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“Multinational Firms and the Microfoundations of the Commercial Peace”

Abstract

The relationship between trade and peace has been the subject of debate for centuries and is a cornerstone of statecraft. Contrary to the predictions of international relations theory, tensions between China and its neighbors seem to be rising despite record levels of regional economic interdependence. In a globalized world where firms play an increasingly active role in world politics alongside traditional nation states, it is important to study whether firm preferences and behavior in reality match those described in theory. My work will establish the firm level microfoundations of commercial peace theory. I believe firms play a crucial and understudied role in commercial peace theories and that my research will make a valuable contribution to the academic literature and to elucidate policy in an important region. This paper investigates the impact of interstate conflict on multinational firms operating in belligerent countries as well as the political strategies that these firms adopt to mitigate exposure to further escalation in the China-Japan case. I use event studies of stock market data and firm-level surveys of publicly traded Japanese multinationals and their China based subsidiaries to supply this information.