‘Tear Down These Walls’: Economic Globalisation and the Future of Interstate War

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Abstract

The past 70 years have witnessed unbroken interstate peace between great powers and an immense increase in international economic activity. The relationship between these two developments, and the wider relationship between economic activity and peace between states, has been a subject of immense inquiry in international relations. In attempting to discern a causal link in this area, this essay will ask “does increased international economic activity, namely trade and foreign investment, reduce the likelihood of interstate war?” This essay will examine commercial liberal and oppositional viewpoints and then argue that increased international economic activity decreases the likelihood of interstate war, particularly when the economic relationships between states are institutionalised, open, and market-based.

The past 70 years have witnessed unbroken interstate peace between great powers and an immense increase in international economic activity. The relationship between these two developments, and the wider relationship between economic activity and peace between states, has been a subject of immense inquiry in international relations. In attempting to discern a causal link in this area, this essay will ask “does increased international economic activity, namely trade and foreign investment, reduce the likelihood of interstate war?” This question is vital to political scientists and historians concerned with the neoliberal state organisation and what it reveals about the nature of states and the system they comprise. It is also important to the general audience; an answer to this question could reveal whether the system it participates in is nurturing a liberal peace or summoning an age of war.

In answering this question, it is necessary to establish definitional parameters. According to Evans and Newnham (1990: 374-5), the state “is the main actor in world politics. […] states must possess […] a permanent population, a defined territory and a government capable of maintaining effective control over its territory and of conducting international relations with other states.” This essay will use this as a working definition. Extending from the concept of the state is that of interstate war: “direct, somatic violence between state actors” (Evans and Newnham, 1990: 416). This essay focuses on how interstate economic activity affects the likelihood of war between two states engaged in such activity. Interstate economic activity can largely be broken down into trade and foreign investment. Trade is “the exchange of goods and services between actors,” in the case of this essay, actors in different states (Evans and Newnham, 1990: 392). The Organization for Economic Co-operation and Development (OECD) (2008: 234) defines foreign direct investment (FDI) as “a category of investment that reflects the interest by a resident enterprise in one economy […] in an enterprise […] that is resident in an economy other than that of the direct investor.” This essay will focus on FDI in its discussion of foreign investment and use the OECD’s definition of the term.

This essay will argue that increased international economic activity decreases the likelihood of interstate war, particularly when the economic relationships between states are institutionalised, open, and market-based. It will begin by reviewing and assessing existing literature on this topic and dividing it into two general camps: the commercial liberals and the anti-globalists. Subsequently, it will argue that trade and foreign investment foster economic interdependence, which increases the opportunity costs of war. Next, the essay will assess and ultimately refute realist and dependency theorist arguments concerning asymmetrical trade and relative power differences between states. It will next contend that the cultural implications of international commerce are conducive to peace. The essay will then argue that the rise of an international commercial class and the institutionalisation of economic relations foster international peace. Finally, the essay will examine the oft-cited example of the First World War and its implications for the commercial liberal peace hypothesis.

Literature on commercial peace theory can be roughly divided into two groups: that supporting the proposition that trade and other economic activity between states leads to peace, and that contending that such activity either does not affect or increases the chance of interstate conflict. For the purposes of this essay, those who take the former position will be coined the commercial liberals and those who take the latter will be labelled the anti-globalists.

The commercial liberals argue that economic relationships reduce the likelihood of interstate war by increasing their opportunity costs, empowering groups interested in peace, deteriorating state sovereignty, and uniting the interests of states. The liberal literature offers that trade creates relationships of mutual dependence between states, which deters war by increasing the costs of cutting off ties (Russett and Oneal 2001; McDonald 2009; Choi 2010; Gartzke and Li 2003). According to many liberals, foreign direct investment creates similar relationships as states grow to depend on foreign investment and profit from multinational corporations (Gartzke and Li 2003; Choi 2010). This camp also argues that increased economic access to other states makes conquest and military imperialism unnecessary in the procurement of resources (McDonald 2009; Gartzke 2007; Gartzke and Lupu 2012). Commercial liberals also contend that international finance empowers a commercial class interested in peace and detracts from a political class interested in war (McDonald 2004; McDonald 2009). The literature also associates market liberalism with a set of values that lessen the likelihood of conflict (Choi 2010; McDonald 2009). In addition, a group of commercial liberal and functionalist literature claims that the rising power of international institutions blurs the state's sovereign power and war-making ability (Mitrany 1966; Choi 2010). Finally, this camp holds that international organisations encourage dispute resolution (Pollins 2008, Russett and Oneal 2001). Liberals answer to refutation concerning wars between interconnected powers by stressing the probabilistic nature of their theory and the degree to which states control economic exchange (McDonald, 2004; Gartzke and Lupu, 2012).

The anti-globalists include neorealists, Marxists, and dependency theorists who argue that interstate exchange either creates tensions that make war more likely or has no effect on the prospect of peace. Grieco (1993: 118-9) uses the realist notion that international anarchy implies that states pursue their own security and power competitively to combat commercial liberalism. Anti-globalists often hold that this conflictual nature of states prevents them from co-operating to achieve common interests;

in fact, much of their literature suggests that the creation of connections between states increases the prospects of war (Barbieri 2002; Grieco 1993; Waltz 1979), This is especially dangerous, they argue, since economic relationships are often asymmetrical and disturb the relative power balance of states (Barbieri and Schneider 1999; Barbieri 2002; Grieco 1993; Waltz 1979). Waltz (1999) goes as far to say that the world is, fortunately, not interdependent. This literature also contends that states merely use trade; that is, peace can cause trade but trade cannot cause peace (Gholz 2007; Waltz 1979). Finally, Huntington (1993) suggests that interstate economic activity increases cultural identification, spawns chauvinism, and leads to conflict between polities representing different cultures. Anti-globalists answer to refutation concerning international co-operation by stressing that it might be in the short-term interests of states to co-operate and that states economically co-operate because they are allies and not vice-versa (Grieco 1993; Gholz 2007).

The commercial liberals are ultimately more convincing in presenting their arguments concerning interdependence between states; they effectively establish that it discourages war by increasing its opportunity costs. Trade allows countries to import foreign goods that either cannot be produced or are difficult to produce domestically. It also allows them to sell the goods and services that they are best at producing to a wider market. These characteristics of open economies encourage states to become specialised rather than self-sufficient and ultimately dependent on their trading partners for goods and services (Smith, 1993). Since war between trading partners would prevent such exchange, it would reduce each state's economic capability and make war more expensive, lessening the likelihood of it happening (McDonald, 2009: 33, 38).

States also become dependent on capital investments. Interstate wars threaten foreign investments with either destruction or expropriation; both of these outcomes decrease a state's gross national income and sacrifice relative power to its enemy (Russett and Oneal, 2001: 141). In some cases, disturbing international flows of capital can prohibit a war effort. If a state's domestic industry is largely dependent on foreign capital and credit, beginning an interstate war could prompt a withdrawal of capital and effectively render that state unable to effectively wage war (Gartzke and Li, 2003). Gholz (2007: 618) suggests that there is little real separation between resources and foreign investment, as investments can be captured and used by invading states. However, he fails to account for other political, fiscal, and economic costs of war that make states generally prefer to simply invest rather than fight. Capital should also be viewed more as a flow than a stock in maintaining economic growth. Since states come to depend on these flows, the cost of breaking them makes war less likely.

Signalising theory explains why interconnected states are reluctant to wage war, even with states they are not directly connected to. States with closed economies pay little to no price for their international communications; their leaders may say as they please and even bluff with practical impunity (Gartzke and Li, 2003: 566). Often, war results from a failure of states to realise the benefits and costs of fighting. However, if a state is dependent on foreigners to remain functional, the speech of its leaders becomes costlier as markets react to threats and deceitful information. This provides an incentive for state communication to be peaceful and credible rather than reckless and false (Gartzke and Li, 2003: 566). For example, if a leader threatens war, economic actors have the power to sell stocks in that state's economy or withdraw their capital from that state

(Chan, 2009: 445). Information becomes even more credible when independent international organisations compile information and coordinate state interests using it in dispute resolution (Russett and Oneal, 2001: 164). Flexible capital allows financiers to choose which economies are the safest to operate in, creating signals for positive and negative statecraft.

Transnational exchange also provides a means for states to economically expand without acquiring new territory. Closed economies are often pressured to invade other states in order to acquire vital yet otherwise unattainable resources or sources of revenue (Gartzke and Lupu, 2012: 117-18). However, international commerce allows states to purchase these resources and investment in foreign resources to generate profit, all without the necessity of annexing territory by conquest (Gartzke, 2007: 166). There are a number of other economic causes of war that interdependence extinguishes; for example, states need not expand to attain guaranteed markets for its products (McDonald, 2009: 38).

Opponents of commercial liberal peace theory argue that trade is usually asymmetrical and changes the relative powers of states, thus generating conflict. For realists, uneven trade/investment relations imply that trade and foreign direct investment negatively affect the prospect of peace (Gholz, 2007: 623). First, they argue that closeness of contact provides a connection between people, which is necessary for a war (Waltz, 1979: 160; Barbieri, 2002: 81). This is especially the case when cooperation creates a gap between them and competition emerges without a mediator (Barbieri, 2002: 81; Grieco, 1993). Similarly, dependency theorists offer that the economic relationships between developed and developing states cause tension and increase the likelihood of war (Barbieri and Schneider, 1999: 389-90; Russett and Oneal, 2001: 131-32). Finally, the possibility of a relative power change, which often comes with economic integration, can lead to rising states that seek to declare their newfound power status and old powers seeking to defend their primacy (Pollins, 2008: 193).

These critiques fail to adequately demonstrate why closeness or asymmetry increases the likelihood of war. First, the logical conclusion of Waltz's and Barbieri's argument concerning the dangers of "closeness" is that allies are more likely than other states to go to war; this is patently false. If it is true that only states that have previously interacted can go to war, it does not follow that interaction leads to war. Second, the incentives for states to wage war, even if they are rising/declining powers, are lessened by the establishment of new means to express supremacy, namely economic hegemony, which replaces military hegemony. Fundamentally, realists fail to account for the fact that individuals and firms trade; states merely allow it. The fact that China has become Taiwan's largest trading partner despite the antagonism between these states demonstrates that the decisions of individuals and firms can often amount for more than "national interest" in international relations (Chan, 2009: 438). The arguments of dependency theorists are similarly flawed. Tension between a core and periphery does not increase the likelihood of war as the core has no incentive to invade the areas it can economically exploit and the periphery realises it could not realistically defeat the core. Even realist analysis of global equality refutes such arguments: Waltz (1979: 132) suggests that order is impossible to achieve in an equal society, while hierarchies are able to provide security and order. Furthermore, Russett's and Oneal's (2001: 147) empirical evidence suggests that dependency increases the likelihood of peace, even in unbalanced

relationships. Ultimately, a global hierarchy serves to reduce the likelihood of war, regardless of its moral implications.

Economic exchange between states, especially when open and market-based, promotes international values that lower the likelihood of war. Choi (2010: 275) suggests that individualism, tolerance, and universalism are inherent in liberal economies. Since such economies enable and encourage people to pursue their own interests and maximise their own utility, they are linked to individualism. Tolerance is related to individualism, as people are expected to do as they please in a market system rather than do what a wider community views as "right." Furthermore, market liberalism presents itself as a scientific theory constructed from universal axioms of human nature. It also posits that individuals have universal rights to engage in various economic activities. These principles lead people to oppose war, which is necessarily a collectivist venture, is usually motivated by intolerance toward the behaviour of other states, and often violates what liberals view as universal rights. McDonald (2009: 33) argues that the classical liberal belief in individual liberty also reduces popular acceptance of war since it often coincides with a reduction of civil liberties domestically and the chance of invaders restricting freedoms. States rely on popular approval to varying degrees and cannot act to promote their security interests if the people managing the government or if the populace does not accept the means to do so. Thus, open economies make states and their populations less prone to war.

Critics of market liberalism's ideological imperialism argue that opening economies leads to backlash against internationalism and an embrace of regional cultures. Huntington (1993: 25-26) argues that increased global interaction increases peoples' awareness of their own cultures, increasing what he causes "civilization consciousness." As an example, he cites the rise of fundamentalism in the Middle East. According to Huntington (1993: 25-26), greater interaction with the world moves loyalties away from the personal and local to the "civilizational" (that is, to larger cultural groups). Huntington's analysis fails to adequately refute commercial liberal contentions for a number of reasons. First, he accepts that backlash indicates a general distaste for something. However, change usually generates opposition: the fact that "men's rights" groups have emerged in response to feminism does not indicate that society as a whole opposes gender equality. Second, he assumes that civilizational tension leads to war. This begs the question, as the existence of distinct groups is a necessary precondition war. It is clear that groups cause war, but Huntington never explains why cultural reasons drive these groups to fight. It does not explain why, for example, the United States has maintained good relations with Saudi Arabia yet invaded Iraq: economic factors do, as Saudi Arabia extensively traded with the United States while Iraq did not.

International commerce also enables the institutionalisation of international relations and the rise of a commercial class that undermines the authority of states. Gartzke (2007: 170) posits that international economic activity, by allowing capital to move between sovereign jurisdictions, makes wealth more difficult to control by governments and easier to control by capitalists. Free trade specifically decreases the power of groups receptive of war to those that will to prevent it (McDonald, 2004). Under the mercantilist economic models of the early modern period, the emerging bourgeoisie depended on the state for its livelihood. With international exchange and the empowerment of capital, the state depends on the bourgeoisie for prosperity (McDonald,

2009: 38-39). Increased wealth also lends this commercial class power as a special interest group within states (Russett and Oneal, 2001: 130). The interests of this commercial class manifest themselves in the international institutions that govern interstate economic activity, such as the World Trade Organisation. Since war generally reduces the ability of commercial groups to make profits, the rise of an international bourgeoisie reduces the likelihood of trading states fighting.

Institutionalisation also unites the interests of states and provides an avenue for dispute resolution. Although it is often in the long-term interest of states to economically co-operate, states often choose to conflict with each other due to short-term security concerns. However, international institutions allow states to promote their shared economic interests by independently concentrating on specific issues and applying independent, credible information to them (Russett and Oneal, 2001: 165). This proposition is supported the functionalist thought of David Mitrany (1966), who argues that international organisations designed to perform certain functions could weaken state sovereignty and unite the interests of global populaces. Although realists have accused such thinking of overlooking national backlash to the assumption of sovereign power, history has suggested that states tend to sacrifice their own might to appease their commercial classes and internationalise their economies. For example, membership in international organisations provided South Africa, Ukraine, Belarus, and other states enough of an incentive to abandon their nuclear weapons programs (Choi, 2010: 276). Finally, international institutions provide a means for rival states to resolve their disputes formally (Russett and Oneal, 2001: 163-64); the leverage granted to these organisations by the peace-interested commercial classes allows them to influence state behaviour (Pollins, 2008: 197).

Although opponents of the commercial liberal peace hypothesis often cite the First World War, the war ultimately provides evidence for its validity. First, it began between non-interdependent states that had not fully industrialised; there was little economic interaction between Serbia, Austria-Hungary, and Russia (Gartzke and Lupu, 2012: 125-27). Where there was significant trade, alliances formed. France, for example, traded far more with the United Kingdom and the United States than Germany, leading these states to reconcile past disputes (Gartzke and Lupu, 2012). The commercial liberal peace hypothesis also concerns itself with likelihood, so a single counterexample involving two countries that trade and go to war is not sufficient to disprove the theory. In the case of the First World War, there were other reasons for war that became too many for economic activity to prevent (Russett and Oneal, 2001: 174). It is also worth noting that international trade had reached a relative maximum in 1906 (Russett and Oneal, 2001: 174) and that political controls over interstate economic activity became popular before the war, indicating that institutionalised openness helps peace as it restricts state control over their economies (McDonald, 2009: 185). Waltz (1979: 141) asserts that states were more interdependent before the First World War than now; however, he supports this by referencing trade as a percentage of gross domestic product, which fails to account for the growth of capital investment since then. Ultimately, trade allowed for peace between some states in the First World War but was not substantial enough to prevent a host of other factors from culminating in armed conflict.

Regardless of its other consequences, increased international economic activity between states is an unambiguous force for peace, especially when economic

relationships are institutionalised, open, and market-based. This essay first established this by illustrating that economic interdependence, a consequence of trade and capital investment, increases the opportunity costs of war; it then contended that economic interconnectedness removes ambitions to acquire resources and wealth as a cause of war. The essay continued by refuting the anti-globalist claim that asymmetric trade relationships increase tension and the possibility of war by pointing out internal contradictions in this argument and by examining the available models of such relationships. Next, it assessed the values of market liberalism and concluded that open economies encourage values that make war less likely. It subsequently examined the ascendency of the commercial class and international organisation and how this phenomenon makes great power war unlikely. Finally, the essay applied the arguments of liberals and anti-globalists to the First World War.

These findings are significant as they suggest that the world system, recently shaken by financial crisis, should head down the road to greater globalisation if global peace is to be its greatest priority. They also demonstrate that the international cannot be purely understood in terms of states; rather, individuals, firms, and organisations also determine whether there is peace. This supports the wider notion of a liberal peace between co-operative republican states. Although the lack of great power war in recent history and the inability to separate individual factors from the narrative of history put limits on how categorical any answer can be, this essay's conclusion follows from the available literature and evidence. This essay suggests opportunities for future research including the relative importance of trade and investment, the effect of globalisation on civil strife, and the actual power of international economic organisations. Ultimately, this essay's findings suggest that the international neoliberal paradigm is fostering peace regardless of its other consequences despite the contentions of protectionists and anti-globalists. Assuming these findings to be correct, the international community is left with the choice of peace under an international commercial class or a potentially less stable alternate order.

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