

The Economics of War and Peace: Understanding Economic Incentives and Search for Sustainable Peace

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Abstract

This paper examines historical examples that strongly suggest that economic incentives are behind war and peace, particularly because economic incentives are so powerful that institutions based on such powerful incentives are virtually impossible to destroy once firmly established. This valuable historical lesson can be applied to the peaceful resolution of various regional conflicts around the world, including thorny and seemingly intractable conflicts such as the Israeli-Palestinian and Korean Peninsula conflicts. A model of multilateral international economic cooperation is suggested as a concrete example for this purpose. Understanding the nature of economic incentives and how powerful they are can lead to peaceful solutions to many of the regional conflicts presently plaguing the world.

Keywords

Economics of War and Peace, Economic Incentives, Search for Sustainable Peace, Multilateral International Economic Cooperation

1. Introduction

Mankind has fought wars throughout history. Mankind has, at the same time, been able to reach peace and maintain it for sustained periods of time. Some wars have been major world wars and some regional conflicts. There have also been prolonged and sustained periods of peace on a worldwide scale. This paper attempts to analyze the economic motives behind starting wars, reaching peaceful resolutions and maintaining them. Understanding the motives behind wars and peace would aid our efforts to attain a peaceful world and maintain it.

The main motives behind WWI of 1914-18 have been analyzed in terms of

militarism, alliance, imperialism and nationalism. The fundamental motive behind these main contributing factors, however, can be said to have been “economic,” economic in the sense that whether in the pursuit of military supremacy or in the formation of alliances or in furtherance of imperialism or nationalism, the underlying fundamental motive can be said to have been the pursuit of economic interests of the nations involved in the war.¹ WWII of 1939-45 which involved virtually every part of the world was in many respects a continuation of the disputes left unsettled by WWI. WWII which broke out with Germany’s invasion of Poland on September 1, 1939, quickly escalated into a full-scale world war involving every major power in every part of the world. This most destructive war in the history of mankind was brought to its conclusion only after dropping of nuclear bombs in the Japanese cities of Hiroshima and Nagasaki.

The horrors of the two world wars with the loss of millions of lives led to serious searches for the permanent solution for the peace of the world. In Europe, then French foreign minister Robert Schuman proposed the idea of the European Coal and Steel Community in 1950 which was a first step toward the European economic integration.² In the rest of the world, the leaders assembled in Bretton Woods, New Hampshire, in 1944 to discuss possible ways to reorganize the world trade and exchange mechanism after the war and agreed to create international organizations such as the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD) subsequently reorganized as the World Bank, and the General Agreement on Tariffs and Trade (GATT), subsequently reorganized as the World Trade Organization (WTO). These institutions have paved the way for lasting peace in the world since 1945. Our post-war experience shows that once the nations are economically bound together, their collective national self-interests will ensure that no country will resort to actions that will harm the common good of the community. This principle has recently been articulated by [Michael Hoffman \(2018, 2019\)](#).³

The paper is organized as follows. This introduction is followed by a brief discussion of the nature of economic transactions in a peaceful regime and how it can be destroyed by external shocks such as wars and civil unrests in Chapter 2. Chapter 3 presents the examples of post-war regional conflicts that have surfaced and are destroying the prospects for economic prosperity in these regions.

¹Although the immediate cause of the war was the assassination of Archduke Franz Ferdinand, the heir to the Austro-Hungarian Empire, by a Serbian extremist group, there is no question that the real reason behind the expansion of the incident into a world war was the attempt to check on the economic strength of the rapidly rising newly unified Germany by the Austro-Hungarian Empire and the alliance of Great Britain and France. There was also a sentiment prevalent in the minds of people at the time that the war was good for the economy of the country.

²The European Coal and Steel Community (ECSC) was first proposed via the Schuman Declaration by French foreign minister Robert Schuman on May 9, 1950, to prevent another war between France and Germany. He declared that the solidarity of pooling coal and steel production would make war between the two “not only unthinkable but materially impossible.” The ECSC was established in 1951 by the Treaty of Paris which mandated free movement of coal and steel products between six founding countries, Belgium, France, Italy, Luxembourg, the Netherlands and West Germany.

³Michael Hoffman believes that these institutions are built on the principles of multilateral coordination, liberalism, economy-security link and mutual benefit-mutual responsibility.

Chapter 4 is a discussion of relationship between peace and development and several country examples of major challenges in achieving them. This is followed by Chapter 5 which presents a model of multilateral international economic cooperation as a solution for the regional conflicts plaguing the world and threatening to destroy the peace that has lasted for more than three-quarters of a century since the end of WWII. Chapter 6 presents the conclusion of the paper.

2. The Nature of Economic Transactions

All voluntary transactions are mutually beneficial. During the war, however, transactions are not always voluntary. Involuntary transactions are exchanges forced upon a weaker party by a militarily stronger party or a party that believes in its military superiority. When that happens, transactions become acts of aggression instead of peaceful transactions. A system of mutually beneficial voluntary transactions requires a peaceful environment. Once a system of mutually beneficial voluntary transactions has been established and firmly entrenched in a peaceful environment, it gains a momentum of persistence which is difficult to destroy. Economic forces are so powerful that once they become firmly entrenched, it is extremely difficult to destroy them (You, 2023). It requires a powerful external force such as a war, a revolution, or a large-scale natural disaster to stop it. It takes, however, a great deal of coordinated effort on the part of the international community to establish a system of mutually beneficial voluntary transactions and strengthen it until it acquires the self-sustaining momentum. Fortunately, history has shown that this is indeed achievable. A model of such a system is introduced in Chapter 5.

3. The Post-War Regional Conflicts

Although the post-war world has enjoyed peace in Europe and the rest of the Free World under the Bretton Woods regime, there have been a number of regional conflicts outside the areas of economic integration. Notable examples are the Israel-Palestine conflict, the Korean Peninsula conflict, the Vietnam War, and the still ongoing Ukraine War.

The Israel-Palestine conflict is one of the thorniest and seemingly intractable regional conflicts the international community is presently faced with for the peace of the world. The conflict has its origins in the rise of Zionism in Europe and the consequent first arrival of Jewish settlers to Ottoman Palestine in 1882. The local Arab population increasingly began to oppose Zionism, primarily out of fear of territorial displacement and dispossession. The Zionist movement garnered the support of an imperial power in the 1917 Balfour Declaration issued by Britain, which promised to support the creation of a “Jewish homeland” in Palestine. Following the British occupation of the formerly Ottoman region during World War I, Mandatory Palestine was established as a British mandate. Increasing Jewish immigration led to tensions between Jews and Arabs which grew into inter-communal conflict. In 1936, an Arab revolt erupted demanding independence

and an end to British support for Zionism, which was suppressed by the British. Eventually tensions led to the UN adopting a partition plan in 1947, triggering a civil war. During the ensuing 1948 Palestine war, more than half of the mandate's predominantly Palestinian Arab population fled or were expelled by Israeli forces. By the end of the war, Israel was established on most of the former mandate's territory, and the Gaza Strip and the West Bank were controlled by Egypt and Jordan respectively. Since the 1967 Six Day War, Israel has been occupying the West Bank and the Gaza Strip. The October 7, 2023 attack on Israel by Hamas claimed to be in response to this is the most significant military engagement in the region since the Yom Kippur War in 1973. The Israeli counterattack in response to this has resulted in a major humanitarian crisis in the Gaza Strip with tragic consequences, a peaceful resolution for which is urgently needed.

The origin of the Korean Peninsula conflict dates back to the pre-WWII colonial warfare between major powers in the region, Japan, China, Russia and the United States. Following the Japanese victory over Russia in the Russo-Japanese War Japan was able to annex Korea into its territory in 1910 and ruled Korea until the end of WWII in 1945. Following the end of the war, the United States and the Soviet Union, victors of the War, agreed unilaterally to partition the peninsula into the northern and southern halves along the 38th parallel. United Nations-supervised elections were held in the U.S.-occupied South, which was boycotted by the Soviet-controlled North in 1948. The results were two separate governments in the divided peninsula. In the early dawn of the 25th of June, 1950, the Soviet-controlled North invaded the South in a surprise attack. Thus began the Korean War, which lasted three years and devastated the entire peninsula, its economy, its infrastructure, and its people. The war is still not over technically. The fighting was temporarily suspended under the Armistice Agreement signed in July 1953. This is what worries the North Korean regime. The regime feels that it is under constant threat of possible attack by the United States, the most powerful nation in the world. South Korea having signed a mutual defense treaty with the United States shortly after signing of the Armistice feels less insecure. The North embarked on the nuclear development program with the Soviet assistance immediately following the signing of the Armistice as a self-defense strategy against the possible U.S. attack. North Korea is now a nuclear power with a stockpile of nuclear warheads numbering anywhere between 67 and 116 and growing by 12 to 18 a year (estimates based on a joint report recently released by Seoul-based [Asian Institute for Policy Studies and RAND Corp., 2021](#)).⁴ This is perceived by the United States to be a major security threat to the world. These fundamentally irreconcilable positions taken by the two opposing parties have led to an unbreakable stalemate in the U.S.-North Korea negotiations for the denuclearization of North Korea.

The Vietnam War began as an anti-colonial war against French rule, but evolved into a Cold War confrontation between the United States and the Soviet

⁴Estimates based on a joint report recently released by Seoul-based Asian Institute for Policy Studies and RAND Corp. of Santa Monica, California.

Union. China had become a Socialist country in 1949 and socialists were in control of North Vietnam. The United States was afraid that socialism would spread to South Vietnam and then to the rest of Asia. This was the pretext for the U.S. involvement in Vietnam. After twenty years of brutal and fierce fighting with massive loss of lives on both sides the war ended with North Vietnamese victory.⁵ This brought about reunification of North and South Vietnam into the Socialist Republic of Vietnam in 1976. The newly unified Vietnam is now a free market-oriented economy which trades freely and widely in the world market. As a result, Vietnam is now a rapidly growing economy and its people enjoy a rapidly rising standard of living in a peaceful free-market environment.

The current Ukrainian-Russian War started with the Russian invasion of Ukraine on February 24, 2022, in a major escalation of the Russo-Ukrainian War, which started in 2014. The invasion was ostensibly to support the Russian-backed break-away republics of Donetsk and Luhansk whose paramilitary forces had been fighting Ukraine in the Donbas conflict since 2014. The invasion, the largest conflict in Europe since WWII has caused hundreds of thousands of military casualties and tens of thousands of Ukrainian civilian casualties. As the war is still ongoing with little hope of the negotiated end in sight, the casualties continue to mount on both sides.

For all of the examples of regional conflicts described above, peaceful resolution is possible if the parties to the conflicts can be persuaded to explore the benefits of multilateral international economic cooperation based on economic incentives.

4. Peace and Development

Peace is the prerequisite for development and development is the foundation of peace. Once the parties to a conflict are persuaded to come to a peaceful resolution based on the economic incentives through the multilateral international economic cooperation agreement (MIECA), a sustainable peace can be maintained and even strengthened by steadfast commitment to the letters and spirit of the MIECA.

The parties to the agreement may have to overcome initial challenges of historical, ethnic, cultural and institutional nature, for which multilateral international economic cooperation involving the parties and their neighboring countries in the region is essential. For example, resolution of the Armenian-Azerbaijan conflict would likely have to overcome the challenges of ethnic, cultural and historical nature among others (Yacoubian, 2022) while the major challenges for contemporary Burundi are primarily of the values and anti-values regarding the need for harmonization between tradition and modernity (Nizigama, 2024). On a general level, practical issues like application of controversial new technology such as nuclear power generation may present themselves as critical issues (D'Auria & Bousbia Salah, 2016).

⁵The division of North and South Vietnam began in 1954, the establishment of the National Liberation Front of Southern Vietnam in 1961. On August 5, 1964, the United States launched a war against Vietnam through "Beibu Gulf Incident." In April, 1965, the Vietnamese Labor Party requested support from China. The war ended with the victory of North Vietnam in 1975.

Whatever the particular challenges a country may be faced with, the historical lesson is clear that the economic incentives offered by the MIECA are so powerful that they deserve serious consideration. The following chapter presents a model of MIECA for the case of the Korean Peninsula.

5. A Model of Multilateral International Economic Cooperation: The Case of the Korean Peninsula

It is widely believed that during and after World War II, the architects of the economic institutions of the liberal international order articulated a compelling rationale for the structure and rules of the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT). [Michael Hoffman \(2018, 2019\)](#) identified a common set of principles, based on an exhaustive review of contemporaneous speeches, essays and Congressional testimonies, that guided efforts to establish these institutions. Hoffman believes that “these principles represent a pragmatic, battle-tested evolution of a more abstract vision associated with several major Enlightenment thinkers, including the pacifying effects of international commerce and the prospects for a rules-based federation of nations” and can be summarized as multilateral coordination, liberalization, mutual benefit with mutual responsibility, and linking economy to security. Hoffman believes that “together these concepts motivated and underpinned negotiations over how to govern international commerce in furtherance of peace in the postwar world.” The lessons learned from the post war experiences and the principles articulated by Hoffman are too valuable to be lost or forgotten. These lessons and principles can be applied to the pressing international problem of the U.S.-North Korea nuclear and missile diplomacy which has now been completely dead-locked for some time with little hope of a negotiated settlement in sight.

One such application might be a linking of the countries with vested economic and security interests in the region including South Korea, North Korea, China, Russia, the United States and Japan together in such a way as to offer them mutual economic and security benefits. In fact, such experiments have been tried involving just South and North Korea on limited scales in the recent past, namely the Kaesong Industrial Complex (KIC) ([Green & Shin, 2019](#)) and Kumgangsan Tourism Project (KTP) ([North Korea Travel Guide, 2019](#)) but have been discontinued prematurely on a mistaken belief that success of the experiments would lead to an improvement of North Korean people’s standard of living and thereby of the popularity of the North Korean regime which would in turn help strengthen the North Korean nuclear and missile capabilities. The belief that the improvement of North Korean people’s standard of living would lead to the strengthening of North Korean nuclear and missile capabilities is a strange logic indeed. The post-war experiences suggest that as people’s standard of living improves as a result of economic cooperation among the nations, the nations are more likely to devote more resources to strengthening the economic cooperation and more likely to refrain from harming the economic cooperation arrangements than the reverse is the case. This

is more likely to be the case especially when the alternative is a nuclear stalemate with the United States, the most powerful nation in the world.

Naturally, it would be simpler and easier to restart the projects such as KIC and KTP as an initial step toward building more comprehensive international economic cooperative arrangements. The success of restarting these projects would lead to their expansion in scope and scale and possibly to the introduction of additional such projects, the success of which would, in turn, entice other nations in the region to join the cooperative arrangements. Market forces will take over and prevail over the instincts of military confrontation. Our post-war experience in Europe and the world speaks for itself.

Possible staging of the application of this model in the Korean peninsula might look as follows:

Stage 1: Revival of KIC and KTP

The Kaesong Industrial Complex (KIC), located inside North Korea just across the demilitarized zone from South Korea, was launched in 2004, financed and run by Hyundai Asan, part of the Hyundai Group of South Korea to promote economic cooperation and ease military tensions between the two Koreas. The purpose of the project was to develop an industrial park where South Korean companies could manufacture their products using inexpensive North Korean labor. The KIC has been recognized as a highly successful economic cooperation arrangement between the two Koreas in terms of economic benefits to both parties and reducing tensions between the two while it lasted. By February 2016, 124 companies were operating there manufacturing light industrial products including clothing, textiles, car parts and semiconductors. Some 54,000 North Korean and hundreds of South Korean workers were employed there. It was the biggest contributor to inter-Korean trade at the time. South Korean companies paid about \$100 million a year in wages to North Korean workers. The project as a whole is reported to have contributed almost \$2 billion in trade for North Korea by then (Wyeth, 2020). Then, on February 10, 2016, the South Korean government suddenly shut down the complex claiming that the shutdown was “intended to prevent the regime of North Korean leader, Kim Jong-un, from using hard currency earned through the venture to fund its nuclear and ballistic missile programs.” It is no secret, however, that the South Korean government had been pressured by the U.S. administration to shut down the complex on the same mistaken belief.

The Kumgangsan Tourism Project (KTP), also known as Mount Kumgang Tourism Project, was a joint venture between the North and South Korean governments. To take advantage of the growing number of South Korean and other foreign tourists flocking to the scenic Mount Kumgang area allowed to travel there since 1998, the North Korean government separated the area around Mount Kumgang from Kangwon Province and reorganized it as a separately administered tourist region in 2002. The tourism infrastructure was built by Hyundai Asan, a South Korean company, on a 30-year exclusive deal to develop the region. By 2007, the region had reported more than 1.7 million visitors, mostly South

Korean tourists.⁶ It is unfortunate that both the KIC and KTP have fallen victim to the growing political tensions between the two rival governments despite the fact that both projects had been highly successful in yielding economic benefits to the parties involved during their existence and held high promises for the future. If ways could be found to resuscitate both of these projects, it would be an excellent way to begin the application of Hoffman's theory in the Korean peninsula.

Stage 2: Introduction of similar projects elsewhere in the region, for example, Sinuiju-Dandong Free Trade Area (North Korean-Chinese border area)

Sinuiju-Dandong area at the mouth of the Yalu River, the northwestern border linking North Korea to China, has always been a region of thriving international commerce between the two countries. An idea of Sinuiju Special Economic Zone had been proposed in the past but had not been pursued in earnest by either the North Korean or the Chinese government. In September 2002, North Korea took a step to establish a Special Administrative Region (SAR) including Sinuiju and its surrounding area with its own Basic Law in an attempt to introduce a market economy to the region (Namkoong, 2003). North Korea has been attempting to introduce Special Economic Zones (SEZs) modeled after the successful Chinese SEZs for quite some time since the introduction of its 2002 Market Reforms but has been unable to do so successfully. In 2013, the Sinuiju Special Economic Zone officially opened, and it was renamed the Sinuiju Industrial Economic Zone in 2014. The success of the Sinuiju SIEZ depends on cooperation with the three levels of the Chinese government (Chinese central government, Liaoning provincial government and Dandong municipal government) among others (Clement, 2016). There is no doubt, however, that Sinuiju SIEZ project holds high promise, if approached properly, due to its great geographical advantages and existing trade connections.

Stage 3: Rajin-Sonbong Special Economic Zone (North Korean-Chinese-Russian border area)

The Rajin-Sonbong Special Economic Zone, also known as the Rason SEZ, was established in the early 1990s by the North Korean government in the Rajin-Sonbong area near the North Korean border with China and Russia to promote economic growth through foreign investment. It is a warm-water port which both the Chinese and Russian exporting companies in the area should find attractive. As of April, 2017, several Chinese and Russian companies had invested there and Mongolia had joined the Zone (Yoon & Kopp, 2017).

Stage 4: If these cooperative arrangements prove to be successful, other countries in the region might want to jump on the bandwagon and additional similar SEZs could be introduced in the region.

In terms of practical implementation of the Multilateral International Economic Cooperation proposed here, it would be best to start with reviving the Kaesong Industrial Complex which had progressed the farthest prior to its shutdown

⁶In July 2008, a South Korean woman tourist was shot and killed by the North Korean soldiers patrolling the area. North Korea claimed that the woman intruded into the military area under its control. This incident led to the immediate suspension of tours to the area. In April 2010 North Korea seized 5 properties owned by South Korea at the resort.

(Stage 1). It would then be followed by the successive stages as described above. In order to make this process succeed, the four principles laid out by Hoffman, namely the Principles of Multilateral Coordination, Liberalization, Economy-Security Link, and Mutual Benefit—Mutual Responsibility Link must be upheld and adhered to. A failure of any of the four principles would lead to the collapse of the entire cooperative arrangement. Successful implementation of the model described above would ensure the peace and prosperity not only for the Korean peninsula but for the entire region of Northeast Asia. In particular, the North Korean regime would see no reason to keep the expensive nuclear and missile programs and see the advantages of voluntary disarmament. This would pave the way for a diplomatic solution for the denuclearization of the Korean peninsula that is desperately being sought after. In order to strengthen the probability of success of the negotiations for denuclearization presently underway, the parties to the Six Party Talks (South and North Korea, the U.S., China, Japan, and Russia) could be persuaded to participate in the initial stage of a formal discussion on the proposed Multilateral International Economic Cooperation in the region. It is interesting to note that Mongolia had chosen to join the Rason SEZ soon after its launch. As a land-locked country, Mongolia has a special interest in accessing warm-water ports in the Rason SEZ. It would also make sense for Mongolia to attempt to lessen its dependence on the neighboring China as its primary export market.

6. Conclusion

This paper examined historical examples that strongly indicate that economic incentives are behind war and peace, particularly because economic incentives are so powerful that institutions based on such powerful incentives are virtually impossible to destroy once firmly established. This is the lesson we have learned from history that can be applied to resolve various regional conflicts around the world peacefully, including thorny and seemingly intractable conflicts such as the Israeli-Palestinian and Korean Peninsula conflicts. A model of multilateral international economic cooperation is suggested as a concrete example for this purpose.

Understanding the nature of economic incentives and how powerful they are can lead to peaceful solutions to many of the regional conflicts presently plaguing the world.

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Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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