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The Economic Dimension of International Conflict in the Post-Cold War Era

Muzaffer Ercan YILMAZ*

Abstract: *This article discusses some of the major economic problems in the post-Cold War era in conjunction with international conflict. In this respect, the article particularly identifies seven issues, high-tech trade rivalry, trade discrimination, foreign investment, outward investment, trans-border flows, unpredictable economic crises, and North-South inequalities that have a potential to create conflict among states. While the study argues that the economic problems discussed in the work do not necessarily lead to international conflict, it, nevertheless, stresses that they call for particular attention and international cooperation for the sake of international stability.*
Keywords: *International Conflict, Trade Rivalry, Trade Discrimination, Foreign Investment, Economic Crises, North-South Inequalities.*

Soğuk Savaş Sonrası Dönemde Uluslararası Çatışmaların Ekonomik Boyutu

Özet: *Bu makale, Soğuk Savaş sonrası dönemde kendini gösteren bazı temel ekonomik sorunların nasıl uluslararası çatışmaları tetikleyebildiğine dair analitik bir tartışma ortaya koymaktadır. Bu bağlamda, özellikle potansiyel olarak uluslararası çatışmaların kaynağı olabilen yüksek teknoloji rekabeti, ticari ayrımcılık, dış yatırım, dışa yönelen sermaye ve sınırlar-ötesi sermaye akışı, beklenmedik ekonomik krizler ile Kuzey-Güney eşitsizliği sorunları üzerinde durulmaktadır. Çalışmada, her ne kadar bahsi geçen sorunların doğrudan uluslararası çatışmalara yol açmadığına işaret edilmekle birlikte, uluslararası toplumun bu sorunlara ciddi bir biçimde eğilmesi ve uluslararası aktörlerin işbirliği yapma gereğine dikkat çekilmektedir.*
Anahtar Sözcükler: *Uluslararası Çatışma, Ticari Rekabet, Ticari Ayrımcılık, Dış Yatırım, Ekonomik Krizler, Kuzey-Güney Eşitsizliği.*

1. Introduction

After the end of the Cold War, the globalization of the world economy has been occurring at an extraordinarily rapid pace. Even for countries where the size of the market and the abundance of internal resources have made much of the economy relatively self-contained, the proportion of domestic economic activities exposed to trans-border flows of goods, services, capital, and technology has been increasing speedily.

* Balıkesir University, Department of International Relations.
E-mail: muzaffer_ercan@yahoo.com.

Historically, since the Great Depression of the 1930's, the leaders of major market economies have endorsed the logic advanced in the United States by Cordell Hull that lowering economic barriers will promote not only growth and prosperity but also peace and stability among nations of the world. The predominant presumptions have been that countries increasingly linked to each other by economic ties will be more likely to be at peace with each other than countries separated by economic protection and restrictions, that firms and workers whose self-interest is buoyed by greater openness will be more supportive of constructive engagement in the international system than firms and workers striving to insulate themselves from external competition, and that politics enjoying the growth and innovation generated by trade and investment will help to stabilize relations among states (Moran, 1996: 155).

Accompanying the process of globalization, however, it has appeared a trend counter to the benign vision of economic and political harmony from more open borders. While it is true that in terms of national welfare, greater openness to competitive market forces, including competitive market forces from abroad, and greater freedom from artificial market restrains are closely associated with higher economic growth, as well as higher standards of living, there are basically seven areas in which serious economic problems in global economy may generate conflict among nations. These are:

- High-tech trade rivalry,
- Trade discrimination,
- Foreign investment and the acquisition of critical domestic industries by foreigners,
- Outward investment and the "hollowing out" of the home country,
- Trans-border flows and the distribution of "good jobs" versus "bad jobs",
- Unpredictable economic crises, and
- North-South inequalities.

This article aims to briefly explain these problems, in that order, and discuss their probable conflict-prone effects.

2. High-Tech Rivalry

As opposed to the predominant win-win nature of conventional trade interactions, special concerns have arisen about trade competition in high-tech sectors, such as telecommunications, advanced materials, computers, and bio-chemicals. Economies of scale dictates that only a few countries may enjoy the presence of a critical industry that has important economic and defense ramifications. Where such high-tech industries are located, and what measures governments might take to ensure that their nations can field a player in such sectors, can become a source of conflict among the governments.

From any country's point of view, strategic trade industries are valuable not only because they incorporate a large proportion of high-wage, high-skill jobs, but also because they are likely to generate economic, social, or defense-related benefits. Therefore, countries generally desire to ensure the presence of their own country's companies in strategic industries. For instance, the United States, Japan, Russia, European countries, and other great powers all want to be the major producers in telecommunications, microelectronics, military equipments, and other advanced products. This, then, inevitably causes a severe competition among them.

States capable of producing high-tech materials normally tend to create ground rules to regulate their trade relations among themselves in order to avoid conflict, as any conflict would have a potential to give damage to all of them. But nonetheless, unilateral accusations and restrictions are likely to occur from time to time, bringing about unfair trade practices, causing, thus, a conflict among rival powers.

3. Great Trade Blocs and Trade Discrimination

As the world is moving toward internationalism fast in the post-Cold War era, it has become fashionable to argue that trade discrimination among nations is now over (Siebert, 2007; Boudreaux, 2008). This argument was also supported by the successful completion of the Tokyo and Uruguay Rounds of trade negotiations in the past decades.

However, the observable reality is quite the otherwise. Even not counting the impact of natural determinants of trade patterns, such as geographic proximity or absolute size of the nations in question, we have seen the emergence of great trade blocs in Europe, the Western Hemisphere, and Asia in the post-Cold War period.

Indeed, in the early 1990s, the trend was toward greater regionalism. In 1993, the European Union (EU) came into being with Maastrich Treaty, signed in 1991, replacing the European Community of the past decades. The creation of the EU certainly increased trade relations among member countries as they were politically tied, or more strongly tied, as well. The last amendment to the constitutional basis of the EU, the Treaty of Lisbon, came into force in 2009 (Borchardt, 2010).

The EU operates through a hybrid system of supranational independent institutions and inter-governmentally made decisions negotiated by the member states. It has developed a single market through a standardized system of laws which apply in all member states including the abolition of passport controls within the Schengen area. It ensures the free movement of people, goods, services, and capital, enacts legislation in justice and home affairs, and maintains common policies on trade, agriculture, fisheries and regional development. With a population of approximately 500 million inhabitants, the EU generated an estimated 21% (US$ 14.8 trillion) share of the global economy in 2011. As a trading bloc, the EU also accounts for 20% of global imports and exports (Bailey, 2011).

On the other hand, the North American Free Trade Agreement, or NAFTA, was established in 1994. The agreement signed by the governments of Canada, Mexico, and the United States created a trilateral trade in North America. The agreement came into force on January 1, 1994. In terms of combined purchasing power parity GDP of its members, as of 2011, this trade bloc is the largest in the world and second largest by nominal GDP comparison (http://www.naftanow.org).

The EU and NAFTA were followed by the creation of Asia-Pacific Economic Cooperation, or APEC, by mostly Asian countries in 1994. Although the roots of this organization go back to the year 1989, it came into existence, as we know it, in 1994 as a response to the growing interdependence of Asia-Pacific economies and the advent of regional economic blocs, namely, the EU and NAFTA, in other parts of the world. Since then, APEC has been a forum for 21 Pacific Rim countries, seeking to promote free trade and economic cooperation throughout the Asia-Pacific region. It works to raise living standards and education levels through sustainable economic growth and to foster a sense of community and an appreciation of shared interests among Asia-Pacific countries. Members account for approximately 40% of the world's population, approximately 54% of world GDP, and about 44% of world trade (Ho and Wong, 2011).

Then, there is Commonwealth of Independent States, or CIS, formed during the disintegration of the Soviet Union by former Soviet Republics. The CIS is comparable to a very loose association of states and in no way comparable to a federation or a confederation. Nevertheless, it is not a purely symbolic organization. It possesses coordinating powers in the realm of trade, finance, and lawmaking. Some of the members of CIS have established the Eurasian Economic Community with the aim of creating a full-fledged common market. As a matter of fact, Common Economic Space was launched on January 1, 2010 (http://www.cisstat.com).

As a result, while traditionally the trade theory has been built on the assumption that there is perfect competition in markets and that economic assets flow freely, the existence of great trade blocs, in reality, does not allow that to a great extent. Crises, large scale conflicts, and even war may likely to occur as long as there exist severe restrictions on free trade. Hence, in the future, the world is likely to witness a new "Cold War", if not a hot one, based on economic clashes among great trade blocs and their supporters.

4. Foreign Investment and the Acquisition of Critical Domestic Industries by Foreigners

The developed countries have long urged the developing countries to accept and welcome the presence of foreign direct investment in key sectors of their economies. They have been more cautious, however, about foreign investment, particularly foreign takeover, in crucial sectors of their own. The rapid expansion of foreign direct investment and the predominance of investment through acquisition are likely to generate conflict among states, especially relative latecomers to this process, such as the United States, Japan, and other nations in Asia (Kehl, 2009).

Countries usually perceive a national security threat if they feel to be highly dependent on foreign suppliers for critical goods, services, and technologies. Foreign influence is likely to increase as the globalization of international economic activity continues. Even in highly-industrialized countries, there have been hundreds of foreign takeovers in microelectronics, aerospace, telecommunications, and advanced materials, in general, in recent years.

Foreign investment is not necessarily "bad". It may represent a market access to global economy, investments, and high standards of living. Yet whatever benefits may accrue from foreign investment, questions of foreign control and domination of critical industries do begin to arise. Further, concerns particularly arise when the international industry of the company to be acquired is a rather tight oligopoly. In this case, politicians and national security strategists often choose to block the foreign acquisition, supporting domestic suppliers, instead. Yet such a decision is not a risk-free policy choice. It mostly causes harsh protests and reactions of great multi-national companies, as well as governments behind them, causing, thus, an international tension, even serious crises, at times.

5. Outward Investment and the "Hollowing Out" of the Home Country

Similar to the above argument, while inward investments can be defended along the lines indicated above as supporting the economic interests of the recipient country, there has been a growing concern that outward investment may export jobs and result in the hollowing out of the economy in the home country. Such traditional concerns, -in Europe, reincarnated in the United States, and beginning to emerge in Asia- can create tension between potential exporters and importers of foreign direct investment.

Critics of outward investment especially point to factories that have been closed in the home market, arguing that if runaway plants could be kept from moving abroad, the jobs they had previously provided would be retained in the domestic economy. But, on the other hand, proponents of outward investment often point to the dynamism of the internationally-oriented sectors of the economy, arguing that if impediments were placed in the way of multi-national companies' ability to move freely across borders, their contribution to local job creation would be severely reduced. It is also argued that an initial effort of a foreign firm to establish a base in a foreign market through direct investment allows that firm to jump to a higher level of exports, and subsequently higher level of job maintenance or job creation, in the home market in comparison to firms with similar characteristics that remained at home.

Empirical research reveals inconsistent results, supporting, indeed, both arguments from time to time. Whatever is actually the case, in the final analysis, it is a fact that the perception that outward investment causes "selling out" of the country in the long-run leads many people and governments to be extremely suspicious towards outward investments. This suspicion oftentimes manifests itself in defensive policies aimed at protecting local economy. Such defensive policies, in turn, bring about trade discrimination, and thus likely to cause international tension, if not conflict.

6. Trans-Border Flows and the Distribution of "Good Jobs" Versus "Bad Jobs"

Generally, it is true that the internationalization of a country's economy leads to a higher standard of living than the alternative of restrictions on trade and investment. However, the higher standard of living may be achieved in an unequal fashion, with significantly higher benefits for a relatively small fraction of the population and importantly lower benefits for the remainder. Concern about the impact of open borders on the distribution of income and on the probable replacement of jobs with high wages and benefits may be a source of dissatisfaction to domestic polities, a source of tension among the governments involved, and a source of opposition to international economic trends and commitments.

Indeed, the composition of jobs and the distribution of income have become a cause of concern, if not conflict, in most major industrial countries. For example, in the United States, family income growth has stagnated over the past two decades and incomes have become more unequal (*Economic Report*, 2011). In Europe, wage levels have been maintained more successfully in real terms, but at the expense of very little job creation. Also in Asia, there are serious concerns that traditional patterns of lifelong job tenure may be undermined by exposure to international competition.

While economic analysis tends to defend the benefits of open international markets for all the countries involved, there is, nevertheless, a genuine theoretical concern that rising levels of trade may depress wages for unskilled labor in the importing country, as that country attempts to compete with economies that use even lower-wage labor in their exports. If this happens, income inequality would be traced to international trade, creating, thus, a pressure on international stability.

7. Unpredictable Economic Crises

Another serious issue that may give rise to both intra-national and international conflict is unpredictable economic crises. As argued above, international economic relations have become truly global in the post-Cold War world. Communications are instantaneous and the world economy operates on all continents simultaneously. Thus, wherever the origin of a crisis, it inevitably affects almost all countries of the world.

The term economic crisis is applied broadly to a variety of situations in which some financial institutions or assets suddenly lose a large part of their value. Many economic crises are associated with banking panics and many recessions coincide with these panics. Other situations that are often called economic crises include stock market crashes and the bursting of other financial bubbles, currency crises, and sovereign defaults (Posner, 2009). Although some economists have offered theories about how financial crises develop and how they could be prevented, there is little consensus as to whether financial crises are still a regular occurrence around the world.

Speaking of conflict, an economic crisis means, first of all, high rates of unemployment, low level of income, recession, decreasing growth in local economy and subsequently, deprivation of basic human needs for many. Research shows that there is a strong correlation between human needs deprivation and conflict, as well as expansionist foreign policies (Burton, 1990, 1997). In general, as a country's economic indicators begin to fall, incidents of deviant behaviors, broadly defined, begin to rise. For example, a recent study on violence in the United States found that limited access to services and unemployment were key risk factors of violence (http://www.globalenvision.org). That aside, serious economic crises may trigger migration of some segments of the society, especially the needy, causing, therefore, a conflict over the distribution, or re-distribution, of resources between local people and newcomers, as well as a probable cultural conflict between these two sides (Moss, 2011). Great economic crises also frequently lead governments to regulate the financial sector, and especially take measures to protect local economy, limiting, thus, international trade. The limitation of international trade, in turn, is likely to exacerbate international tension, as it creates barriers for peaceful exchange among nations.

8. North-South Inequalities

Finally, the post-Cold War period also witnessed the resurgence of North-South economic antagonism, resulting from deep inequalities between the two sides. Actually, such confrontation is not new. It has occurred before in international arena. However, in accordance with the decline of ideological clashes, it has begun to occupy a more significant agenda in international affairs.

To understand the greater consequences of the present North-South conflict, some historical perspective is needed. In the early 1970s, developing countries at the United Nations Conference on Trade and Development (UNCTAD) coalesced into what became known as the Group of 77 to press their demands for a New International Economic Order (NIEO). This aspiration grew out of the neo-Marxist political economy theory of the 1960s, which argued that the international trading system was condemning the “periphery” -Latin America and other developing countries- to poverty, exploitation, and dependency. Among other measures, the NIEO specifically called for a system of price supports for a number of key developing country commodity exports, indexation of developing country export prices to developed countries’ manufactured exports, technology transfer, and the negotiated re-deployment of some developed country industries to developing nations. By the 1980s, the NIEO agenda at the United Nations had foundered due to divergences in developing country interests, the inability to replicate OPEC's success with other commodities and, most importantly, the discrediting of its command-based economic theories. This was evidenced by the astonishing success of Taiwan, South Korea, and others that pursued trade liberalization and export-led growth.

Thirty years later, at Cancun, many officials opined that the harsh rhetoric employed by major developing countries, such as Brazil and India, as well as smaller African and Caribbean countries, was strongly reminiscent of the 1970s UNCTAD experience. The themes of Northern economic exploitation have become fashionably recurrent, even though the remedies demanded by the South at the WTO now differ from the NIEO. Rather than price supports for commodities and exports, developing countries at Cancun called for unilateral trade concessions and compensation by the rich countries.

While there were many reasons enumerated for the failure at Cancun, the common theme was that talks fell apart along a North-South divide. The G-21 opposed developed countries' agricultural subsidies. The Lesser Developed Countries (LDC) refused to lower their astronomical agriculture and manufacturing tariffs, which stoked the frustration of the United States and others (Sevilla, 2003).

With the talks ended with no clear success, the conflict between the poor developing nations living in the Southern Hemisphere and the rich industrial countries of the North has entered a new phase. The phenomenon of the economic dependence of the developing countries on the multinational companies from the industrialized countries is named today *neocolonialism's*, what refers to the economic exploitation of these countries, which resembles the conditions in the colonial age in various regards. With global problems like the climate change, a further dimension of injustice is added: Whereas the problems are caused over proportionality in the North, the consequences of the desertification or extreme weather conditions occur over proportionally in the South. This extends to the threat to the existence of numerous small island states, which will no longer exist if the sea level continues to rise any further (Seligson and Passe-Smith, 2003).

It remains marking that the economic North-South conflict has not led so far to military conflicts. Many critics, nevertheless, see to the *neocolonialism's* as one main cause for the re-flashing of terrorism in the 21 century. Growing economic globalization in the post-Cold War era does not appear to be breaking the historical stratifications between the North and South. Rather, it is economic globalization that channeled by past grooves of strong and weak growth. The national units already integrated to the world economy become more integrated to the world economy; the less well-connected often stay that way. So far, only a very small number of states have managed to break out of the low-growth ruts of the world system. The implications of this grim outcome for world political stability are stark. To the extent that poverty and underdevelopment facilitate continuing conflict between the North and South, we may expect to see international order as fragile.

9. Conclusion

While the post-Cold War period clearly witnessed a visible decline in ideological clashes and inter-state wars, world peace has begun to be threatened by some other factors. As argued in this work, one serious threat has been major economic problems, some of which are, indeed, beyond the full control of nation-states. Since economy affects almost all aspects of human life, economic stability is very important for societies and states alike. Although international conflicts are mostly complex phenomena involving many different causes, the economic dimension is still very important, for an international arena suffering great economic problems and an uneven distribution of wealth is an arena where international antagonism is likely to grow. Using the same logic, international stability can be said to require, among other things, economic constancy, fair competition, and fair trade relations.

Of course, the economic problems discussed in this work do not constitute a complete list. Nor do they necessarily lead to international conflicts all the time. But nonetheless, it would be reasonable to assume, even hypothetically speaking, that if the economic issues addressed above are not dealt with in a constructive way, serious international crises are likely to occur. Effective management of these issues certainly calls for international cooperation.

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