the impact of private sector may reach above its usual and specialized influence, in generating profits and providing employment. The private sector is capable of supporting the government by reducing part of its burden and assisting when it comes to the legitimacy of the state. It is also capable of delivering tangible benefits to the broader society through investments; private sector does not only contribute to the increase of

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<sup>76</sup>Porter Peschka, M., (2011), "The Role of the Private Sector in Fragile and Conflict-Affected States", World Development Report – Background paper, July (2010) (updated April 2011)

employment but also furnishes fundamental and new services, represents innovative approaches for growth, and collects income taxes for reconstruction.<sup>77</sup> In order for private sector to accomplish such demands, establish peace and secure growth and development, it is of great significance to comprehend with clarity the interdependence that might exist between growth and development, security, state institutions, politics and private sector.

Furthermore, there are multiple examples where private sector plays a crucial role when it comes to establishing and maintaining peace-building in the post-conflict stage. Private sector is capable of enhancing strategic collaborators when it comes to peace-building, they can be directly involved in peace dialogues to impede the escalation of war or they can be indirectly involved by participating in actions which may impact negotiations. The Examples of positive impact that private sector had on peace-building, might be seen in countries such as Sri Lanka<sup>78</sup>, Northern Ireland<sup>79</sup> and South Africa.<sup>80</sup>

The private sector may as well significantly contribute when it comes to identifying principal security challenges in weak and war-torn states, by providing work opportunities to unemployed population and prior combatants.<sup>81</sup> Nevertheless, the link among justice, business sector and security, is highly complex. Without legal transparency and fundamental security, for instance undefined property rights, entrepreneurs are unwilling to invest at least in the sense of long-term periods, which sabotages economic development and disturbs provision of employment to those who need it most.<sup>82</sup> In certain situations private sector economic operations might be prevailed by large-sized family-owned businesses, which might sabotage the growth of competitive trade markets and sound competition.

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<sup>77</sup>World Bank Group's, (2005), "World Development Report", *A Better Investment Climate for Everyone*, A copublication of The World Bank and Oxford University Press

<sup>78</sup>UN Global Compact "Guidance on Responsible Investment in Conflict-affected and High Risk Areas", draft 19 February (2010), , p.10

<sup>79</sup>Gunduz, C., Banfield, J.,(ed.)& Killick, N. (ed.),(2006), *Local Business, Local Peace: the Peacebuilding Potential of the Domestic Private Sector*, p.4

<sup>80</sup>Gerson, Allan (2001), "Peace Building: The Private Sector's Role", *The American Journal of International Law*, University Press, Cambridge, 95(1): p.108

<sup>81</sup>Gunduz, C., Banfield, J.,(ed.)& Killick, N. (ed.),(2006), *Local Business, Local Peace: the Peacebuilding Potential of the Domestic Private Sector*, p.7

<sup>82</sup>PorterPeschka, M., (2011), "The Role of the Private Sector in Fragile and Conflict-Affected States"

According to Gerson, conflict settlement demands the infusion of hope and optimism based on economic opportunity and high level of employment.<sup>83</sup> Differently, weak peace treaties often tend to be unsustainable. Moreover, only private sector is able to expand new businesses, provide opportunities for investment, generate jobs and secure durable economic stability.

By the enhancement of government peace-building activities, business sector contributes by fortifying the legitimacy of the country through recording and collecting taxes and contracted services provision from public sector.<sup>84</sup> Through provision of basic services to the population from the part of private sector, a fragile state in a weak or war-torn context, might fortify its social contract and form the trustworthiness with its residents.

Ultimately, private sector impacts the entire socioeconomic strata. Therefore, it also contributes to the alleviation of socioeconomic omission which is found to be the basis of numerous conflicts and wars. This is of great significance since social omission might result in instigating the expressive political and economic affliction. Conjugated with cultural kinship, such affliction might stimulate a certain part of population to challenge the government by violent means. Such a case happened multiple times in the recent past; the Sendero Luminoso movement in Peru, the Muslim insurrection in the Philippines, the Tamil insurrection in Sri Lanka the Catholic rebellion in Northern Ireland and many others.<sup>85</sup>

In such situations private sector can contribute significantly. For instance, in the Philippines, Pglas Corporation and La Frutera Inc. created a banana plantation in solitary region, generating employment for Muslims and Christians, as well as for former combatants, hence supporting the propagation of religious permissiveness and alleviating the reconciliation among colleagues. In Sri Lanka, the representatives of regional chambers of commerce propagated joint initiatives among Sinhalese, Tamil and Muslim entrepreneurships, and also the enhancement of policies within the whole country.<sup>86</sup> The Confederation of Business Industry in Northern Ireland patronized peace operations, accentuating their values. Several business organizations created the

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<sup>83</sup>Gerson, Allan, (2001), "Peace Building: The Private Sector's Role", pp.102-119

<sup>84</sup> OECD Concepts and Dilemma of State Building in Fragile Situations: From Fragility to Resilience, (2008), ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

<sup>85</sup>Frances Stewart, (January 2005), "Social Exclusion and Conflict: Analysis and Policy Implications", *CRISE Policy Paper*, (updated April 2006), pp.6-7

<sup>86</sup>Gunduz, C., Banfield, J.,(ed.)& Killick, N. (ed.), (2006), *Local Business, Local Peace: the Peacebuilding Potential of the Domestic Private Sector*, p.5

Group of seven in order to support conflict resolution by the use of public campaigns and media.<sup>87</sup>

Therefore, we may conclude that successful operations of private sector are one of the crucial points affecting economic stability and recovery as well as economic inequality decline. Due to that, we may say that there is a strong link between private sector and peace-building as well as a great potential for mutual contribution. Even though it was shown that in certain context where liberal policies regarding peace-building might be observed as a contract which is market oriented, rather than peace oriented, private sector has a great potential to significantly contribute to sustainable peace. Furthermore, multinational corporations as one of the principal barriers of globalization and part of private sector are considered to have a crucial role in those situations.

## **1.2 Multinational Corporations and Foreign Direct Investments**

Crucial point that describes a great significance of multinational corporations and investment in world trade is an enormous increase in its size and number, which reflects qualitative change in the global economy. According to Kiely<sup>88</sup> leastwise since the seventeenth century, the existence of international economy is shown, which is founded on commerce among different nations. Since then, it could be said that the importance of international commerce started being significantly recognized and noticed as a strong influencing factor. Nation-states are the essential point in such an open economical system. They form business relations of such a system by enhancing uni-or multilateral policies referring to business in order to ease the motion of labor, goods and capital. The qualitative change regarding economy on the world level comes from the international economy to the global economy that is marked by ascendance of the flows in multinational corporations, whose activities reach over the international borders. As Chase-Dunn and Bornschier<sup>89</sup> indicate, multinational corporations are the first organizations that have attempted to organize production on the world level, and their greatest advantage represents their vision by which the entire world is observed as an opportunity for manifesting their activities, rather than focusing on their size. Distribution of goods and services, production and

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<sup>87</sup> Ibid., p.4

<sup>88</sup> Kiely, Ray, (1998), "Transnational companies, global capital and the Third World." in *Globalisation and the Third World*, edited by R. Kiely and P. Marfleet, London: Routledge, pp.45-66

<sup>89</sup> Bornschier, Volker and Christopher Chase-Dunn, (1985), *Transnational Corporations and Underdevelopment*, Praeger, New York

modification of the Global Employment Institute division in which such a distribution and production process occurs, is impacted by the centralization of decision making and control. Modifications in the employment division occur as a consequence of movement from industrialized to the developing states. Such movements regarding employment represent side effect of large rise in labor expenses, which is linked to the profits reduction.<sup>90</sup>

Kielyalso indicates that massive growth in terms of communication and transportation encouraged such a process regarding globalized economy, thus it is supposed that the development of such an economy is of great significance for the developing countries. As a part of global economy, the activities of multinational operations make a significant part of the world commerce, while their sales double the sum of the exports on the world level, which permits them to maintain a great part of the world commerce under their control. Thus, according to Bornschier, multinational corporations are seen to be the supporters when it comes to global economy.<sup>91</sup>

Therefore, if multinational corporations are considered to be a significant part of international commerce, and if international commerce impacts stability, employment and overall economy in certain country, thus we may say that the importance of multinational corporations is significant for development and stability.

According to Barbieri "the multinational corporation is a business organization whose activities are located in more than two countries and is the organizational form that defines foreign direct investment".<sup>92</sup> Such a mould is comprised of a state location where the corporation is integrated and formation of subsidiaries or branches in different states. The magnitude of multinational corporations activities in the sense of number of states in which they position their investment and operate, can definitely vary. Multinational corporations of large extent are capable of operating in multiple states, providing jobs to hundreds of thousands of people in foreign states.<sup>93</sup>

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<sup>90</sup>Schaub, R., (2004), "Transnational Corporations and Economic Development in Developing Countries", MA thesis, Soziologischen Institut Universität Zürich Philosophische Fakultät I, Zürich, p.30-31

<sup>91</sup>Bornschier, Volker, (2002), *Weltgesellschaft–GrundlegendesozialeWandlung*, Loreto Verlag, Zürich

<sup>92</sup>Smelser, N., and Baltes, P. (2001), Multinational Corporations, In: J. Wright, ed., *International Encyclopedia of the Social and Behavioral Sciences*, 2<sup>nd</sup>ed, Oxford: Elsevier Science Ltd., vol.12, p.10197

<sup>93</sup> Ibid., p.10197



Hymer indicates that when differentiating among direct investment and portfolio, corporations operate at a disfavor of international markets and thus they need to possess an outstanding competitive vantage in order to be capable of competing on a global level. Such vantages for international investments are those ones that permit corporations to develop and compete within domestic market. These annotations include significant involutions. One is that direct investment represents the development of the corporation which expands over the national boundaries and thus the corporation brings on multinational level skills and knowledge which they have already adopted on the national level. Such annotation represents the fundamental ground for the evolutionary theory of corporation. The second annotation created by Hymer is that corporations that expand internationally, on account of their competitive sources, are prone of being prominent as well and considered to be a part of oligopolistic industries.<sup>94</sup>

Multinational corporations are capable of adapting to unpredictability in the world market. Such unpredictability comes from variations in productivity, exchange rates and politics. When multinational corporations accomplish their aims and settle their units worldwide, they might decide to withdraw the unit from one and open another one, in other location. Obviously, those activities might instigate consequences in terms of employment. Still, as Martinelli indicates there is always a chance that locations stay without certain types of plants, but to receive more advanced capital infusion.<sup>95</sup> Nevertheless, Cantwell suggests that for a long time it has been assumed that high cost locations within the developed countries attract the greatest part of foreign direct investment.<sup>96</sup> Areas such as Baden-Wuerttemberg, Singapore and Silicon Valley allure foreign investments, because of the qualitative trainings, skilled employees and high levels of productivity.<sup>97</sup>

The notion of foreign direct investment is comprised of two linked but distinctive sets of actions or themes, elaborated and described by distinctive theories and by distinctive economics branches.<sup>98</sup>

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<sup>94</sup>Hymer, S.,(1976),The international operations of national firms: A study of direct investment. Ph.D. thesis, Massachusetts Institute of Technology, Cambridge, Mass: MIT Press

<sup>95</sup>Martinelli, A.(1975), Multinational corporations, national economic policies and labor unions, In: Lindberg L, Alford R, Crouch C, Offe C (eds.) *Stress and Contradiction in Modern Capitalism*. Heath, Lexington, MA pp. 425-43

<sup>96</sup>Cantwell, J.,(1989)*Technological Innovations and Multinational Corporations*, Blackwell, London

<sup>97</sup>Smelser, N. and Baltes, P., (2001), *Multinational Corporations*, p.10202

<sup>98</sup>Lipsey, R.E., (2001), "Foreign Direct Investment and Operations of Multinational Firms: Concept, History, Data", *National Bureau of Economic Research*, NBER Working Paper No. 8665, December, p.1

Companies and individuals may own properties in different states in several possible ways. Depending on the "foreign direct investment entity" definition, it might be distinguished which of these represent direct investment and which companies are comprehended as multinational corporations.<sup>99</sup>

The principal contemporary definition regarding direct investment entity, recommended by the International Monetary Fund<sup>100</sup> for balance-of payments, and subsequently approved by the OECD<sup>101</sup>, refrain from the term of investor's control in favor of more ambiguous notion. "Direct investment is the category of international investment that reflects the objective of a resident entity in one economy obtaining a lasting interest in an enterprise resident in another economy.(The resident entity is the direct investor and the enterprise is the direct investment enterprise).The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise, and a significant degree of influence by the investor on the management of the enterprise".<sup>102</sup>

### **1.2.1 Impact of Multinational Corporations and Foreign Direct Investments on developing countries**

In order to measure multinational corporations role and responsibilities in contributing hindrance of emerging violent conflict, it is crucial to comprehend theoretical requisitions that are created about relations between the conflict, multinational corporation investment, and development. Such requisitions directly refer to questions regarding the manners in which multinational corporation investment impacts the risks of conflict in developing countries, and which factors decide if the operations of multinational corporations are prone to having a positive or negative influence on a conflict situation within the region where it operates.<sup>103</sup>

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<sup>99</sup>Ibid., p.2

<sup>100</sup> Inter-Secretariat, (1993), Working Group on National Accounts, System of National Accounts, Brussels/Luxembourg, New York, Paris, Washington, DC, Eurostat, IMF, OECD, United Nations, and World Bank.

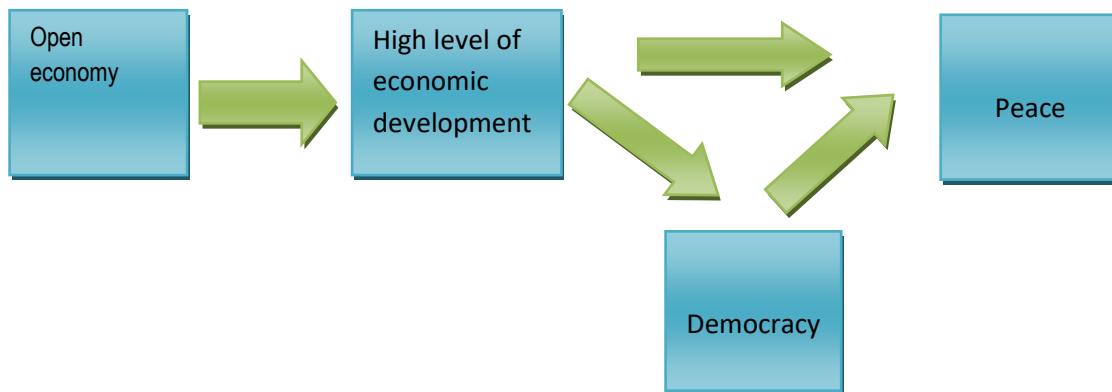
<sup>101</sup>OECD (Organisation for Economic Cooperation and Development), (1996),Benchmark Definition of Foreign Direct Investment, 3d Edition, Paris

<sup>102</sup> Inter-Secretariat,(1993), Working Group on National Accounts, System of National Accounts

<sup>103</sup>Carment, D.,"Fuelling Conflict or Financing Peace and Development?Linkages between MNC Investment, Development andConflict", a case study analysis of BP AMOCO's social policies and practices in Columbia, Country Indicators for Foreign Policy, <http://citeseer.ist.psu.edu/viewdoc/download?doi=10.1.1.188.8046&rep=rep1&type=pdf> 01/03/2018. p.22

As Gissinger and Gleditsch<sup>104</sup> indicate, it is shown that there are two fundamental views regarding the interconnection at a macro level between the conflict, multinational corporation investment and development. When it comes to the first interpretation, there is the liberal contention that foreign direct investment and raised commerce arouse human and economic development, which leads to fortified democracy, and sustained stability and peace.<sup>105</sup>Such a theory indicates that globalization and related raise in commerce and investment are apt to have a positive effect to peace-building.<sup>106</sup> The principal hypothesis of the mentioned theory is shown in the following graph (Figure):

*Figure 1 The liberal model of linkages between economic liberalization, prosperity, democracy and peace*



Source: (Gissinger&Gleditsch, 1999, p. 333)

Proofshown in the analysis done by Gissinger and Gleditsch<sup>107</sup>which appear to sustain thestatement prone to participate in international commerce, are also prone to sustain a long-term

<sup>104</sup>Gissinger, R. and N.P. Gleditsch (1999),"Globalization and conflict: Welfare distribution and political unrest", p.327

<sup>105</sup>Levy-Livermore, A., (1998), Handbook of the Globalization of the World Economy, *Department of Economics, University of Wollongong*, Edward Elgar Publishing Inc.Australisa

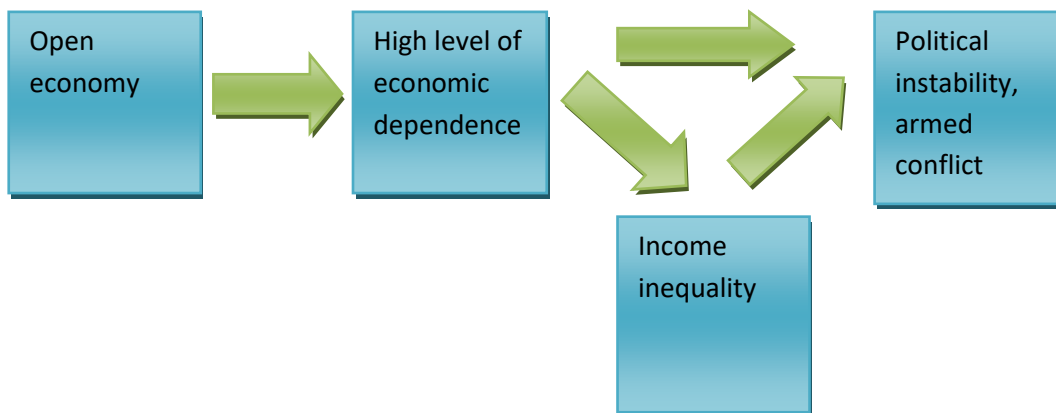
<sup>106</sup>Gissinger, R. and N.P. Gleditsch (1999),"Globalization and conflict: Welfare distribution and political unrest",p.334

<sup>107</sup>Ibid., p.329

peace. Nevertheless, the positive influences of commerce are largely contingent on the type of traded products; exports of manufactured products usually contribute to the increase of equality and prosperity, while exports of primary goods seem to propagate inequality and impoverishment.

Contrary to this, critics of neo-liberalism and dependency theorists advocate that high level of multinational corporations investment and market liberalization in the third world countries eternize economic subordination and sabotage development, since foreign investment is not seen as beneficial when it comes to increasing public profits, it is not prone to enhance indigenous business, it is less likely to propagate relations to other industries within the national economy, and it is prone to utilize inadequate capital-intensive technology.<sup>108</sup>

*Figure 2. The dependency model of linkages between economic liberalization, underdevelopment, inequality and armed conflict*



Source: (Gissinger&Gleditsch, 1999, p. 338)

It is shown that multinational corporation investment is capable of either being constructive or damaging power; thus, it is of great significance to precisely examine those factors that decide

<sup>108</sup> Ibid., p.335

what kind of impact multinational corporations will have on the countries and regions affected by conflict. As it is suggested by Jane Nelson,<sup>109</sup> the variants referring to the influence of multinational corporation investment in developing and unstable countries involve three principal factors: (1) the relations among actors within the region, (2) the nature of conflict, and (3) the corporation characteristics. Nelson also indicates the compounded connection among these factors, which represents actual determinant that decides the manner in which corporation impacts or it is impacted in certain context. Thus, multinational corporations role and responsibilities when it comes to the hindering of conflict in the third world countries, are highly contingent on the interaction among these three variants.

Primarily, according to Nelson, the nature of violent conflict by itself involves involutions of great importance for multinational corporation investment. If multinational corporations are prone to have a positive or negative impact in certain context, it depends partly on the motives, location of the conflict, its stage, and how these are impacted by multinational corporation activities.<sup>110</sup> Out of the three factors mentioned above, it could be said that the motives of conflict represent the factor of greatest significance, which is capable of determining the principal factors of risk referring to the influences of multinational corporations operations. Hence, it could be said that whether the corporation is prone of having a positive or negative impact primarily depends on its capability to appraise the motives of the conflict as well as the efficiency to undertake strategies in order to respond in such a situation.<sup>111</sup> Similarly, other two factors, conflict location and its stage, also represent important factors that impact the role of multinational corporations, when it comes to aggravating conflict or contributing to conflict termination.<sup>112</sup>

The most important question seems to be if multinational corporations and foreign direct investment support or impede the economic development in conflict affected and developing countries. Protagonists of international trade advocate that effectiveness, knowledge and skills of private sector enable external subsidiaries to impact economic development and improve living standards and skills of employees in developing countries. By making such a contribution to

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<sup>109</sup>Nelson, Jane, (2000), *The Business of Peace: The Private Sector as a Partner in Conflict Prevention and Resolution*, p.36

<sup>110</sup> Ibid., p.37

<sup>111</sup> Carment, D., "Fuelling Conflict or Financing Peace and Development? Linkages between MNC Investment, Development and Conflict" <http://citeseer.ist.psu.edu/viewdoc/download?doi=10.1.1.188.8046&rep=rep1&type=pdf> 01/03/2018, p.30

<sup>112</sup> Nelson, Jane, (2000), *The Business of Peace: The Private Sector as a Partner in Conflict Prevention and Resolution*, pp.44-47

developing countries, private sector plays a significant and unique role in such countries. On the other hand, critics advocate that corruptible attempts of multinational corporations to increase profits are significantly damaging social and economic fabric of developing countries. The Deficiency of a precise answer leads to unclear signals left to the policy makers when it comes to deciding how great or small amount of foreign direct investment should be permitted to enter developing countries.<sup>113</sup> Nevertheless, the influence of multinational corporations in those situations is indisputable, and has a potential to contribute to conflict resolution and economic recovery.

### **1.2.1.1 Potential Harm of FDI in Developing Countries**

It might be said that it is more or less obvious that certain subsidiaries may negatively impact the development. Multinational corporations might be detrimental to the third world countries, for proven and comprehended causes, both social and economic. Aversion towards multinationals is to a certain point natural in countries attempting to forget previous colonial experience and yet furious at the one-sided durable agreements that multinational, raw materials-extracting, corporations arranged with yielding national governments or colonial leaders.

Reactions towards multinational corporations are still impacted by the remembrance of the United Fruit Company masterful empire during the previous century which seemed to appear as a governing state within a state in certain countries of Central America. A Case study regarding corporate misbehavior was about the role of corporations in delivering the US government-engineered *coup d'état* which occurred in 1954 in Guatemala that led to termination of the presidency of Jacobo Arbenz, and instigated the extended period of political agitation within the country. The illegal hindrances done by ITT Corporation in politics of Chile during the beginning of 1970s contributed to outpouring detrimental promotion and worsening the position of the company in Chile.<sup>114</sup> Those could be examples, where multinational corporation activities definitely had a negative influence on the stability and peace within certain countries.

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<sup>113</sup> Cohen, S.D. (2007), *Multinational Corporations and Foreign Direct Investments*, Oxford University Press, New York p.179

<sup>114</sup> Ibid. p.187

Subsequently, multinationals were most often observed as a tool put within developing states by the governments of their home states to reflect political dominance and impact in other societies and environments. Contemporary aspect of both industrialized and developing countries was that moderately less developed countries would eventually suffer durable economic damage by permitting foreign corporations to embark and rule the less developed competitive market of the host states. Multinational corporations activities in developing countries usually bear deficiency of labor places, capital outflows, and unfair revenue distribution, and the ultimate influence of entrance of foreign direct investment might only lead to a greater poverty level of the most impoverished segment of population. Therefore, it could be concluded that constant and uncurbed spreading of multinational corporations within the developing countries would raise the unstableness of such environments.

The position of a host state regarding balance of payments might be negatively impacted by foreign direct investment when it comes to the external sector. Impoverished states might see a particularly hurtful decline of its already insufficient ownerships of interchangeable foreign exchange, that otherwise might be used to compensate necessary imports of capital goods such as transportation and telecommunications equipment, and factory machinery. The expenses of machinery and equipment imported by a foreign controlled subsidiary might surpass its export profits, presuming that it has some. The Return of earnings during the time by subsidiaries to their home states might be significantly greater than the worthiness of foreign exchange sent in the first place to the host states in order to form subsidiaries.<sup>115</sup>

When it comes to natural resources, it could be said that there is a depraved link between economic growth and royalty compensations in terms of payments to developing countries from a part of multinational corporations who are reducing mineral and oil resources. Gifts of natural resources in request could be internationally damaging for development and for democracy, if we consider that they are prone to hinder institutional development and crucial values that instigate the rule of law, political freedom and market-based economies, political participation, civil liberties, and protection of property rights. In Nigeria, Iraq and many other countries, the dictatorial political leaders have created a disgraceful deficiency track record because of their own usage of several billions of dollars of royalties delivered to their states that on contrary could

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<sup>115</sup> Ibid., p.188

have been used for enhancing growth, development, and programs regarding the decrease of poverty. As Catholic Relief Services indicate, the link between the expectancy and the depressing economic activities of oil-exhorting state seems to be politically volatile.<sup>116</sup>

That could represent manners in which activities of multinational corporations and foreign direct investment could endanger already unstable environments, and potentially motivate people to instigate conflict due to their dissatisfaction. Therefore, it is crucial to shift activities and strategies of multinational actors in the right direction in order to avoid its harm within the environment where they operate.

### **1.2.1.2 Potential Benefits of FDI to Developing Countries**

The fact is that a positive attitude towards the foreign direct investment gained the approval of the main international organizations (such as UNCTAD) whose principal aim is to propagate poverty reduction and economic growth in the developing countries. The only principal global economic organization managed by the developing countries, which is UNCTAD, declared in its World Investment Report for 1999<sup>117</sup> that when it comes to the enhancement of state competitiveness on the international level, foreign direct investment could play a role of great significance in terms of supporting and fulfilling the efforts of domestic companies. The Monterrey Consensus of 2002<sup>118</sup> announced the consensus of the participants at a principal conference held under the auspices of UNCTAD. It stated that the flows of private capital, especially capital infusions in terms of foreign direct investment, together with international financial stability, are crucial when it comes to complementation of development efforts on the national and international level. Foreign direct investment enhances the growth and development in a long-term period.<sup>119</sup>

Research study done by the World Bank<sup>120</sup>, states that direct investment is more favorable than unfavorable to the process of growth and development; foreign direct investment is considered to

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<sup>116</sup>Ibid., p.189

<sup>117</sup>UNCTAD, World Investment Report (1999), p.XXIV

<sup>118</sup>Monterrey Consensus of the International Conference on Financing for Development, (2002), Financing and Development, United Nations, available online at <http://www.un.org/esa/ffd/aconf198-11.pdf>, accessed April 2005. 05/03/2018.

<sup>119</sup>Cohen, S.D. (2007), *Multinational Corporations and Foreign Direct Investments*, pp.190-191

<sup>120</sup>Bitahadjimichael, Carl Aaron, and Michael Klein, (June 2001), "Foreign Direct Investment and Poverty Reduction", World Bank Working Paper no. 2613, , availableonline at



be the main element for achieving successful economic development in developing countries. The reason for this might be encountered in the fact that the basis of economic growth is effective and rapid shift and the adoption of practice which functions in its best manner across the boundaries. Since growth is the crucial element impacting the reduction of poverty, foreign direct investment is of great significance for accomplishing such an aim.<sup>121</sup> Thus, we may say that foreign direct investment definitely has the potential to provide benefits to the environment and countries where it is positioned. Especially through the economic growth, and therefore through providing more labor opportunities and improving the living standards, which will eventually lead to more stable environment and atmosphere within the residents of war-torn and developing countries, and will eventually reduce motives which could lead to the instigation of conflict.

Subsequently, we should bear in mind the fact that multinational companies owning qualitative goods and services bear with them improved technology and communication systems, administration skills, marketing astuteness, and they also provide jobs which are well paid. Due to that, multinational companies are seen as a beneficial complement to the economic growth and development at any level. Both the greatest and the worst results of such companies can be seen in developing countries, where the most suitable policy moves in such a context represent a great factor of influence and contribution, which should eventually lead to the surmounting of economic challenges. Potentially received benefits to developing countries from direct foreign investments are following: innovative technology prone to raise productivity, produce qualitative goods, decrease expenses, and improve quality control; capital infusion; advanced administration skills; raised foreign exchange profits and exports; employment provision, usually providing employees with higher salaries and trainings than those provided within the domestic companies. Secondary effects include: pushing domestic business to perform at increased level of competitiveness, incoming capital infusions brought by the accomplishment and benefits of the first investment; departure of skilled laborers from foreign subsidiaries and commencing their own business or conveying their skills and knowledge to domestic firms, as well as advanced environmental protection. Furthermore, it brings increased revenues and expended sales for domestic companies, since multinational corporations purchase services, ingredients, elements, and accoutrement from them, also in certain situations multinational corporations offer financial and technical support to domestic contractors in order to meet high standards of multinational

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<https://openknowledge.worldbank.org/bitstream/handle/10986/19600/multi0page.pdf?sequence=1&isAllowed=y>; accessed October 2004.07/03/2018, p.2

<sup>121</sup> Cohen, S.D. (2007), *Multinational Corporations and Foreign Direct Investments*, p.191

corporations.<sup>122</sup>In such a way, multinational corporations contribute to the development of domestic companies, by enhancing their working standards.

Generally, when it comes to the developing countries, foreign direct investment is seen as the most suitable form of private capital investment. Capital flows which are not considered to be the long-term ones, such as stocks and bonds, that is, in the most cases portfolio investment, as well as bank lending, are considered to be inconstant, and for that reason are not always the most reliable. It could be said that certain economic crises that ruptured emerging market countries such as Latin America and Asia, in the 1980s and 1990s, suffered numerous short-term capital outflows. On the contrary to that, foreign direct investment capital flows involve a durable allegiance to a host state, and their trade decisions rely on long-term commitment. This partly occurs since great amounts of capital are invested, and the existing fact that invested capital in terms of assembly lines and buildings cannot be easily withdrawn in case of a certain negative shift within the country, without high costs. Compared to bank loans, foreign direct investment inflows possess a redundant vantage of not causing the debt. What is more, this was indicated within the research study of Brookings Institution that was examining the question if developing countries might have sufficient benefits from unregulated capital infusions in order to counterbalance the risk, and the answer seemed to be firmly positive when it comes to foreign direct investment.<sup>123</sup>

It is shown that foreign direct investment has a great potential to contribute to growth and economic recovery. Development and economic growth strongly impact people's lives by providing more labor opportunities, education, better living standards, and overall stability within developing and conflict-affected countries. If we consider that impoverishment is one of the principal reasons which could motivate people to instigate a conflict, it could be said that economic growth and stability, as well as the factor of their contribution, are one of the crucial points which require high attention especially in war-torn societies.

## **1.2.2 Connection between the Multinational Corporations, Development and Conflict**

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<sup>122</sup>Ibid., pp.191-192

<sup>123</sup>Barry P. Bosworth and Susan M. Collins, (1999), "Capital Flows to Developing Economies: Implications for Saving and Investment", *Brookings Papers on Economic Activity*, Brookings Institution Press, Washington 1, p.165

According to Gissinger and Gleditsch<sup>124</sup> there are many debates centralized on the question if economic liberalization process and consolidation propagate sustainable growth and peace, or if it engenders inequalities that increase probability of unstableness and the emergence of violent conflict. Such controversy has been deeply examined during the last decades, since violent conflicts have emerged in most parts of the developing countries.<sup>125</sup>As we have already mentioned, multinational corporations and foreign direct investments are prone to both, benefit and harm the environment where they operate and position their investments, since every environment, especially conflict affected societies and developing countries, require development of operating strategies and high level of caution in such contexts in order to have a positive effect.

In the meantime, as Schwartz and Gibb<sup>126</sup> indicate,a massive expansion on a global level of multinational corporations has changed the perspective regarding the responsibilities and the role of international investors in developing countries. Even though numerous developing countries currently support foreign direct investment as a manner of boosting the economic development and funding human development, a great number of multinational corporations have been strongly criticized when it comes to economic, political, environmental and social influence related to their activities.<sup>127</sup>Gissinger and Gleditsch<sup>128</sup>,development theorists who do not support neoliberal policies, advocate that global distribution and production activities of multinational corporations are most probably prone to aggravate foreign and national differences and worsen the overall situation, since governments worldwide festinate to allure foreign investments by debilitating environmental standards and work regulations. Those are some of the situations where multinational corporations and their investments could negatively impact societies in which they operate, since they could possibly endanger basic human rights of the employees and instigate frustration among people due to such an abuse of basic human rights.

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<sup>124</sup>Gissinger, R. and N.P. Gleditsch, (1999),"Globalization and conflict: Welfare distribution and political unrest", p.327

<sup>125</sup>Carment, D.,"Fuelling Conflict or Financing Peace and Development?Linkages between MNC Investment, Development and Conflict"a case study analysis of BP AMOCO's social policies and practices in Columbia, Country Indicators for Foreign Policy, <http://citeseer.ist.psu.edu/viewdoc/download?doi=10.1.1.188.8046&rep=rep1&type=pdf>, 10/03/2018. p.10

<sup>126</sup> Schwartz, P., and Gibb, B. (1999),*When good companies do bad things: Responsibility and risk in an age of globalization*, p.6

<sup>127</sup>Willets, P., (1998),"Political Globalization and the Impact of NGOs upon Transnational Companies" in Mitchell, J.V. (ed.)*Companies in a World of Conflict: NGOs, Sanctions and Corporate Responsibility*,(London. RIIA, Earthscan Publications Ltd), p.209

<sup>128</sup>Gissinger, R. and N.P. Gleditsch (1999),"Globalization and conflict: Welfare distribution and political unrest", pp.334-337

On the other side, due to its positive influence on economic growth, private sector could indirectly affect social and political stability within a certain country and among people, by eliminating multiple motives for discontent. In other words, if we consider that impoverishment is one of the principal causes for human's frustration and conflict instigation, then if a certain developing or conflict-affected country is prone to achieve economic growth and recovery, and provide employment and economic security to its citizens, then people's discontent and chances of causing conflict instigation or reverting to conflict could be significantly reduced. Therefore, we may note that private sector as well as multinational corporations and foreign direct investment could be significant contributors to the improvement of social and political stability. What is more, we should acknowledge that such a transforming perspective mostly represents a reaction on expanding the gap among foreign direct investment flows and official development assistance (ODA), from the industrialized countries to the undeveloped ones.<sup>129</sup> Even though numerous multinational corporations do not seek to earn from the war-related operations, their activities are capable of impacting and being impacted by the violent conflict.

Gissinger and Gleditsch<sup>130</sup> indicate that it is of great significance to bear in mind those theories regarding the link among development, conflict and multinational corporations investment, that represent a crucial point for numerous academic disputations. The World Bank indicates that violent conflicts do not only endanger security on the national and international level, they also impose durable harm to national economies and endanger the process of growth and development. The demolition of infrastructure, the sabotage of commerce links, and loss of human life and capital is annihilating. Furthermore, such conflicts bear numerous consequences regarding military, societal division, broad displacement of people, and also extinguish capability of institutions. Thus, it has become evident that high criminal and political violence might lead certain developing countries and regions to a durable condition of poverty or disruption of economic development.<sup>131</sup>

Finally, we may note that there is a strong relationship between multinational corporations, economic growth and conflict. Since multinational corporations have a potential to positively or

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<sup>129</sup>Carment, D., "Fuelling Conflict or Financing Peace and Development? Linkages between MNC Investment, Development and Conflict", <http://citeseer.ist.psu.edu/viewdoc/download?doi=10.1.1.188.8046&rep=rep1&type=pdf> 10/03/2018, p.11

<sup>130</sup>Gissinger, R. and N.P. Gleditsch, (1999), "Globalization and conflict: Welfare distribution and political unrest", p.328

<sup>131</sup>Carment, D., "Fuelling Conflict or Financing Peace and Development? Linkages between MNC Investment Development and Conflict" <http://citeseer.ist.psu.edu/viewdoc/download?doi=10.1.1.188.8046&rep=rep1&type=pdf> 11/03/2018 pp.14-15

negatively affect development and social stability, we may say that they also have the power to affect the final outcome with their actions. In the case of their negative influence on the environment where they operate, the consequence could be endangerment of basic human rights and discontent of people which could eventually lead to conflict instigation. Nevertheless, in the case of their positive influence, the result of their activities could be a great contribution to social and political stability, contentment of people, economic growth and stability, and finally reduction of chances and motives for conflict instigation.

## 2 The Case Study of El Salvador

### 2.1 Conflict in El Salvador

El Salvador is one of the most populated and smallest countries of Latin America, which was lacerated by acute military and social conflict from the beginning of 1980s, together with the other countries within the region.<sup>132</sup>

The root causes of conflict in El Salvador concern economic and social structures that were especially emphasized in the period of colonial rule and since independence in 1821. Such unjust structures were strengthened by the export economy regarding coffee based agriculture, which during the late 1980 and in the beginning of 1990s were already highly developed. Community farmlands were abrogated by a set of legal and extralegal operations. a new system in which over 40% of the land space was controlled by so called "coffee elite" was created there. Together with coffee's raising economic ascendancy, political and economic power of coffee elite was raising as well, which eventually extended up to 96% of export value in 1931.<sup>106</sup> A Lack of employment and repression in certain manner enhanced the rebellion of the lowest agricultural class in 1932, in which was appraised that 10.000 to 30.000 people lost their lives. Rebellion was repressed by the military that emerged as a new force from the conflict, and which would control the government for great part of the following half a century in order to defend the interest of oligarchy.<sup>133</sup>

El Salvador witnessed important economic development approximately 30 years prior to civil war that was induced by auspicious elite's funds, policies regarding import-substitution protection<sup>134</sup>, and export markets. The Effects of such development involved a certain expansion of overall political image, egression of urban middle class, labor's organizations development, and the enlargement of trade and service sectors. Nevertheless, the socioeconomic status of the

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<sup>132</sup>Eriksson, J.R., Kreimer, A., and Arnold, M., (2000), *El Salvador Post-Conflict Reconstruction*, Country Case Study Series, The World Bank, Washington, D.C. p.17

<sup>133</sup>Ibid., pp.17-18

<sup>134</sup>Hopenhayn A. Hugo, Neumeyer A. Pablo, (2004), "Latin America in the XXth Century: Stagnation, then Collapse", <http://repec.org/esLATM04/up.28921.1082602077.pdf> 08/05/2018. p.14

majority of those who belong mainly to rural population could not be improved. Dealing with impoverishment and deficit of land, during the 1950s and 1960s a great number of rural populations immigrated to Honduras.

Subsequently, multiple discussions among organized labor groups, government and local population during the decade eventually resulted in highly repressive responses of the government. A coup in October 1979 derived by a junta, was not capable of holding the arising polarization. In the meantime, pressed by paramilitary organizations and security apparatus of the state, the government intensified the oppositional groups repression. Until the end of the year, practically all legal paths regarding governmental peaceful opposition had been ceased, and Farabundo Marti National Liberation Front (FMLN) set up offensive military in January 1981, portraying an intersection of leftist powers and noting the commencement of formal conflict.

The consequences of civil war led to approximately 80.000 losses of lives, and even more of those who stayed handicapped, orphaned, and maimed. Furthermore, a large part of population, approximately half a million people had to be displaced within or out of the country, where almost a million people left to the United States. The infrastructural detriment was appraised to cost up to US\$1.6 billion. The importance of this is more than evident, when considering that El Salvador population was appraised of counting roughly 5 million and the economy size during the 1990, together with a gross domestic product (GDP) was estimated to be approximately not more than US\$ 5 billion. Moreover, if the earthquake which occurred in 1986 in San Salvador is to be considered, where 1200 people lost their lives, and 300,000 of them stayed wounded and roofless as well, the overall detriment cost reached up to US\$1.2 billion, which significantly impacted the economic and human shock when conflict emerged.<sup>135</sup>

Great mistrust and polarization represented between the two leading parties ARENA and FMLN, resulted with a great society division together with deep-rooted socioeconomic cleavage referring to wealthy and impoverished part of population and significantly sabotaged the progress of democratic prone political culture. Since 1989, governments led by ARENA administration have persistently followed economic transformation process marked by liberalization and

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<sup>135</sup>Eriksson, J.R., Kreimer, A and Arnold, M., (2000), "El Salvador Post-Conflict Reconstruction", pp.18-19

privatization. Such policies have been implemented to the prior public service sector since 1996. Currently, the economy of El Salvador is one of the most excellent within Central America, and one of the most widespread in Latin America. Regardless, due to the deficiency in terms of consistent anti-poverty policies, high inequality rates and impoverishment still remain.<sup>136</sup>

Finally we may say without any doubt, that even though economic unstableness and inequality do not always have to be principal instigators of conflict, they do have a great potential to cause and instigate one, depending on the context, region and environment where they occur, and we may say that El Salvador as a country experienced multiple difficulties, where impoverishment and economic inequality led to great social tensions, which eventually resulted in violent conflict and long-lasting civil war.

### **2.1.1 Peace Agreement**

In 1992 Farabundo Marti National Liberation Front (FMLN) and the Government of El Salvador, terminated a 12- year- long civil war by signing the peace agreement, that is, the Chapultepec Accords. The Process of peace in El Salvador, has been acclaimed by the majority as a United Nations peace-building accomplishment. The effects achieved by Salvadoran peace process, which are of great significance, represent the termination of violent conflict, reforms of police and military forces, the fundamental warrants for human rights and the demobilization and consolidation of FMLN as a political party. Even though a great number of international actors was involved in the peace process in El Salvador, the United Nations had the greatest impact within the negotiations, by playing the role of a mediator. Such success has been recognized as one of the best cases of peace-building in the recent period.

Nevertheless, even after a long period of time, it seems that El Salvador still faces certain challenges. Impoverishment and social violence have negatively impacted peace stability for most part of population. The extreme implementation of neoliberal policies caused insufficient opportunities for population, and resulted in a great number of Salvadorans living abroad, and led the state to rely on remittances that are in certain manner maintaining a weak state economy.<sup>137</sup>

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<sup>136</sup> <http://www.bti2010.bertelsmann-transformation-index.de/102.0.html?L=1> 18/05/2018.

<sup>137</sup> Wayde, C. J., (2008), "El Salvador: Contradictions of Neoliberalism and Building Sustainable Peace", *International Journal of Peace Studies*, Volume 13, Number 2, Autumn/Winter, pp.15-16



The principal causes of civil war in El Salvador referred to socio-economic inequalities which were raised during the history and sustained by methodical repression of those who would intend to emphasize such an issue. Peace agreement did not amend inequalities referring to socio-economic segments that impacted the onset of violent conflict, neither did they face neoliberal economic pattern that had already been applied by the administration of the Cristiani. Instead, according to Murray<sup>138</sup> and Wade<sup>139</sup>, the economic policy was planned to be elaborated in a new democratic system, but not within the peace agreement. Nevertheless, such an outcome was accepted by the FMLN, in order to achieve a peace accord. The side effects of failure to emphasize grave issues regarding social and economic aspects or to adequately appraise the inconsistency of the neoliberal model with upholding peace have severely impacted the peace durability and stability in El Salvador.<sup>140</sup>

The underlying tension between economic liberalization and peace-building in the peace process of El Salvador, was most competently depicted by de Soto and del Castillo<sup>141</sup>, within the critical analysis regarding a link between structural adjustment reformations acquired within the peace agreement in 1992, by Cristiani<sup>142</sup> administration. Since the acquirement of two processes of peace negotiations and economic adjustment occurred simultaneously, there was a high presence of tensions or even incongruity between them. Prior to peace process commencement, numerous accords with international financial institutions (IFIs) were acquired by Cristiani Administration. Those accords were of great importance for peace process. When it comes to emphasizing the manner in which economic policy may influence peace accords, it is shown that during the peace process, a dialogue between United Nations and IMF/World Bank with such regard did not occur. Subsequently, del Soto and del Castillo have indicated that such attention, if not adequately accentuated, could sabotage the peace process. Likewise, it is suggested by Montgomery<sup>143</sup> that one of the conclusions regarding the case of El Salvador is that participation of different

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<sup>138</sup> Murray, K., Coletti, E., Spence, J., Curtis, C., Cheff, D. G., Ramos, R., Chacón, J., and Thompson, M., (1994), "Rescuing Reconstruction: The Debate on Post-War Economic Recovery in El Salvador", *Hemisphere Initiatives Reports*, Cambridge, MA: Hemisphere Initiatives

<sup>139</sup> Wade, Christine, (1999), Author interviews, October, November, San Salvador, [https://www.gmu.edu/programs/icar/ijps/vol13\\_2/IJPS13n2%20WADE.pdf](https://www.gmu.edu/programs/icar/ijps/vol13_2/IJPS13n2%20WADE.pdf) 19/05/2018

<sup>140</sup> Wayde, C. J., (2008), "El Salvador: Contradictions of Neoliberalism and Building Sustainable Peace", p.17

<sup>141</sup> Alvaro de Soto, Alvaro and Graciana del Castillo, (1994), "Obstacles to Peacebuilding", *Foreign Policy*, Washingtonpost, Newsweek Interactive, LLC, No. 94, pp. 69-83

<sup>142</sup> Alfredo Cristiani was a president of El Salvador from 1989-1994, *Strategies of Development and Transformation, History and Characteristics of Transformation*, <http://www.bti2010.bertelsmann-transformation-index.de/102.0.html?L=120/05/2018>.

<sup>143</sup> Montgomery, Tommie Sue, (1995), "Getting to Peace in El Salvador: The Roles of the United Nations Secretariat and ONUSAL", *Journal of Interamerican Studies and World Affairs*, Vol. 37, No. 4, pp.139-172

international organizations, such as InterAmerican Development Bank, World Bank, and International Monetary Fund, is necessary within the dialogues in order for economic reformations to be aligned with the peace processgoals.<sup>144</sup>

### 2.1.2 The Chapultepec Treaty

Two peace negotiations attempts were undertaken during the long-lasting civil war in El Salvador. The First attempt of negotiations,which began four years after conflict instigation, didnt lead to any significant agreement which could contribute to peace establishment and lasted for approximately 5 years. The Chapultepec peace accord represented the advantageous outcome of the second attempt, which was characterized as highly effective.<sup>145</sup>

This peace accord was comprised of four phases. The first phase represented the Geneva Treaty in April 1990, which referred to the agreement aimed to include the UN as intermediaries. The second phase, structure and procedures,which were comprised by the agreement, commenced in October 1990. Signing the New York Accords with regard to El Salvador demilitarization in September 1991, and Mexico Accords regarding constitutional reforms in 1991, was included in the third phase. Signing of the Chapultepec Treaty marked the fourth and final phase of peace negotiation.<sup>146</sup>

In El Salvador post-war period, a crucial factor, which contributed to the reconciliation, was the arrangement of the armed forces. Counter-insurgency requirements affected the rise of the army when it comes to the number of people ranging from 11.000 to 57.000 men within the time period dating from 1979 to 1989.<sup>147</sup> The Chapultepec Treaty resulted in the decrease of military influence on politics, in terms of mission, power and structure. This was primarily achieved by

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<sup>144</sup>Wayde, C. J., (2008). "El Salvador: Contradictions of Neoliberalism and Building Sustainable Peace", p.17-18

<sup>145</sup>Azpuru, Dinorah-Blanco, Ligia-CórdovaMacías, Ricardo-LoyaMarín, Nayelly-Ramos, Carlos G.- Zapata Adrián, (2007), *Construyendo la Democracia en Sociedades de Conflicto*, San Salvador: F & G Editores, Centro Internacional de Investigaciones para el Desarrollo, Guatemala

<sup>146</sup>Challenging Chapultepec, The Impact of the Peace Accords on the Democratization of Post War El Salvador, Department of Political Science , Lund University, <http://lup.lub.lu.se/luur/download?func=downloadFile&recordOId=1670347&fileOId=1670372>31/05/2018, p.17

<sup>147</sup>Bacevich, A.J., Hallums, J., White, R., and Young, T, (1988) *American Military Policy in Small Wars: The Case of El Salvador*. Washington, DC: Pergamon-Brassey's International Defense Publishers p.24

mitigating the authority of Ministry of Defense, by entrusting the task of civilian law enforcement to a new civilian police force.<sup>148</sup>

The Chapultepec peace accord is considered to be an achievement in terms of international peacemaking. It had a great success when it comes to conflict termination and peace establishment, since it could manage to determine an agreed and thorough cease-fire that all militants complied with, and to establish a strong basis for democracy transition as well.<sup>149</sup>

## 2.2 Post-Conflict Recovery

Progressively, the country headed for stabilization and post-conflict recovery. Subsequently, in 1994, FMLN achieved to become officially accredited as a political party and therefore the legitimate opposition of Arena (Alianza Republicana Nacionalista), which was the leading party. From the 1992 political stability was in progress. Regardless, even then, the country had to face certain challenges.

After peace agreement, a number of reforms were implemented. Nevertheless, the focus was divided between the improvement of infrastructure in the most impoverished parts of the country and the educational quality, since it was shown that the lack of good quality education led to deficit in employment and increase in crime rate. What is more, it should be acknowledged that reforms of the economic sector, which demand employees who are skilled and educated, are strongly related to educational reforms which are in long-term crucial when it comes to the country unemployment pattern. Furthermore, it could be said that political and economic stability will strongly hinge on the labor's capability to adapt to the demands of the modern economy, which successively oscillate in accordance with the range of education and training.<sup>150</sup> Therefore, we may say that in post-conflict phase it is crucial to enhance education, which will widen and increase employment opportunities, which could be provided in great part by private sector.

By offering improved social services, El Salvador attempted to involve great part of its residents back into the economy. The government was successful when it comes to the implementation of

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<sup>148</sup>Juhn, Tricia, (1998), *Negotiating Peace in El Sador: Civil-Military Relations and the conspiracy to end the war*, Macmillan Press LTD, London, p.4

<sup>149</sup> Paris, R., (2002), "Peacebuilding in Central America: Reproducing the Sources of Conflict?", *International Peacekeeping*, vol. 9, nr. 4, pp.39-69

<sup>150</sup>Filipov, Filip, (2006), *Post-conflict Peacebuilding: Strategies and Lessons from Bosnia and Herzegovina, El Salvador and Sierra Leone* Some thoughts from the rights to education and health <http://archivo.cepal.org/pdfs/2006/S0600690.pdf> 05/06/2018, p.29

programs aimed to reduce high crime and murder rates, which were highly present during the first years following the peace agreement, However, local issues which involve increased police presence in order to reduce high rate of delinquency and juvenile crime, remained.<sup>151</sup>

The economic development which was estimated in a trend rate of 4.3% before the conflict was hindered. A decrease in GDP proceeded until 1982, when it was appraised that a level of GDP was more than 28% beneath the one appraised in 1978. Subsequently, GDP in 1983 recommenced decent growth, but it was not sufficient to recuperate up to levels of pre-conflict until the end of 1980s. From 1978 to 1990 the GDP trend was negative, at -1.4% annually. Finally, by 1992, GDP reached its pre-conflict point that was estimated in 1978. A short-term trend growth of 6,3% was reached between 1990 and 1995, approximately 12% above the one estimated in the phase of pre-conflict in 1978.<sup>152</sup>

It could be said that the post-conflict reconstruction of economy in El Salvador was in progress. The reconstruction commenced in 1990 and proceeded through 1995, leading to the increase of real GDP up to 6,3% annually. What is more, it resulted with a properly controlled inflation. By ascending up to 32% in 1986, and 24 % until the 1990s, it was precipitously falling down to 14% during 1991. It was receded beneath 10% in 1996, for the first time in the last twenty years. Also, the share regarding private capital infusions in GDP increased up to approximately 15% in 1995. The expenses regarding the defense were also decreased, but the costs of educational and health sectors, that is to say, a social sector, were increased. The expeditious development also influenced the decrease of the national level of impoverishment. The Country Assistance Strategy (CAS) for El Salvador in 1997 declared a national increase in impoverishment level commencing from 1991 until 1995. Hence, when it comes to multiple aspects, referring to social and economic performance, it seems that it was overall positive in this phase.<sup>153</sup>

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<sup>151</sup>Organización de las Naciones Unidas, (2005), For more information about the increased levels of juvenile crime in El Salvador, please see Gonzalo Wielandt, "Hacia la construcción de lecciones del posconflicto en América Latina y El Caribe. Una mirada a la violencia juvenil en Centroamérica," in Políticas Sociales, Comisión Económica para América Latina y el Caribe, Santiago de Chile, Chile

<sup>152</sup>Eriksson, J., Kreimer, A and Arnold, M., (2000), "El Salvador Post-Conflict Reconstruction", p.19

<sup>153</sup> Ibid., p.24

### 2.3 Foreign Direct Investments in Telecommunication Sector

World Bank<sup>154</sup> has shown the existence of interconnection between the development and certain infrastructural measures within which telecommunications are comprised. The two way relation is encountered by the CEPAL<sup>155</sup>, the first one suggests that development is augmented by business telephone penetration and the second indicates that development instigates demand, which leads to residential phone penetrations. Within research which comprises data for 35 countries together with the pattern regarding an endogenous growth, conducted by Roller and Waverrman<sup>156</sup>, the existence of causal interconnections in both directions as well as rise in growth and spillovers were shown to be achieved by positioning investments in telecommunications infrastructures.

Since companies progressively operate on the global level, with the aim to attain presence in the international market and economies of scale, modern telecommunications are shown to be the tool of great necessity. Hence, by offering such services, countries would be more prone to attain investment and improve their own advantages in terms of geographic and natural resource exploitation, which would eventually contribute to the rapid development of the country as a whole.

It could be said that due to civil war in El Salvador, the country lacked foreign direct investment until the 1990s. Due to the same reason, during the 1970s and 1980s the country experienced negative net inflows. Approximately \$254 million was invested through FDI in El Salvador from 1970 until 1991. Subsequently, after the termination of civil war, successive amounts of FDI were attained to the country, which had a great impact on the overall economy of the country.<sup>157</sup> Successively, GFCF (Gross fixed capital formation) and GDP percentage was in increase from approximately 1,6% during the period from 1991-1995 up to 25,9% during the period from 2006-2008.

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<sup>154</sup>World Bank (1994)

<sup>155</sup>CEPAL (1992)

<sup>156</sup>Roller, LH and Waverrman L., (1994); The impact of telecommunications infrastructure on economic growth and development, Working party on telecommunication and information services policies, May, OECD, Paris

<sup>157</sup>Investment Policy Review, El Salvador, (2010), United Nations Conference on Trade and Development [http://unctad.org/en/Docs/diaepcb200920\\_en.pdf](http://unctad.org/en/Docs/diaepcb200920_en.pdf) 07/06/2018, p.11

One of the greatest inflows gained by foreign direct investment in El Salvador were privatizations in telecommunications and electricity which occurred in 1998 when foreign investors positioned approximately \$316 million in the country in order to attain the telecom provider which was state-owned, and \$600 million in order to obtain control over the El Salvador electricity distribution companies. Another remarkable year was 2007, during which financial sector attracted more than \$1.5 billion of FDI.<sup>158</sup>

The telecommunications market in this country seems to be one of the most competitive and significant sectors attracting the FDI. Investments worth millions of dollars are positioned within the region by the multinational companies such as Milicom (Tigo), Digicel, Telefónica and América Móvil.

Telecommunication sector commenced with attracting foreign investors during the late 1990s due to state-owned monopoly privatization. Subsequently, further interest when it comes to investing in this sector was growing progressively.<sup>159</sup>

### **2.3.1 FDI in telecommunications**

During the period commencing from 1990s and lasting until 2010, \$917 million was allured by telecommunication sector. This sector also shifted to a competitive market from being a state-owned monopoly, and achieved a significant presence of FDI in this sector. In 1997 the ANTEL monopoly was eliminated and divided into two public enterprises Intel and CTE (Compañía de Telecomunicaciones de El Salvador S. A. de C. V.). Intel was in charge of mobile phone activities while CTE handled administration on infrastructure and fixed lines. In the following year, foreign investors Telecom and Telefónica bought both enterprises and introduced the presence of FDI in this sector. Telefónica (Spain) bought Intel for \$41 million, while Telecom (France) became CTE's principal shareholder by paying \$275 million for such a position. Subsequently in 2003, America Movil (Mexico) bought the CTE shares from Telecom (France) for \$413 million. Afterwards, during the same year, America Movil became the principal

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<sup>158</sup>The ratio of FDI flows to GFCF must be analysed with care. FDI data include flows generated by the purchase of local assets by foreigners, including cross-border mergers and acquisitions. Such flows do not lead to the creation of new capital stock. As a result, a given ratio of FDI to GFCF does not mean that foreign investors are actually responsible for that percentage of GFCF. If mergers and acquisitions (e.g. under a privatization programme) are significant, the ratio overestimates the role of foreign investors in GFCF. / [http://unctad.org/en/Docs/diaepcb200920\\_en.pdf](http://unctad.org/en/Docs/diaepcb200920_en.pdf) 07/06/2018, p.11

<sup>159</sup>Investment Policy Review, El Salvador, (2010), [http://unctad.org/en/Docs/diaepcb200920\\_en.pdf](http://unctad.org/en/Docs/diaepcb200920_en.pdf) 07/06/2018, pp.13-14

stakeholder of the mentioned company by owning its 94,4% and buying the rest of the stocks worth of \$295 million from the Government of El Salvador.

As the major holder of fixed telephony, with 90% of market share, CTE was considered to be the leader in strongly concentrated market. Telefonica, which is in charge of providing cable television services and fixed line with the internet, was placed in the second place by obtaining 3,5% of the market share., Telemovil, which is completely owned by Luxemburg – based Milicom, whose principal activities were centered on mobile telephony, known asTigo brand, was placed in the third place by owning 3,1% of the market share.<sup>160</sup>

Telefónica was the first company to offer broadband internet in the state and still preserve its privileged place by holding approximately 90% of market shares. In a large part foreign direct investment positioned in telecommunication sector has led to the massive use (99% of users) of internet with the contemporary technology. Spreading of the fiber optics network within the state and offering administrative skills and knowledge regarding high-end technology, was in a great part contributed, enhanced, and provided by foreign investors. During the period of time from 2003 until 2008, such an installed fiber-optic network was approximately trebled, from 2.564km up to 7.162km.

Foreign investors were of great importance within the process of liberalization in telecommunications when it comes to the sector development, which became one of the most dynamic and rapid growing within the whole region. During the period beginning from 1998 until 2009 the number of fixed lines was approximately tripled counting 400.000 in the beginning of the mentioned decade and increasing up to 1.1 million by the end. Within the period of five years after the FDI first entered into the market, the number of fixed lines was increased by double amount, which could not have been achieved within the period of 30 years while ANTEL was the principal stakeholder, prior to privatization.<sup>161</sup>

In the beginning of 2000s El Salvador experienced a great increase regarding the number of mobile lines, which during the period from 1998 until 2009 increased from approximately 100,000 up to over 7 million. Such an impressive development put El Salvador in the position of

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<sup>160</sup>Ibid., p.22

<sup>161</sup>Ibid., p.23

the leading state in Central America, when it comes to mobile lines per capital, with 113 phones per 100 residents.

The value of telecommunications sector for economy is highly significant, and involves both consumer welfare and company productivity. Furthermore, numerous divisions comprised by the service industry such as airlines and banking strongly hinge upon low priced and smoothly functioning telecommunications.<sup>162</sup> Therefore, we may say that those branches are highly interconnected, and could be positively or negatively influenced by communication, which eventually means that its significance is augmenting within the state economy.

Subsequently, since there is a strong competitive market in the telecommunication sector, the interconnection between economic performance and efficient propagation of competition in telecommunications was shown by Crandall.<sup>163</sup> Thus, it is suggested by OECD<sup>164</sup> and Porter<sup>165</sup> that due to the strong influence of telecommunications on competitiveness and innovation, dynamism of this sector could enhance the competitiveness on the global level and eventually result in enhancement of other economic sectors. Such an outcome would automatically lead to improved economic state within the country, and widen labor opportunities and living standard, which could lead to an increase of contentment within population, and as such contribute to the political stability and peace sustainability. Additionally, it is indicated by Mosco<sup>166</sup> that states and markets are almost always mutually contingent. They need one another in order to attain economic and social goals. Hence, such an indication again correlates socioeconomic growth and peace stability.

One manner in which state propagates public service initiative in terms of communication is through the propagation of global service initiatives. When it comes to socioeconomic enhancement, communication, comprising information availability, spreading and sharing, are

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<sup>162</sup>Engel, Eduardo, (2005), A PRO-MARKET AGENDA FOR EL SALVADOR, CENTER DISCUSSION PAPER, ECONOMIC GROWTH CENTER, YALE UNIVERSITY, NO. 904, [http://www.econ.yale.edu//growth\\_pdf/cdp904.pdf](http://www.econ.yale.edu//growth_pdf/cdp904.pdf) 08/06/2018, p.21

<sup>163</sup>Crandall, R., W. Lehr y R. Litan, (2007), "The Effects of Broadband Deployment on Output and Employment: A Cross-sectional Analysis of U.S. Data", Issues in Economic Policy, The Brookings Institution, No. 6, <https://idl-bnc-idrc.dspacedirect.org/bitstream/handle/10625/49429/IDL-49429.pdf> - introduction 08/06/2018.

<sup>164</sup>OECD, (2007), "Communication Outlook 2007", <https://idl-bnc-idrc.dspacedirect.org/bitstream/handle/10625/49429/IDL-49429.pdf> 09/06/2018.

<sup>165</sup>Porter, M. E., Schwab, K., and Sala-I-Martin, X., (2008), "The Global Competitiveness Report 2007-2008", World Economic Forum, <https://idl-bnc-idrc.dspacedirect.org/bitstream/handle/10625/49429/IDL-49429.pdf> 09/06/2018.

<sup>166</sup>Mosco, V. (1988), "Towards a Theory of the State and Telecommunications Policy", In Journal of Communication, 38(1), pp. 107-124



considered to be crucial.<sup>167</sup> According to Hudson, states must enable telecommunication services to be available to the whole nation in order to encourage socioeconomic growth.<sup>168</sup>

During the 1990s the reforms of telecommunication sector for the majority of countries of Central America were considered to be a part of much greater economic and political initiatives. Most of those countries among which is El Salvador, had previously experienced long lasting violent conflict, and they were prone to encounter a way to yield a profit in order to contribute to public service activities. Referring to such regards, privatization of telecommunication was alluring due to its potential to enhance the development and alleviate the infrastructural development that would foster the economy and other relevant political and social policy aims.<sup>169</sup>

We could say that economy of one state, and especially the developing one, is undoubtedly one of the most important factors influencing peace stability in a positive or negative manner. Telecommunication sector as one of the most important sectors of economy, which is mutually correlated to multiple other branches of the economy, has a great potential to decrease the level of inequality and impoverishment, and therefore contribute to economic growth and overall development, by enhancing the socioeconomic development, by attracting FDI which are of high significance for the country, and provide the increased number of opportunities for population when it comes to employment and education. As such, it has a great potential to decrease chances of reverting to conflict or instigation of one, and contribute to better living standards, global contentment of entire population, and eventually peace sustainability.

### 2.3.2 Multinational Corporation –Telefónica

Prior state-hold Spanish monopoly Telefónica which was founded in 1924<sup>170</sup> in Madrid Spain, and became privatized in 1997, rapidly became a great operator which operated and competed in two large, Latin American and European markets. During the period from 1996 until 1999, the

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<sup>167</sup> Ibid., p.117

<sup>168</sup> Hudson, H., (1997), *Global Connections: International Telecommunications Infrastructure and Policy*, USA: Van Nostrand Reinhold, p.80

<sup>169</sup> Argumedo, P., (2007) *Competencia y regulación en las telecomunicaciones: El caso de El Salvador*, D.F. :Naciones Unidas, CEPAL, México, Written for IDCR/CEPAL's *Reforzando la competencia en el Istmo Centroamericano: políticas e instituciones nacionales, coordinación regional y participación en negociaciones internacionales* Project. Compared to 2010, in 2014 significant augmentation of 7.8% was shown in telecommunications sector which generated \$387.9 million, and its GDP share reached up to 3.9%. Until the end of 2014 foreign investment balance in telecommunications attained \$1.329 million, which is higher than balance in 2010 for approximately 23.8%. The same year, telecommunication sector provided job for approximately 21.000 people, 10/06/2018, p.13

<sup>170</sup> <https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=357076> 11/06/2018

firm attained rapid development by implementing an active acquisition strategy. The principal cause of such spreading was an aspiration to attain a critical mass on the global level. Telefónica invested more than 11 billiondollarsin El Salvador, Brazil, Puerto Rico, Argentina, Chile, Peru, Venezuela and Guatemalaby 1999.<sup>171</sup>

Telefónica turned to one of the largest Spanish MNE present in Latin America. That did not occur only due to its presence in the largest number of countries of Latin America, bus also due to putting great amounts of money in the privatization process of certain state-owned telephone companies, such as Peruvian Telephone Company, which was purchased in 1992 by Telefónica. There were several motives which instigated Telefónica investments, in terms of political, sectoral and economic factors such as, completion of Telefónica process of privatization which commenced in the 1970s and was terminated in 1997, by the progress of telecommunications sector on the global level, which benefited the foundation of the greatest international telecommunications groups, and by liberalization of the telecommunications sector which occurred in Spain in 1997.<sup>172</sup>

Within Latin and Central America, privatization of telecommunication enterprises seemed to represent a significant step, since that was seen as a sign to investors that the reforms were commenced by new administrations. By such actions, governments would be seen as deeply dedicated to attain the structural reform program. Considering such a context, the role of foreign investors was crucial. In December 2010 the mobile penetration of Telefónica was evaluated to amount 98% in its Central American markets, and furthermore evaluated to amount up to 8% annually. It should be accentuated that penetration rate surpasses 100% in countries such as El Salvador and Panama. Telefónica achieved 8,9 million complete accesses (plus 9,7% annually) until 2010, out of which mobile accesses amounted up to 8,4 million (plus 10,8% annually).

According to data from 2010, mobile net additions amounted 597 thousand that year, which is approximately six times more than the ones noted in 2009, with the impressive performances when it comes to both the contract section and prepay. Such an advance was attained as a result of commercial activities development that appeared from variant offer and strong performance

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<sup>171</sup>Trillas, F., (2000), "Mergers, Acquisitions and Control of Telecommunications Firms in Europe", London Business School, London, UK, pp.10-13

<sup>172</sup>Toral, Pablo, (2001), "Spanish Investment in Latin America" *Department of International Relations Florida International University*, University Park Miami, FL 33199 USA, p.8

that amounted 2,7%, which was not virtually shifted on an annual level and amounted -0,1% points. When it comes to revenues, they amounted to 562 million Euros in 2010, principally impacted by the El Salvador new regulatory measures, which greatly affected interlinked profits and customer expenses.<sup>173</sup>

When referring to political segments, the corporation investments and activities in Latin America could be impacted by multiple risk factors regarding social, economic, and political segments in these countries. TelefónicaHispanoamerica and Telefónica Brazil indicated 30.5% and 24.5% of Telefónica Corporation profits on June 30, 2015. Besides, around 11,6% of Corporation profits in the telephony business were collected in the states that are not classified as having investment grade status, among which, according to the rank of importance, El Salvador takes the fifth place. It is also important to note that regardless of the great progress achieved in Brazil, the incertitude referring to the political context, together with occurred economic recession which was negatively impacted by monetary and fiscal regulations in the context of high inflation, could eventually lead to a decrease of ratings. Moreover, that could eventually result with a robust unpredictability of exchange-rate as a consequence of investment outflow, particularly regarding the fixed-income.<sup>174</sup>

It is shown that Telefónica ensured its firm presence within the entire region. As such it has a great potential to contribute to the further stability of the countries, in terms of positioning investment, providing labor opportunities, education, trainings for local population, and social programs. All of the mentioned segments strongly influence tensions or contentment within the population, which is eventually reflected on peace sustainability.

### **2.3.2.1 Impact of Telefónica**

Telefónica is contributing to the expansion and increase of awareness when it comes to business sustainability by being involved in certain programs such as the Itri Tin Supply Chain Initiative and Forum Empresa. In 2010 this company implemented the first corporate responsibility

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<sup>173</sup>Telefónica, AnnualReport, (2010),[https://www.telefonica.com/documents/153952/13347920/telefonica\\_ia10\\_eng.pdf](https://www.telefonica.com/documents/153952/13347920/telefonica_ia10_eng.pdf) 12/06/2018pp.87-88

<sup>174</sup>Telefónica, AnnualReport, (2014),[https://www.telefonica.com/documents/153952/13347920/Integrado\\_2014\\_en.pdf/a0344546-9a8b-453a-8e75-1ec3018a3955](https://www.telefonica.com/documents/153952/13347920/Integrado_2014_en.pdf/a0344546-9a8b-453a-8e75-1ec3018a3955) 12/06/2018, p.4

workshop aimed to assist and provide necessary skills and knowledge to suppliers of small and medium sized businesses that supply the firm in El Salvador, in order to raise awareness of responsible chain management strategy of their corporation, and to comprehend how to fortify their own as well.<sup>175</sup>

Furthermore, when it comes to labor rights, there are numerous international treaties which indirectly or directly comprise freedom of union rights (it refers to the 87 International Labor Organization Agreements or the 1948 Universal Declaration). With such regard, Telefónica is prone to assure that both of its employees are indirectly and directly enabled to create or become a part of the union of their choice, without fear of any retaliation or determent, which is compliant to the domestic legislation of the countries in which they are conducting their activities. The company is led by the Social Protocols of International Agreements, its Business Principles and the Code of Conduct which is in accordance with the Union Network International (UNI). Telefónica work relations policy within Latin America propagates transparent communication when it comes to its employees.<sup>176</sup>

Additionally, health and safety committees are regularly attended by Telefónica employees who participate in the discussions and decision makings which propagate enhanced labor conditions and mental, social and physical well-being, within the different countries.<sup>177</sup> The Involvement of local population in discussions and decision making is highly significant for peace sustainability, since it accentuates the importance of the society and encourages local population. Therefore, in a certain manner such an attitude contributes to a decrease of tension.

Other way through which this corporation contributes to the society is by facing the issue regarding child labor. Approximately 215 million children are involved in certain type of labor worldwide with the majority of them working full time, and 14 million out of total is located in Latin America. Hence, Telefónica attempts to greatly impact the extermination of child labor in three ways. The first way is by its own inner regulations, which ensure that all their employees in all of their firms are old enough to be employed. The second way involves certain mechanisms that warrant non-contracting of child labor, implemented by responsible management of their

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<sup>175</sup>Telefónica S.A., Annual Corporate Responsibility and Sustainability Report, (2010), [https://www.telefonica.com/documents/153952/13347920/telefonica\\_rc10\\_eng.pdf](https://www.telefonica.com/documents/153952/13347920/telefonica_rc10_eng.pdf) 12/06/2018, p.20

<sup>176</sup> Ibid., p.21

<sup>177</sup> Ibid., p.22

supply chain. The third way of contributing refers to the programs implemented by Telefónica which aim to alleviate an entree to quality education provided to adolescents and children, such as Proniño and EducaRed.<sup>178</sup>

#### **2.3.2.1.1 Proniño**

This program has been applied since 2005 in thirteen Latin American countries including El Salvador by Telefónica foundation and their local operators. Such a program was shown to be the leading initiative implemented by a private corporation which aims to contribute to the extermination of child labor and to prevent the abuse of children's rights as well. During 2010 this program compounded online work with direct local intervention as well as propagation of public policies prone to empower a viable and durable solution to such an issue. Telecommunication program plays the principal role in such a program especially through social networks, together with contemporary learning models, such as networked-collaborative. Therefore, this means that operating in such a manner telecommunication sector promotes preventive measures which are of great significance. This contributed to the advance of educational, social and digital inclusion in regions where a high presence of child labor is shown.

Telefónica Company operates in three following ways through this program:

1. Comprehensive protection - which comprises projects implementation by social organizations to eliminate child labor and protect children's rights.
2. Quality education – aimed to enhance educational programs for children already involved in the learning program which besides ICT method comprises other methods, and enables them to approach school and prevent the abuse of child labor.
3. Increasing social and institutional strength – the aim of this program is to emphasize the child labor issue by accentuating the issue of its abuse and raising awareness with such regard.<sup>179</sup>

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<sup>178</sup>Ibid., p.27

It is also important to mention the significance of employees' dedication to volunteering activities, as well as their dedication conducted through ATAM (Telefónica disability assistance association) which focused on the contribution and assistance to disabled people. Programs which contribute to people with low economic income (more than 5 million controlled and prepaid lines) or those people with disabilities (through the Telefónica Accesible project) represent initiatives which reflect the dedication of Telefonica to social and digital inclusion.<sup>180</sup>

Moreover, Telefónica is also recognized in Spain due to its wide volunteering program. Approximately 19.000 volunteers within 13 countries of Latin America and Spain participated in Telefónica Foundation Volunteering community program in 2007. For instance, the employees of this company participated during the same year in approximately 443 initiatives and spent over 164, 408 hours volunteering. Those initiatives aimed to contribute to around 264, 427 children, to those who were impoverished, those who were affected by natural disasters, and elderly people.

The Support provided to Proniño program, whose objective is the prevention of child labor by providing them quality education, marked the year of 2007. The same year schooling for more than 52.000 children in Latin America was provided by this program. The company in Spain presented the 'cyber-volunteer', the program where the employees volunteered to attend online course in ICT teaching, so they could transfer gained skills and knowledge to others.<sup>181</sup>

Mentioned contribution to those who are most vulnerable and in the greatest need of help, is of great significance for local population and society where it is provided and therefore it also contributes to the political and peace stability. Due to programs provided by multinational companies, more children, students and people are having access to educational programs, working opportunities, and therefore child labor and impoverishment are being completely prevented and stopped, or at least decreased, while the contentment of society is progressively increasing.

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<sup>179</sup>Ibid., p.28

<sup>180</sup>Telefónica S.A., Annual Corporate Responsibility Report, (2005),

<https://www.Telefonica.com/documents/153952/13347920/informercing.pdf> 13/06/2018, p.15

<sup>181</sup>Chris A. Mallin, (2009), *Corporate Social Responsibility: A Case Study Approach*, Cheltenham, UK: Edward Elgar

Telefónica, 2007, p.49 u knjizi -

<https://books.google.rs/books?id=mAVauDMTFuQC&pg=PA53&lpg=PA53&dq=Telefonica+company+CSR+Proniño&source=bl&ots=M2BuAbMmi1&sig=0KSmuDc9GdXvGcoFuRpbYmPs54k&hl=en&sa=X&ved=0ahUKewiHy8D5teDbAhULKIAKHf1XBCsQ6AEILjAB#v=onepage&q=Telefonica%20company%20CSR%20Proniño&f=false> 14/06/2018 p.53

### 2.3.2.1.2 EducaRed

The Program EducaRed was managed and created by Telefónica Company in 1998. The objective of this initiative is to universalize the internet usage mostly within primary and secondary education and propagate the internet educational usage. The registration to this program was shown to more than 11.000 schools with more than 3.500.000 pupils and more than 350.000 teachers in 2005. According to Telefónica Annual Corporate Responsibility Report from the same year, the EducaRed portal had approximately 500.000 pages of contents, services and tools, and as such it is considered by experts to be one of the educational portals of reference conducted in Spanish language.<sup>182</sup>

A Great number of activities are included within the EducaRed program and conducted within the different fields, such as virtual communities of pupils, parents, and teachers, services, resources and tools to ease educational tasks, news and information regarding the education sector, educational usage of ICT at home and classroom and innovation, training for pupils, parents and teachers regarding educational usage of the internet. In addition to EducaRed program, Fundación Telefónica has created programs which in particularly complex and difficult contexts that affect impoverished and long-term hospitalized children, assist and provide services in terms of education through the ICT (Information and Telecommunication Technology). Programs such as Aulas Hospitalarias formed in Peru, which contributed to over 5.500 hospitalized children in Peru, or FuTuRo program which created a virtual network designed for working in 14 centers that impoverished young people and children in 7 countries receive, have shown that internet and information technology are crucial points in their aim to obstruct exclusion and social segregation, and have contributed to beget interesting programs aimed to expend education in terms of companionship, respect for tolerance and health caution.<sup>183</sup>

The principal aim of EducaRed program is to propagate the enhancement of educational quality through consolidation of ICT in terms of both informal and formal teaching. With such regard, EducaRed provides numerous tools of high quality services and educational content grounded on ICT, funds for cooperative working, and numerous programs regarding trainings, in order to propagate advanced system of the entire educational community, comprising schools, pupils, parents, teachers and other members involved in such a matter.

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<sup>182</sup>Telefónica S.A., Annual Corporate Responsibility Report, (2005),  
<https://www.Telefónica.com/documents/153952/13347920/informercing.pdf> 14/06/2018, p.80

<sup>183</sup>Ibid., p.241

This program which is enhanced by the internet portal has become a principal resource when it comes to education in Portuguese and Spanish, for all ranges of education. One of the greatest achievements in 2010 was the expansion of this program by becoming not only educational but social and cultural network as well. Furthermore, major cooperation agreements were signed with numerous educational social networks (iERAN - the international Education and Resource Network and Red Espiral), in order to conflate necessary strength to promote benefits which could eventually raise the quality of education.<sup>184</sup>

### **2.3.3 Multinational Corporation - Milicom**

Millicom International Cellular S.A, a Luxembourg Société Anonyme, and its subsidiaries, joint ventures and associates (the "Group" or "Millicom") are a worldwide telecommunications Group with mobile telephony activities in the world emerging markets. It also covers cable and broadband enterprises in five states of Central America. The Group was conceived when investment AB Kinnevik ("Kinnevik"), a firm formed in Sweden, prior known as Industriförvaltnings AB Kinnevik, together with Milicom unified in December 1990 ("Milicom Inc."), when their interests in international mobile joint ventures were significantly impacted by the corporation formed in the USA.<sup>185</sup>

85% of the Group profits is generated from the countries of Latin America, where they offer the widest range of services across eight countries. Mobile business represents the greatest part of their profit of 61% which was decreased for 10% compared to 2014 when it was estimated at 71%, together with their home business attaining 28% that was raised for 10% compared to 2014, when it was estimated at 18%<sup>186</sup>. Regardless of risky economic environment and foreign exchange decline during the 2015 Milicom had a solid performance within most of the countries.

The Company had to face great challenges in El Salvador due to exacerbating social situation caused by the increase of crime and violence which significantly influenced economic activities.

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<sup>184</sup>Telefónica S.A., Annual Corporate Responsibility and Sustainability Report, (2010), [https://www.Telefonica.com/documents/1258915/0/Telefonica\\_RC10\\_En.pdf/84546fa3-1505-4ce4-9a72-f4c0099be1dc](https://www.Telefonica.com/documents/1258915/0/Telefonica_RC10_En.pdf/84546fa3-1505-4ce4-9a72-f4c0099be1dc) 14/06/2018, p.29

<sup>185</sup>Wikinvest (n.d), Millicom International Cellular Corporate Information, Retrieved from: [http://www.wikinvest.com/stock/Millicom\\_International\\_Cellular\\_S.A.%20\(MICC\)/Corporate\\_Information](http://www.wikinvest.com/stock/Millicom_International_Cellular_S.A.%20(MICC)/Corporate_Information) 15/06/2018.

<sup>186</sup>Millicom, Annual Report, (2015), <http://www.millicom.com/media/1916/full-annual-report-millicom-2015.pdf> 15/06/2018, p.44



Regardless of the fact that Group had to face such a context, it still attained an increase in profit obtained by mobile data, Pay TV. EBITDA and fixed broadband ameliorated as a result of qualitative expense management. In 2015 this Group counted approximately 1 million active users of TigoMoney, they received an award for ‘Best Mobile Service for Financial Inclusion 2015’ and were awarded as Latin America’s greatest mobile financial services (MFS) deployment at the M2Payment awards. Tigo Money is the greatest bill payment firm in El Salvador. Also, as it was indicated by Findex, El Salvador is the market leader with the largest penetration of MFS in Latin America.<sup>187</sup>

### **2.3.3.1 The impact of Milicom**

Milicom has formed its own University through which it significantly contributes to the provision of trainings regarding administration and leadership development, online sales training and functional development which are delivered by Tigo Sales Schools. Through Tigo Sales School in Latin America which was settled in El Salvador and four other countries, during the 2013 they managed to educate more than 18.000 agents and contractors.<sup>188</sup>

In order to propagate responsible corporate practice, the company has accentuated eight principal areas: child protection, anti-corruption compliance, freedom of expression and privacy, health, social investment, environmental impact, security and safety of their employees, responsible supply chain management and the propagation of diversity. After the completion of survey analysis with the principal stakeholders, it is shown that main concerns affecting society and requiring as much contribution as possible represent anti-corruption compliance, freedom of expression and privacy, and child protection.

Anti-corruption compliance – when it comes to this area, during the 2015 Milicom updated the Code of Conduct under their ethics and compliance operations and enhanced the Anti-Bribery and Anti-Corruption Policy. The entire staff is required to be aware of the Code and terminate an e-learning course. All employees who collaborate with third parties and public officials are required to attend the course.

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<sup>187</sup> Ibid., p.49

<sup>188</sup> Millicom, Annual Report, (2014), <http://www.millicom.com/media/1977/millicom-annual-report-2014.pdf> 15/06/2018, p.25

Freedom of expression and privacy - this issue has recently been strongly accentuated which has led to the improvement of company readiness in terms of law enforcement and other relevant risks. The principal aim of the company is to attain the adequate balance when it comes to balancing between the national security interest and their responsibility to respect the domestic laws, and their obligation which refers to customer protection and informational access. In 2015 mapping the legal patterns and government powers for surveillance, service shutdowns and content blocking were completed in every country where they operated. Additionally, global framework regarding the approach to the data about the requests of law enforcement that they receive, has been set. Furthermore, they have proceeded to collaborate with different telecom enterprises and numerous stakeholders when it comes to this issue. In 2016 Milicom became a part of the Global Network Initiative as an observer member, and as such is enabled to completely participate within the critical debates together with approximately 50 organizations, scholars, internet enterprises, investors and human rights experts.

Child protection—it could be said that the internet has widened the possibilities for the entire population, comprising children as well. It provides informational access and online education, which can be very beneficial for the society. Therefore, enabling children to be protected online is of great importance for the company. In 2015 Milicom organized child online protection conferences in El Salvador, Rwanda, Bolivia and Costa Rica together with UNICEF, GSMA and other organizations, with the aim of educating children and adolescents as well as representing the possibilities and opportunities which the internet offers while learning how to remain protected. As they state, enabling children to be protected online is of great importance for them and their reputation. It is of great significance that such a conference has obtained a high level of Ministerial involvement, including variant stakeholders whose participation is necessary in order for children to be safe online (civil society and industry, law enforcement, regulators, government), and in the workshop in El Salvador where children were present as well. In El Salvador and Costa Rica all telecom operators collaborated to work together on online child protection by signing a pledge. They collaborated with UNICEF to create a Mobile Operator Child Rights Impact Self-Assessment tool adapted for mobile network operators, which is applied in each segment of Children's Rights and Business Principles and which emphasizes challenges referring to their industry sector.

It should also be mentioned that when it comes to their impact on the environment, by delivering their Digital Lifestyle strategy, Milicom has an influence on the environment in several manners. The greatest part of their carbon footprint is left as a result of necessary fuel and energy consumption used to enable adequate operating of their network and their activities. By decreasing the use of energy the possibility to decrease their expenses is also offered. In order to decrease their energy consumption, they persist to develop their equipment, raise network sharing, and decrease the consumption of cooling solutions, and also to focus on investing in optional energies, for instance solar energy, used for "off-grid" areas. Milicom launched a new strategy in El Salvador regarding efficiency strategy that comprised conducting complete retrospect of energy management, ascertaining savings possibilities and working on employee-facing behavior change campaign- and asserting the sites prone to gain from such projects. Milicom use of energy per base station was decreased to 51% until the end of 2015, which is lower compared to 2008, and therefore shows that they attained their goal of such a decrease earlier than they had planned.<sup>189</sup>

#### **2.3.4 Multinational Corporation – América Móvil**

América Móvil is a Mexican corporation, which is the major provider in Latin America, when it comes to integrated telecommunications services. What is more, it is the fourth leading company besides China, when it comes to wireless subscribers. The Company conducts its activities under the brands Telcel, Claro and Telmex, and in Eastern and Central Europe it is known under A1 brand<sup>190</sup>.

América Móvil generates approximately half of its annual profit from its operations in Mexico, where it is known under the brand Telcel. It also operates in the United States and other countries of Latin America. Carlos Slim Helú, the wealthiest man in Latin America, together with his family members, is a major stakeholder of América Móvil, which also holds company América Telecom, S.A. de C.V., which also obtains major shares in Mexico's major fixed-line telecommunications enterprises Teléfonos de México, S.A. de C.V. (Telmex). Besides the Wal-

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<sup>189</sup>Millicom, Annual Report, (2015), <http://www.millicom.com/media/1916/full-annual-report-millicom-2015.pdf> 15/06/2018 pp.38-39

<sup>190</sup><http://www.americamovil.com/about-us/our-company> 17/06/2018

Mart de México, S.A. de C.V.,Telmex and AméricaMóvil are the greatest privately owned enterprises in Mexico.<sup>191</sup>

### **2.3.4.1 The impact ofAméricaMóvil**

AméricaMóvil aims to assist the society in terms of assessing and satisfying its human necessities, and to do so, they have created numerous programs referring to social responsibility that reflect their dedication to contribute to communities and assist to enhance the development and encourage life standards improvement, in every country where they conduct their activities. AméricaMóvil enhances such programs in numerous fields such as sports, education, environment, driver safety, human development, health and humanitarian assistance.<sup>192</sup>

Support in natural disasters—AméricaMóvil participates and contributes in such unfortunate situations by providing humanitarian aid to locations where emergencies occur. Furthermore, in such contexts the company attempts to be persistent when it comes to providing telephony and data services. With regard to that, Disaster Prevention Department is formed that makes action procedures varying on the range of emergencies and events, and a presumption whether they are unpredictable or predictable. The Company also cooperates with state authorities and government in order to share necessary data and rapidly repair services when the emergency terminates them. Furthermore, as part of their solidarity to affected societies, company provides mobile telephony and fixed-line services, which are not charged, during the termination of emergencies.<sup>193</sup>

Education—this is the field where the company has the greatest number of initiatives in order to satisfy necessities of the society where it operates, due to their belief that a qualitative education provides wider range of opportunities for a certain society. With this regard, they have created various educational platforms such as Udacity, Khan Academy in Spanish, MIT Open Course Ware, Ponte a Prueba 2015, and Académica. The aim of these programs is to propagate the exchange of knowledge between teachers, students and higher educational institutions in several areas, with the aim of enhancing learning and professional progress and free provision of qualitative education. In El Salvador at Claro El Salvador, AméricaMóvil contributes to the

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<sup>191</sup> <http://www.referenceforbusiness.com/history2/9/Am-rica-M-vil-S-A-de-C-V.html> 17/06/2018

<sup>192</sup> AméricaMóvil, Sustainability Reports (2015), <http://www.americamovil.com/sites/default/files/2016-09/AMX-IS-2015-ingles.pdf> 17/06/2018, p.33

<sup>193</sup> Ibid., p.34

digital divide, benefiting approximately 2,000 students through equipment provision, providing computer equipment, internet service and 10 computers to every school in four municipalities.<sup>194</sup>

Health—in order to maintain the health of impoverished societies, AméricaMóvil has conducted programs that emphasize particular necessities. For instance, the company has given donations to Hearing Aids, which aims to contribute to people with necessities, by leading to the instant improvement of their life quality. When it comes to the aspect of nutrition and health, the company has distributed highly nutritious snacks DulceNutritivo, for pregnant women, children and the elderly residents and rural populations. Furthermore, AméricaMóvil is a part of the RED program, which propagates prevention of HIV/AIDS virus transmission, from mother to a child, and contributes to a decrease of infected new born babies worldwide.<sup>195</sup>

Human Development— due to the company belief that it is crucial for each individual to attain their highest potential, Asociación de Superación por México (ASUME) is established. The program is established and based on the necessary values aimed to form satisfied, peaceful and responsible individuals who are dedicated to their country, themselves, family and their society.<sup>196</sup>

In 2015 this Company provided trainings classified in 120 diverse fields such as emotional intelligence, leadership, teamwork, communication, image development tools aimed to facilitate public relations, negotiation, facilitator course, project management, trainings in terms of telecommunications, effective conversation, professional and personal ethics development, time management, sales courses, language courses, customer satisfaction and many others. ASUME, which is a human development program, represents one of the most successful lines when it comes to personal development. The aim of the mentioned program is to engender progress of their employees together with their families through the advancement of the required values necessary to form satisfied, responsible, complacent and peaceful people, dedicated to their society, environment and country.<sup>197</sup>

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<sup>194</sup> Ibid., pp.35-36

<sup>195</sup> Ibid., p.37

<sup>196</sup> Ibid., p.38

<sup>197</sup> Ibid., p.28

### **2.3.4.1.1 Groupe Speciale Mobile Association (GSMA)**

The aim of this association is to increase the capacity of mobile technology in order to contribute to Latin America when it comes to socio-economical aspect, through association of state authorities, non-profit organizations and regulators, with large mobile operators such as AméricaMóvil, in order to achieve such an objective. AméricaMóvil arrogated various responsibilities through the We Care campaign, in terms of environmental protection, child protection, digital inclusion, Global Accessibility Reporting Initiative (GARI), handset theft, SMS spam control, response to natural disasters, mobile privacy, and health in the mobile environment. The aim of the campaign is to endow the customers with tools that would provide them services in a safe and authentic environment, through which mobile networks and cell phones could offer solution to social challenges and issues.<sup>198</sup>

Besides the economic benefit in terms of capital inflow, those programs which are comprised of social corporate responsibility of influential multinational corporations are of great importance for both social and economic development which is also affecting political stability and peace sustainability. Through these programs more and more people and local population are being involved in educational trainings, they are being provided with more labor opportunities, while being socially involved and given the opportunity to progress in all fields. Other crucial segment is the protection of human rights and labor rights and the prevention of child labor abuse, which are propagated within the programs. If we consider that the abuse of basic human rights, labor and child rights while lacking education and living in the impoverishment could be the direct cause of conflict instigation, programs which contribute and propagate its prevention could be seen as a great contributing factor to the peace stability and sustainability. Furthermore, if we consider a great dedication shown by multinational corporations in order to sustain and develop mentioned programs in all areas where they operate, and in developing countries such as El Salvador even more, we could say that its influence and impact on both society and economy in a certain country could be definitely positive and of great significance for the environment and further peace sustainability.

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<sup>198</sup><http://www.americamovil.com/about-us/sustainability>

### 2.3.5 Criticism and Suggestions

As we could see, corporate social responsibility programs have a great potential to contribute to any society and especially those which are affected or were affected by conflict and impoverishment. Therefore, sustainability of those programs seem to be crucial in such contexts. In order to enhance and maintain sustainability and ensure the endurance and long-term efficiency of programs, it is of great importance to identify segments which shall be improved in order to engender and enhance future CSR programs and management of already established ones.

Numerous fields which should be improved in the future by AméricaMóvil were identified within CSR, such as propagating human rights, guaranteeing security and data privacy, ensuring access to communication services in disadvantaged environments and societies, applying energy efficiency programs, ensuring occupational safety and health, applying programs regarding environmental conservation, providing communication opportunities for disabled people, providing digital inclusiveness and education to the population, suppression of corruption focusing on suppliers evaluation when it comes to human rights, environment and labor.<sup>199</sup> Sustainability and the improvement of all mentioned fields are crucial for long-term contribution to society and population. Therefore, it is of great significance, especially for developing countries, that CSR programs of multinational companies are sustainably strengthened, enhanced and centered as much as possible on the society and local population.

Furthermore, Telefónica Company also centered its focus on social responsibility issues in the fields of economy (such as influence on communities, quality of service, ethical business practices, fiscal contribution and digital trust), environment (such as carbon emissions, renewable energy, energy consumption, electromagnetic fields and circular economy) and society in terms of human rights, occupational safety and health, retention and talent development, social inclusion, non-discrimination and promotion of diversity.<sup>200</sup> Focusing on the prevention of all relevant issues or at least their reduction and promotion is crucial in order to sustain CSR programs, aimed to contribute to the society. Therefore, identifying areas which shall be improved

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<sup>199</sup>Ibid., p.15

<sup>200</sup>Telefónica Integrated Report, (2015),

<https://www.Telefónica.com/documents/1258915/1261657/Informe+Integrado+2015+ENG+No+Interactivo.pdf/334e0d6d-8b69-4015-a90b-5179a703e8e7>19/06/2018, p.48

and emphasized in the future program implementation is of great importance when it comes to maximization of multinational corporation potential in contributing to a certain society in several aspects.

Moreover, Milicom Company has identified ensurement and promotion of children's rights as one of the most significant segments that CRS will pay special attention to within its programs.. Milicom has taken precaution when it comes to mentioned topic, obeying the law which does not allow people under 18 years of age to create a mobile phone account, cable TV subscription or the internet connection.<sup>201</sup> Nevertheless, measures which will sustain, promote or create relevant programs within the society shall be strengthened and enhanced in the future.

Since the child labor is considered to represent one of the greatest risks, Milicom together with the UNICEF, attempted to encounter the solution for the future operating improvement, and promotion of child labor abolition through its CSR work. UNICEF suggested the evaluation of company's positive and negative potential influence on children, not restricting the evaluation to the child labor. In Addition, UNICEF and Millicom commenced cooperation with the aim of identifying the opportunities and risks for children when it comes to mobile network operators.<sup>202</sup> Even though numerous initiatives were taken and implemented within multiple programs with regard to relevant matter, it is crucial to identify all areas which shall be strengthened and improved in order to maximize the potential of positive contribution.

It could be said that all multinational companies have a potential to contribute to the society and environment where it operates in a certain manner, through CSR programs. Identifying as many risks and issues as possible in programs implemented through the CSR, more space for further improvements is created. In such a way multinational corporation may greatly contribute to a certain society by ensuring and improving all segments which affect their life standards and society in turn may contribute to the enhancement and facilitation of their business operations in long-term.

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<sup>201</sup> UNICEF, Company experience ASSESSING THE IMPACT OF MOBILE NETWORK OPERATORS ON CHILDREN'S RIGHTS: THE MILLICOM EXPERIENCE, [https://www.unicef.org/csr/css/MILLICOM\\_REPORT\\_26.07.17.pdf](https://www.unicef.org/csr/css/MILLICOM_REPORT_26.07.17.pdf) 20/06/2018. p.7

<sup>202</sup> Ibid., p.9



## Conclusion

This Master thesis dealt with identifying and elaborating the role of multinational corporations and investment in conflict-affected environment, focusing on post-conflict phase. Literature review was conducted to determine the status quo of the topic, and in addition the case study of El Salvador was elaborated, in order to examine the practical usability of theoretical framework.

The research question of this thesis whose aim was to determine if multinational corporations had a positive impact on peace-building in the post-conflict environments, based on the two elaborated sections, can be answered. It was shown through the thesis that poverty, inequality and the lack of economic opportunities may lead to a violent conflict, aggravate situation in the post-conflict stage or lead to the return of conflict. Also, the relation between private sector, conflict and development was shown and elaborated. Therefore, recognizing the importance of multinational corporations, investment and private sector as a whole are crucial when it comes to peace-building in fragile states and maintaining durable peace stability. It was shown that multinational corporations and investment are capable of having a positive impact on fragile societies depending on the context. In cases where they enhance corruption and endanger human and child rights they may negatively impact a certain society and environment, while on the other side they could enhance the development, quality of education, better living standards, decrease inequality and impoverishment while increasing labor opportunities through their investments and corporate social responsibility programs. Furthermore, it could be said that the presence of private sector, multinational corporations and foreign investment are vital for fragile economies, since economic growth and development contribute to stability and peace durability.

In the case of El Salvador the significance of multinational corporations and foreign direct investment in telecommunications sector was shown. Through their investments and activities in El Salvador, it could be concluded that leading multinational companies América Móvil, Telefónica and Millicom have contributed to the society in the context of post-conflict stage and are still contributing to the affected society and environment through their capital infusion in the country after the termination of the conflict and their programs comprised under their corporate social responsibility. Besides capital infusions which have impacted states economy and development, their activities have a positive impact on the society, by providing local population

with necessary skills and knowledge, and thus having an impact on education and social segment, which is one of the most significant peace contributors. Nevertheless, it should be considered that there is no specific prescription which could be applied in every circumstance. Generally, multinational corporations and foreign direct investment are prone to have a potential to improve situation, depending on the context. However, the fact is that their presence and importance are noted and of great significance in the phase of post-conflict reconstruction only if adequately governed.

This thesis, similar to other studies, had to deal with certain limitations. Since the aim of the thesis was to examine the role of multinational corporations and investment in post conflict phase of fragile states, it could be said that even though it was shown that it may positively impact society and environment in certain manners, those contributing factors should be strengthened and further examined in further research. Moreover, the answer to the research question could be varying depending on the situation, country and context, but for sure could be said that multinational corporations and foreign direct investment are of great importance for fragile economy, and have a great potential for enhancing both economic and social sector with their investment and activities comprised under the corporate social responsibility of a certain company.

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