



POLITICAL CONFLICT AND ITS RELATIONSHIP WITH INTERNATIONAL BUSINESS.

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ABSTRACT

The paper reviews the link between trade and conflict. Studies of trade and conflict relationship have increased manifold since the beginning of globalization. It discusses the trade and conflict works at length giving many instances. Trade and conflict are not always positively correlated there can be other factors responsible for the conflict. In practice trade, will be seen as reducing conflict to some extent as trade increases economic incentives associated with it also tend to increase. Another point of focus would be to investigate the effects of conflict on various types of trade individually like agriculture, industries and services sector, rather than in an aggregate manner, which seems to be the trend in previous works.

KEYWORDS :

Introduction

Violent conflicts are not rare occurrences they are seen throughout the world. According to the (Journal of Conflict Barometer, 2013) number of political conflicts increased by 9 totalling 414 cases in 2013. Of these 221 saw the use of violence and for the second time since 2011, the number of wars amounted to twenty throughout the five world regions. Together with the recurrence of 25 limited wars, the year therefore witnessed a record total of 45 highly violent conflicts. An additional 176 conflicts constituted violent crises whereas the number of non-violent conflicts increased to 193, subdivided into 75 non-violent crises and 118 disputes. Important business locations, including Libya, Nigeria, Sudan, Colombia, Mexico, and Israel were among the countries involved in conflict events.

According to (Bollfrass & Shaver, 2013) conflict is a global phenomenon and a link between trade and conflict is obscure. It exists since the beginning of time. Researchers from all over the world have tried to analyse this process and its various economic and non-economic implications. It affects the lives of every individual living in the world either directly or indirectly. In particular, International Business (IB) scholars have analysed the impact of conflict on trade. Their research ranges from studying the managerial challenges and problems associated with conflict, changes in foreign and domestic investment flows to disruption in international trade flows like the changes in import and export volumes overtime. How does a conflict come in the purview of an organisation? How does it affect various practices of trade? Can we mitigate the effects of a conflict with the help of trade? What are its various types? These are some of the questions which researchers try to answer while studying the relationship. Researchers have tried to generalise their findings in order for them to be able to predict the occurrence, outcome of a conflict or provide solution to the existing ones. Like at the Ohio State University, USA researchers have hasty made some finding about the nature of the association between trade and conflict, making strong assumptions about the data upon which their conclusions rely, (Barbieri, Kesh & Pollins, 2009). But, this is proving to be a challenge as no two conflicts are same and differ due to the caste, colour, creed, etc. difference of people involved.

Definition of Conflict and Trade

The keen interest in social science and economics for understanding the causes and prevention of conflicts have led to the development of several disciplines, using diverse sources and trying to capture several dimensions of the relationship between trade and conflict, such as with respect to the duration, intensity and location of conflict, etc. This collection of data is faced with a practical problem of how to define conflict before studying it. (Hibbs, 1973) was one of the first pioneers to notice this problem and suggested to concentrate on certain components of political conflict in order to define it such as: riots, anti-government demonstrations, political strikes, armed-attack events and deaths from group violence.

(Otunba, 2010), conflict has been defined by various authors over the years. But, a more recent concept of political conflict according to the revised definition of the (Journal of Conflict Barometer, 2013) is "A political conflict is a positional difference regarding values relevant to a society, the conflict items (material or immaterial goods pursued by conflicting parties) between at least two decisive and directly involved parties, which is being carried out using observable and interrelated conflict measures (actions and communications carried out by a conflicting parties) that lie outside established regulatory procedures and threaten to stage protests against state functions, the international order or hold out the prospect to do so".

The revised definition is much broader in scope and can be applied to various events taking place in a country, whereas the former definition limited conflict to a mere five components.

Trade and Conflict Linkage

Common view of trade and conflict is that conflict is very bad for trade and trade is very good for conflict. In other words, conflict impedes trade by disrupting production, distribution of goods and services and purchasing power of consumers and at the same time trade is seen as making conflict unlikely to occur. (Keen, 2002) trade leads to creation of wealth for the people and because according to the free trade school and the likes of Richard Cobden in the nineteenth century, trade means the countries and businesses acquire such an interest in peaceful conditions that conflict becomes rare. Conflict does indeed disrupt many kinds of trade and financial flows, while trade and commerce do indeed create important vested interests in favour of peace. An example at the international level as observed from media reports, perhaps is an endeavour by some countries to convince other major countries of the world to ban trade with a country. But, fail in achieving this goal as that country may be an exporter of an important resource or an importer and a ban on trade would mean that prices will sharply increase in international markets and also affect supply side adversely.

Some of the researchers show a positive link between trade and conflict and state with increase in the level of trade flows fewer militarized disputes follow, (Schneider, Barbieri & Gleditsch, 2003). But some have even suggested a negative link, (Schneider & Schulze, 2003). Here I wish to raise some other evidence relevant to the possibility of a false link between trade and conflict. Politics has influence on trade flows in many ways. In particular, political conflict raises the possibility of the disruption of trade. Some authors show that the relationship between two states strongly influences the trade flows between them. This closeness can occur due to several reasons which can be economic in nature or non-economic as well. States with close relations between them have much higher levels of potential of trade than states having poor relations between them. Moving from poor relations to good relations can produce

close to a 400% increase in trade between them, (Morrow et al., 1998). There is little difference in trade flows, however, between poor relations and actual conflict. The occurrence of a political conflict has no statistically significant effect on trade flows in the year of the dispute, (Morrow et al., 1998). A political conflict can be thought of as a specific realization of the underlying poor relations between two states that provides a reason for the disputants to block trade with one another. Because a conflict has no aggregate effect on trade flows, it appears that parties engaged in trade have already used the existing state of political relations between the states to judge the occurrence of a political dispute and reduced activities, if poor relations indicate that a conflict may be in the offing. Consequently, conflicts themselves may have no direct effect on trade flows; their impact has been absorbed by economic parties in anticipation of such conflict. Together, these two results reinforce the argument that trade has no effect on conflict. If economic parties arrange their trading activities to account for the possibility of political disruptions of trade, then states have already paid the cost of conflict in trade before a conflict occurs. The realization of a conflict does not impose a cost on the parties involved.

When should trade be linked with conflict? If trade patterns indicate closeness of political relations between states few of us would be surprised to find trade is linked with conflict. For instance, according to ukustrade.com, UK and USA trade was worth \$214 billion in 2012 and continues to grow despite challenging economic conditions. The USA is the largest single destination for British exports, and the UK is America's largest export market in the European Union. Given that most control variables for closeness of political relations are crude at best, trade flows pick up substantial variation in political relations of which both political and economic parties are aware. For example, military alliances such as NATO formed in 1949, are a crude indicator of the state of political relations between states. States with very close relations often do not need an alliance to convince other states of their common interests. The trade flows reflect a more complete view of the state of political relations between the states than we obtain simply from the presence or absence of an alliance. Further, the trade flows incorporate an anticipation of political conflict, and so we should not be surprised if those anticipations prove to be correct on average in practice.

It can be said that besides the economic factors there are other factors such as social or political factors, reason behind political uncertainty and trade will have less role to play in such a conflict. Trade flows are predictable, observable indicator and so have an indeterminate effect on the initiation and escalation of political conflicts. Trade may provide a way for states to signal their observable resolve more accurately and thus assist in the peaceful resolution of disputes that occur. Finally, observed link between trade and conflict may be the result of economic parties anticipating future conflict when they build their business enterprises.

Macro Perspective

A large body of political science, international relations, economic and anthropological literature is pertinent to the study of trade and its correlation to militarized inter-state conflicts and civil war, (Sollfrank, 2001). This topic is of tremendous importance as it affects Globalization, International Business relations and also domestic trade policies. In order to understand the impact of non-economic interferences have on an organization processes that threaten the business with financial and strategic losses, International Business research on this topic dates back to 1980s when Kobrin published a series of works in this area. Various scholars at the international level have investigated the impact of armed conflicts on investment flows between countries, (Li & Vashchilko, 2010). Armed conflicts tend to destroy infrastructure of a nation and result in disturbing their production and distribution capacity. This seriously impedes investment opportunities from outside and governments have to resort to heavy subsidies in order to keep the businesses going. Other scholars have focussed on analysing the managerial

problems and challenges faced by subsidiaries working in conflict-ridden areas, (Oetzel & Getz, 2012). They are faced with various types of security related challenges and sudden shutdown decisions. International Business scholars have also contributed to investigating the disruption of global trade flows brought about by political conflicts and other types of security threats, including terrorism and tense diplomatic relations between countries, (Walkenhorst & Dihel, 2006). While previous analysis of the trade and conflict link have usually discussed how political conflict between trading states influences their trading relationship over a course of time, there has been little attention given to the violent effects of trade with neighbouring nations, (Glick & Taylor, 2010). In addition, most research in this field has focused on the economic consequences of conflict with in a state, rather than with other states and without providing a scientific investigation of its impacts on trade flows (Collier & Sambanis, 2002); (Collier et al., 2003). A notable exception in this field is the work of, (Bayer and Rupert, 2004). They have investigated the effects of conflict between different states on trade flows from 1950 to 1992. Other scholars have analysed the impact of interstate conflict on economic interdependence of trading partners, (Anderton & Carter, 2001); (Li & Sacko, 2002). They have reached mixed conclusion. For example, while Anderton and Carter found that conflict among major world powers does have permanent long-term effects on trade flows between them, other scholars have reached different conclusions. In addition, several research studies on the trade conflict link are limited to the Cold War period starting from 1947 to 1991 and might thus lack generalising their findings to other nations. Furthermore, most empirical studies of trade and conflict are based on a limited number of cases, usually involving "politically relevant dyads," that is pairs of immediate states or pairs of states that include a major power, (Bearce & Fisher, 2002) rather than multiple countries. This has limited the application of their findings to other countries. Scholars have also started analysing the reciprocal impact of trade conflict relationship. Instead of analysing the impact of conflict on trade they shifted their focus on how trade affects conflict overtime, (Martin, Mayer & Thoenig, 2008). Increase in trade leads to increase in welfare of the nations. Scholars have showed their interest in knowing to what extent it reduces conflict or potential for it. More recently, they have experimented with new variables in studying the impact of conflict. Pioneer in this field is the work of, (Marona & et al., 2013). They have taken a different route to investigate the link between trade and conflict. They employed the variables of conflict type and location in their research. They were the first ones to introduce these variables in the study of trade and conflict relationship. They followed a dyadic approach because trade always involves two or more parties. First, their findings show that different types of conflict have a different impact on imports. Specifically, intrastate conflict is more often associated with fewer imports than interstate conflict, and interstate conflict is not always associated with lower levels of imports. However, the different impacts of interstate and intrastate conflict on imports can vary with the destructive potential of the intangible and tangible assets, due to prolonged violent conflict that support trade. Secondly, they found that Conflict based in the exporting country has more possibility of disrupting imports than conflict based in the importing country. One explanation is that conflict in the exporting country has a direct impact on the supply side of imports, which is closely connected to an organization's productive capacity. Another research which followed a different approach is the work of (Smith and Fadul, 2008). In their paper, they study the impact of conflict on markets and trade on one state. This research is of significant value as it uses monadic approach instead of dyadic, it takes only one state as point of study in trade and conflict relationship. This was a different approach against our previous studies conducted in the same field. Attention is given to livestock, agricultural produce markets and on some trade practices like credit facility, prices and on transport routes. The study shows the remarkable adaptability of traders there since the conflict began. Despite an extremely hostile environment, trade in most commodities have continued. However, it depicts a dim picture of how the economy has reduced overtime due to conflict, traders going out of business, sharp increase in transaction costs

and regularly contracting profit margins. Market infrastructure has been severely damaged, a continuous process with serious implications for eventual recovery. There is also evidence of war economies developing in Darfur this includes unlawful trade practices as well which may be funding some aspects of the conflict.

Latest studies in the field of trade conflict relationship show a notable shift in the focus of the researches. Notable among them being the work of, (Keshk et al., 2010) This paper explores theoretically and empirically some of the most significant problems that remain in this field: the roles of geographical nearness, nation size, the behaviour of the trade data and the conceptualization of a conflict. Using a simultaneous equations model, we find that the claim that trade brings peace is not strong, but rather it is conflict that diminishes trade. (Goenner, 2011) according to the traditional liberal belief, trade which economically aids countries, creates ties binding the interests of nations and lessens chances of a conflict. While the vast majority of the empirical works supports this opinion, recent research questions these conclusions by also seeing the reciprocal relationship between trade and conflict. (Peterson, 2011) an increasing number of studies maintain that trade is pacifying to interstate relations and recent work on trade links advocate that this pacifying effect spreads to indirect trade ties. In this paper, it is claimed that third-party trade can also have an irritating effect within dyads, by threatening to modify the dyadic balance of competences. For the state trading outside the dyad, trade gains from third parties provide incentives to demand change in the dyadic status quo and finance violent conflict when dyadic disputes arise. For the state whose dyadic partner trades with third parties, potential for the trading state to grow increasingly more powerful encourages action to prevent erosion of the non-trading state's relative power. (Joanne and Raymond, 2014) challenge the liberal peace theory and do a rigorous check on the original data set from the first world war. Besides affirming the negative impacts of conflict on trade their findings also show that it opens up new channels of trade, encourage nations to manufacture domestically. (Koubi et al., 2014) they re-examine the link between renewable and non-renewable resources with conflicts. Their findings show a weak link between the two. (Kinne, 2014) This paper takes a different route in understanding trade conflict relationship. Most of the studies are focussed on dyadic interdependent nations whereas in this paper the researcher examines the influence of the third party in dyadic relation. This is a more realistic approach as a country is always involved in trade with more than one country. (Beyene, 2015) The effect of economic integration and other factors on interstate conflict has been studied with in a surrounded geographical space. It is discovered that the pacifying effects of economic openness and economic dependence on trade of the East African countries like Tanzania, Sudan, Ethiopia, Kenya, Somalia, etc. is significant. Furthermore, it is found that any advances on the democratic front of the dyads decreases the probability of outbreak of an interstate conflict in the area. The paper has discovered that higher the asymmetry in national competence in East African region among certain countries higher is the possibility of conflict. (Peterson, 2015) An increasing number of studies have examined the relation among preferential trade agreements and peace among member states. However, in spite of the possible competitive nature of these agreements, there has been little investigation into whether and how these agreements could bring out conflicts between members and non-members states. In this paper, the author argues that dyadic conflict is more likely when one dyad member's exclusive agreement with a third party outcomes into lower exports for the dyad member that is omitted from the agreement. The author concludes that PTA-induced trade alterations are related to a higher possibility of a conflict between members and non-members.

Conclusion

Over the past 50 years link between trade and conflict has become manifest. It has received recognition from organizations like (WHO) World Trade organizations and (UN) United Nations. There has been a considerable amount of formal research in this field on the influence of economic freedom has on conflict. In practice trade will

be seen as reducing conflict to some extent as trade increases economic incentives associated with it also tend to increase. How much will that be? It depends upon other set of factors responsible for the outbreak of a conflict in the first place. Not every conflict takes place due to the hindrance in achieving economic objectives. A population can be as diverse as the number of people it includes. There may be some other positional difference between the stakeholders e.g. social or political difference.

Most of the studies conducted on this subject are based on two or multiple country models known as dyadic approach with very less emphasis on single country model known as monadic approach. It has led to the findings of various principles which can be generalised in the relationship of conflict and trade, but the drawback is that no two countries are same. There should be more researches on single country model with focus on profiling that particular conflict. Even every conflict is different. It would be beneficial to ascertain the similarities and differences in them. Another point of focus would be to investigate the effects of conflict on various types of trade individually like agriculture, industries and services sector, rather than in an aggregate manner, which seems to be the trend in previous works. These new researches would provide a further insight in the relationship of trade and conflict and will add to the corpus of knowledge

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