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## THE CONCEPTS OF ECONOMIC WAR AND ECONOMIC CONFLICTS IN A GLOBAL MARKET ECONOMY

Fanny Coulomb, Liliane Bensahel and Jacques Fontanel

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The concept of economic war raises two main questions, first the function devolved to the economy in the political choices and second the opportunity of economic interventionism. Mercantilists have always asserted the primacy of politics (the power of the Prince) on economics, contrary to the liberal thought<sup>1</sup>. The evocation in some political discourses of the necessity of a “Europe power” in front of United States and emerging countries may ensue from this perspective. On the other hand, the pure liberalism cannot admit the existence of an economic permanent war, as it would mean admitting both the violent nature of the market and the necessity of a State offensive action.

The current international economic relations seem nevertheless more than ever conflicting. The economic weapon (boycott, embargos, etc.), widely employed during the Cold war, is still used today, but with other forms and other objectives. Besides, numerous resources previously devolved to the military field, for example in espionage, have been since 1991 allocated to geo-economics objectives, notably in the United States. Several works published at the end of 1980s have moreover announced the battle to come between the industrial major powers (and mainly between the poles of the Triad, United States, Europe, Japan), notably that of Thurow<sup>2</sup> in United States or Harbulot<sup>3</sup> in France. The current popularity of the concept of economic war stems maybe partially from the search for new antagonisms since the fall of USSR. So, the famous anonymous report on the “undesirable” peace, first published in United States in 1967<sup>4</sup>, showed that the existence of a foreign enemy and the permanence of a state of war or of war preparation were necessary for the cohesion of the American society.

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<sup>1</sup> Coulomb F. (2004), *Economic theories of peace and war*, Routledge, London and New York, pp. 13-24.

<sup>2</sup> Thurow L. (1992), *Head to head: The coming economic battle among Japan, Europe, and America*, Wm. Morrow & Co., New York.

<sup>3</sup> Harbulot C. (1992), *La machine de guerre économique: Etats-Unis, Japon, Europe*, Economica, Paris.

<sup>4</sup> Lewin L.C. (1996 [1967]), *Report from Iron Mountain On the Possibility and Desirability of Peace*, Free Press, New York.

Cf. Fontanel J., Coulomb F. (2005), *Galbraith, economist of the peace*, article to be published.

The economic globalization process therefore seems to aggravate economic tensions among nations. The dominion of industrial nations on the world economy (70 % of foreign trade flows and 80 % of the foreign direct investment flows on average since the beginning of 1990s) seems today jeopardized by some particularly offensive emerging countries, such as China, India, South Korea, Mexico or Brazil. Now any modification of the balance of power represents a factor of potential conflict. Today, the protectionism remains high at the world level: if the customs duties on the goods are on average inferior to 5 %, they remain significant on some products, even if it is especially the non-tariff protectionism which blocks the entry on the markets of industrial nations today. The failure of the World Trade Organization at Cancun on the agricultural issue is one of the numerous conflicts on State subsidies and aids. Besides, the “trade wars” between major powers have not decrease since the beginning of 1990s, on the contrary, as shown by the high number of cases submitted to the Dispute Settlement Body (within the World Trade Organization), since its creation in 1995.

Other elements are revealing of the multiplicity of the economic conflicts. The disclosure of the existence of a system of world communications interception, organized by the United States and some allies (the Echelon system) and of its use for the benefit of big national firms during the 1990s, has much contributed to strengthen the thesis of a not declared, secret but true economic war. Other operations may also be evoked, as a use of systematically undervalued national currencies by some countries to favor their exports, and other measures of “unfair competition”. The wave of international mergers and acquisitions in the 1990s within the Triad, the threats of relocation, the use of information (and disinformation) campaigns to achieve economic objectives, as in the case of the GMO (genetically modified organisms), are so many facts which may be analyzed in terms of “trade war”. However, the use of this concept to characterize competitive confrontation on markets, even supported by the public power, is not necessarily justified on the theoretical plan.

The concept of economic war, widely evoked since the end of 1980s, has indeed always remained vague, both on its contents and on its analytical foundations. In a previous meaning, its field of application was limited to the use of the economic weapon and to the international economic sanctions. In a wider sense, it is often used to describe the interstate confrontation in international economic relations.

This concept however raises several essential issues: by giving up comprehending international economic relations in terms of power, do not

some countries risk to be quickly overtaken on the commercial and technological plan, for the benefit of more offensive countries? Do the chances of a country in the “economic war” come from its historic inheritance and from its culture, or from the State action, or other factors? But at first, is there an economic war?

Having discussed the opportunity of the use of the concept of economic war, we shall try to put in evidence the various current possibilities of using economy for power objectives.

## **I. From the economic weapon to trade conflicts: the economic war, a misused concept**

The concept of economic war, which was originally precise, has been progressively broadened and transformed into a polysemic expression. For the strategists, it covers a very precise sense: it is about the use of economic means for military, political or strategic objectives, in a situation of war or of political tensions. On the other hand, the utilization of this notion to characterize the economic confrontation on markets may be questioned. The issue is indeed to know what allows then to distinguish a so-called economic war from “normal” competition in a market economy.

### **I.1. The economic weapon in the service of the foreign policy**

The first meaning of the “economic war” is that of the use of economic weapons during a military conflict. Some past examples of blockade have revealed the importance of this weapon during a war. The Napoleon’s continental blockade against England aimed at the ruin and bankruptcy of the British economy. Actually, it has generated grave economic problems both in England and in the other European countries. But it has also led France to a policy of ceaseless conquests, to achieve the solidity of the blockade in all continental Europe, until the military rout. Its political and economic cost was thus very high for France. Also, during the First World War, the Allies have undertook to block the maritime trade of the central powers, in particular Germany, to break their supply in raw materials and in energy necessary for the maintenance of their force. This strategy proved to be both worthwhile and very expensive, because it has provoked an excessive submarine war from Germany, which could have been disastrous for the Allies.

Beyond the military field, the concept of economic war can be also applied to the interstate strategies of coercion by economic means in

peacetime. So, the international economic sanctions represent measures of economic war, because it is a question of imposing to the opponent some damages until it is urged to modify its policy, or so that opponent groups are encouraged to take the power. The country initiating these retaliatory measures is ready to accept a decrease of their own economic prosperity, what is a necessary condition for the use of the “war” term. In this context, the “game” is, at least in the short run, doubly negative, a priori more negative for the target than for the aggressor, even if it is difficult to foresee the final result.

The principle of international economic sanctions as a substitute for armed conflicts has aroused many hopes at the beginning of the XXth century. The League of Nations, created in 1920, so aspired to allow a pacific regulation of conflicts thanks to these measures. But this institution has discredited itself in the 1930s, because of its lacks of reaction during the Japanese invasion of Manchuria in 1931 and that of Ethiopia by Mussolinian Italy in 1935. It will not recover from these grave failures. The principle of the international economic sanctions had nevertheless many supporters, among which John Maynard Keynes, who in 1937 declared convinced of the efficiency of such measures<sup>5</sup>.

The use of international economic sanctions has been frequent after World War II. But after more than half a century of use, the efficiency of the economic weapon may be questioned. Often, they have not been sufficient to meet their political, strategic and/or economic purposes assigned by the sender country. Besides they often turned out expensive for the latter. So, the COCOM, set up by the United States and their allies in 1949 and lifted in 1994, which controlled the export of strategic products (containing ultramodern technologies, not exclusively military) towards USSR, showed itself expensive for American and European companies, and of benefit to countries which did not respect these rules. Also, the American embargo against Cuba ended in a nationalization of the American interests on the island and in a development of politico-economic relations between Cuba and Soviet Union. In 1991, the economic sanctions taken against Iraq did not prevent the first Gulf war. Other international initiatives have showed to be only partial success, as the actions against South Africa or North Rhodesia, even if it had taken the international community at least two decades to reach an agreement on penalties against the Apartheid countries. And the American policy of broad economic sanctions against Iran, permanent since the 1979 revolution, has not reached its objectives. Now the United States

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<sup>5</sup> Coulomb F. (2004), *op.cit.*, p. 160.

support the European initiative toward Iran of economic incentives in exchange for curbing its nuclear program.

The regimes subjected to economic sanctions have often managed to find other sources of supply with third countries, through trade diversion. A study of R. Caruso<sup>6</sup> using a gravity equation to estimate the bilateral trade between U.S. and 49 target countries shows a larger negative impact of extensive and comprehensive sanctions than limited and moderate ones. These ones induce a slight positive effect on other G-7 countries aggregate bilateral trade, because of a ‘sanction-busting’. The unilateral extensive sanctions induce a negative ‘network effect’, as other countries will also disrupt their trade with the target country.

But the experience has shown that the target country may also reorganize its own productive structures. So, South Africa, confronted from 1970 with the sanctions of OPEC countries has developed a prosperous petrochemical industry from coal, which guaranteed its energy self-sufficiency. Also, in 1976, the embargo of the United Nations on weapons has led to the implementation of a South African arms industry, which quickly became important at the world level. According to F. de Klerk, the economic sanctions against South Africa would nevertheless have cost 1,5 of GDP a year to the country during the 1970s and 1980s<sup>7</sup>. But even in cases international economic sanctions have succeeded to durably weaken the target economy, their political efficiency was questionable. As it had already been the case with the Castro regime, Saddam Hussein’s power after 1991 was strengthened by the measures considered as inequitable by a population united, voluntarily or not, around its leader.

The use of the economic weapon does not limit itself to the implementation of blockade or embargo. It may also be restrictions of imports, freezing of assets or suspension of aids. Moreover, the economic assistance can also part of a strategy of economic war. So, the supply of aid, the guarantees of investment or the preferential trade agreements can be used for political, strategic or economic purposes, as shown by D. Baldwin, who then speaks about “positive sanctions”<sup>8</sup>. Washington economic aid is clearly based on the American economic and strategic interests. Today, its food aid is mainly made of GMO, the production and outlets of which the national producers hope to develop.

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<sup>6</sup> Caruso R. (2003), “The impact of international economic sanctions on trade: an empirical analysis”, *Peace Economics, Peace Science and Public Policy*, 9 (2), 1-34.

<sup>7</sup> De Klerk F. (2004), in *Géoéconomie*, n° spécial « Sanctions économiques. Quelle efficacité politique ? Quelles conséquences humaines », n°30, été, p 46/47.

<sup>8</sup> Baldwin D. A. (1985), *Economic Statecraft*, Princeton, Princeton University Press.

## I.2. The use of the concept of economic war in peacetime

The success of a “widened” notion of economic war in industrial nations during these last years is partially explained by the relative ideological emptiness left by the disappearance of the Soviet enemy. At the beginning of the 1990s, in the euphoria resulting from the worldwide spreading of the market economy model and of the idea of « the end of the history », many analysts have put forward the hypothesis of a definitive pacification of international economic relations, at least between major powers. This idea was not new. Since the XIXth century, numerous liberal economists have spread the thesis of cosmopolitanism, inherited from the Physiocrats, by evoking the pacification of international economic relations and the decrease of military conflicts thanks to increasing trade interdependences<sup>9</sup>. The theory of A. Smith, systematized by J.B. Say, explained at the end of the XVIIIth century the loss resulting from mercantilism and colonialism, and the superiority of a model of development based on increasing trade relations with prosperous nearby countries. In this context, the notion of economic war is not pertinent, as the interest of each country is to reach always larger foreign markets, and thus to let nearby economies thrive within the framework of a general decrease of trade restrictions. The theory of Ricardo’s comparative advantages indeed explains how the international trade can create supplementary wealth for all partners, with regard to a situation of autarky. The analysis does not deal with issues of power, though Ricardo states that the international trade development, which is a priori favorable to all countries, can nevertheless be more advantageous for some than for the others. In a recent article, P.A. Samuelson<sup>10</sup> has shown that the gains coming from free trade globalization are not always shared by all exchange partners. A technological change leading to productivity gains in one country may benefit this country alone, while “permanently hurting the other country by reducing the gains from trade that are possible between the two countries”. This negative effect is not a ‘short-run adjustment cost’ but rather a ‘long-run Schumpeterian cost’. However, Samuelson does not advocate protectionism, as “Tariffs are the breeder of economic arteriosclerosis.”<sup>11</sup>

The liberal optimism inherited from the XIXth century has given birth to a current of pacifist liberal economists, particularly in France, notably

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<sup>9</sup> Coulomb F. (2004), *Economic theories of peace and war*, Routledge, London and New York, Part 1 Chapter 2.

<sup>10</sup> Samuelson P.A. (2004), “Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization”, *Journal of Economic Perspectives*, 18 (3),135-146

<sup>11</sup> op.cit., p. 143.

with Bastiat or Chevalier, who anticipated at the beginning of the XXth century the disappearance of international conflicts, due to a military and tariff disarmament<sup>12</sup>. However the globalization process of that time, which had aroused so many hopes of world peace, has been interrupted by World War I, which had been foreseen by F. Engels. Contrary to the liberalism, the Marxist theory had developed, sometimes implicitly, the idea of an economic war between major powers. Karl Marx himself had explained that the international trade was a transposition of the class struggle on the international scene<sup>13</sup>. The theorists of imperialism of the end of the XIXth-beginning of the XXth century have underlined the link between economic and military conflicts, in a time when the struggle against the decline of the profit rate seemed to develop on an international scale. It is the Russian economist N. Bukharin who evoked this subject the most explicitly (he uses moreover the expression of « economic war ») in his work of 1915, “*Imperialism and world economy*”<sup>14</sup>. He describes a new stage of capitalism development, that of the “ State capitalism », characterized by an increasing integration of economies on international markets, with the development of financial capital and the internationalization of production. The State involvement in the defense of national interests on the foreign scene explains the increase in the number of international conflicts, with at first “economic wars”, that may degenerate into military conflicts. Bukharin so admitted that the State played a determining role on international economic structures, therefore challenging the pure economic determinism. But the changes of the international economy after 1945 have not confirmed the forecasts of the theorists of imperialism, who (in particular Lenin) announced the disappearance of capitalism, following the exacerbation of economic and political tensions between imperialist major powers. The existence of international institutions of regulation or the several agreements between large dominant firms are some of the characteristics tending to weaken the interpretation of current international economic relations in terms of economic war.

However, the seeming triumph of the liberal model at the beginning of the 1990s did not annihilate for all that the alternative theories<sup>15</sup>. First, the liberal position that trade interdependence reduces conflict’s likelihood has not been satisfyingly confirmed by statistical studies: in a recent article,

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<sup>12</sup> Coulomb F. , Fontanel J. (2003), “War, peace and economics”, in Galbraith J.K. (ed.), *Economics of peace and security*, EOLSS (Encyclopedia of Life Support System), [www.eolss.net](http://www.eolss.net)

<sup>13</sup> Coulomb F. (2004), *op.cit.*, p. 121.

<sup>14</sup> Boukharine N. (1969 [1915]), *L'économie mondiale et l'impérialisme*, Editions Anthropos, Paris.

<sup>15</sup> Coulomb F. (2003), « Pour une nouvelle conceptualisation de la guerre économique », in Daguzan J.F. and Lorot P. (eds), *Guerre et économie*, Ellipses, Paris, 73-87.



Keshk, Pollins and Reuveny<sup>16</sup> show that the use of an adequate simultaneous equation model of trade does not validate the liberal claim that trade reduces conflict. Moreover, some “realist” economists have underlined the maintaining of interventionism and of practices opposite to liberalism, including interfirm relations. The widened concept of economic war, which spread especially from the second half of the 1980s, has then been used to give sense to apparently neutral international economic relations. Some economists have then accredited the idea according to which economic conflicts should replace military ones. Many works on the economic war have indeed been published at the beginning of the 1990s, from Gilpin<sup>17</sup> to Thurow<sup>18</sup> or Luttwak<sup>19</sup>. The concept of geo-economics, used by the latter, now designates the new instruments and the objectives of a State willing to increase the national economic power on the international scene. At the end of 1980, Luttwak then proposed a reaction of the American government to stop the economic decline, through an unprecedented trade and technological offensive.

The idea of an active support of governments for the national economic development has repeatedly been corroborated. Several examples may be mentioned, as the measures of the Japanese government to maintain the Yen systematically underestimated during the 1970s, the implication in the Airbus-Boeing duel of their respective States (through direct loans or indirect aid), the use of the “big ears” of the NSA for economic purposes, the aggressive takeover bids of the 1980s or the increasing use of disinformation campaigns to compromise a rival firm. For some analysts, these cases confirm the reality of an economic war between the big industrial nations, with the combined and complex action of governments and companies. K. Zeng<sup>20</sup> has explained in a recent study that the trade wars are more likely among democratic developed countries, as these ones have similar patterns of comparative advantage, what exacerbate the competition. On the contrary, trade retaliation against developing countries face resistance from U.S. sectors that benefit from trade with them, because of complementary trade structures between developed countries and developing ones.

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<sup>16</sup> Keshk O., Pollins B.M., Reuveny R. (2004), “Trade still follows the flag: the primacy of politics in a simultaneous model of interdependence and armed conflict”, *The Journal of Politics*, 66 (4), 1155-1179.

<sup>17</sup> Gilpin R. (1987), *The political economy of international relations*, Princeton University Press, Princeton.

<sup>18</sup> Thurow L. (1992), *Head to head: The coming economic battle among Japan, Europe, and America*, Wm. Morrow & Co., New York.

<sup>19</sup> Luttwak E.N. (1993), *The endangered American dream*, Simon & Schuster, New York.

<sup>20</sup> Zeng K. (2004), *Trade threats, trade wars: bargaining, retaliation, and American coercitive diplomacy*, Ann Arbor, University of Michigan Press.

The link between the industrial potential of a country and its capacity to influence the standards of the international system and to widen its sphere of influence, notably through policies of commercial and technical aid, may also be underlined<sup>21</sup>. Moreover, some political decisions can be considered as operations of economic war. So, the acceleration of the arms race with USSR by Ronald Reagan at the beginning of the 1980s, with the Strategic Defence Initiative project, has driven USSR to increase its military, what finished exhausting its economy, so preparing the conditions of its collapse<sup>22</sup>. Besides, the recent terrorist attacks have revealed the vulnerability of industrialized economies, notably because of the economic and financial concentration in some zones or of the necessity of preserving the confidence in the stability of the world financial system.

For all that, the theoretical foundations of the broad conception of “economic war” remain vague. They have sometimes been linked with “neo-mercantilism” and with the “neorealist” current in international relations. This neo-mercantilist logic leads to widen the analysis of the national security to the economic sphere. However, the notion of economic war becomes less pertinent while broadening.

### **I.3. A confusion between economic war and competition**

The current economic discourse distinguishes between trade disputes and trade wars. A trade dispute is a disagreement between two or more countries about the legitimacy of some national measures supporting trade. It may be settled by the WTO dispute settlement mechanism. Trade war describes a situation where two or several States use strategies of tariffs and non-tariff barriers against each other, in a process of trade retaliation. The concept of economic war is less frequent, but has a broader sense, as it includes not only the use of trade policy, but also the one of industrial policy, of diplomatic influence or of economic intelligence through public means. The analysis of international relations in terms of economic war may seem appealing, in the context of an aggravated economic competition, sometimes with the support of the States. However several major arguments lead to criticize the use of this concept.

- At first, an economic war supposes a “zero or negative sum game”, with for the aggressor the acceptance of losses to weaken or annihilate the opponent. Now, the contemporary economic reality is quite different. The

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<sup>21</sup> Borrus M., Zysman J. (1992), “Industrial competitiveness and American national security”, in W. Sandholtz et al. (1992), *The highest stakes - The economic foundations of the next security system*, Oxford University Press, New York, Oxford, pp 7-52.

<sup>22</sup> Fontanel, J. (2004), *Guerres et conflits économiques*, Fragments de Cours, UPMF, Grenoble pp.29-31.

economic collapse of a region may create problems in the whole world economy, as shown during some financial crises. None of their competitor countries is pleased with the excessive debts of the United States, which represents a threat for all economies. Also, a stagnation of the American economy is not wished by the European countries, as it would limit important their own development.

- Then, the current evolution of international economic relations does not confirm the thesis of an increasing economic competition between major powers, leading to numerous tensions and conflicts. On the contrary, the development of international mergers & acquisitions during the 1990s has strengthened the movement of industrial concentration at the world level<sup>23</sup>. Many strong value-added industries now have a structure of international oligopoly, like the car industry, telecommunications or the large-scale distribution. This trend does not necessarily lead to an increased competition between “giant firms”; on the contrary, these may conclude agreements, therefore distorting competition. States are then obliged to lead a competition policy to dismantle non-competitive agreements, cartels and illicit collusions of companies, which may go against the consumer’s interest.
- Today, 40 % of the international trade is an intra-firm trade, “captive”, the price and modalities of which are decided by the parent company, out of the market competition<sup>24</sup>. The scenario of an always more exacerbated competition between rival firms should then be reconsidered, even if the use of a military vocabulary to characterize firms strategies is widely spread today.
- Concerning the States, it is difficult to develop a general discourse of their involvement in an “economic war“, situations being much varied. If the United States seems offensive on the economic scene since the 1990s, Japan has on the contrary given up many of the interventionist characteristics linked to its successful past model export development. As for the European Union, it seems more worried of deepening the economic liberalization than to promote a policy of power<sup>25</sup>. The criticism of the European policy from specialists of “ economic intelligence “ and/or partisans of Europe’s power have multiplied in scientific reviews and various reports; all regret the lack of weakness of

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<sup>23</sup> OCDE (2001), *Le nouveau visage de la mondialisation industrielle*, Paris.

<sup>24</sup> Guannel B., Mabile S., Plateau C. (2002), « Les échanges internationaux au sein des groupes », *Le 4 pages du SESSI*, n° 167, novembre.

<sup>25</sup> Cf. Cohen E. (2004), « Etats-Unis / Europe. Entre partenariat et compétition économique », *Questions Internationales* n°9, La Documentation Française.

European responses to the American trade and technological offensive<sup>26</sup>. It seems difficult today to defend the idea that the European Union is really involved in an offensive strategy of economic war. The weakness of some national systems of economic intelligence in Europe (in particular in France), the lack of “think tanks” and well as of a real European strategic thought and of political unity, do not allow to speak about economic war. Europe seems actually little concerned (or worse, disarmed) by the deliberated policy of power based on cultural, religious and economic values, led by the United States.

Today, the broadened conception of economic war therefore seems not operational. It would be preferable to refer to “States economic conflicts in a globalized market economy”.

## **II. The economy in the service of States power**

The “extended” use of the concept of economic war, though unfair, allows at least underlining the power struggles in the world economy and the involvement of States for the benefit of the national power, in a “ new-mercantilist “ perspective. But it is not sure that all the major powers are involved in an open “ economic war “ with their main competitors. To make the war, it is necessary to be two. The current international relations are characterized by the American hegemonic will; to limit this one, the other potential powers use the state diplomacy, within the framework of a peaceful coexistence.

### **II.1. Economic dependence and political vulnerability**

J. Schumpeter<sup>27</sup> considered that economic dependence was the only possible case allowing the use of the expression of economic war. According to him, the economic war corresponded to a specific international situation, characterized by the limitation of supply sources resulting from the monopoly on a particular product by a single country. Judging this case very improbable, he had then rejected the concept of economic war to characterize the interstate competition on the world market.

Beyond the simple quarrel of vocabulary, it may be noticed that the study of the questions of economic dependence and vulnerability have only

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<sup>26</sup> See for example Baumard P. (2004), « Les stratégies de puissance technologique des nations : de la maîtrise des actifs critiques à la stratégie de dominance », in Ecole de Guerre Economique, *La France a-t-elle une stratégie de puissance économique ?*, Editions Lavauzelle, Paris.

<sup>27</sup> Schumpeter J.A. (1950 [1942]), *Capitalism, socialism and democracy*, New York, Harper.

rarely been dealt by economists. These problems are nevertheless central for the international balance of power. A.O. Hirschman published in 1945 a pioneer analysis in this field, entitled “*National power and the structure of foreign trade*”<sup>28</sup> which regrettably aroused only few subsequent developments. Considering that the various countries lead a “power-minded policy” and that the laissez-faire policy was an exception, he tried to analyze the vulnerability of national economies to the use of the economic weapon (like quotas, trade and capital investments controls and the other instruments of economic war) by one or several countries, as well as the possibilities of using foreign trade as an instrument of political pressure. Measuring (by an index of trade concentration) the dependence of a country towards foreign countries, and therefore, its vulnerability, he showed that States exert their influence to modify trade flows for their benefit. The analysis of Hirschman may be compared to the one of F. List, who was opposed to an international competition between economies at uneven levels of development.

A recent article<sup>29</sup> of Askari, Forrer and Hachem deals precisely with the vulnerability to economic sanctions, defined as susceptibility to economic loss resulting from an economic sanction. The case of U.S. sanctions is especially studied; the authors use simple equations to measure the potential vulnerability to sanctions, not only of merchandise trade but also of services trade, transfer payments (including workers’ remittances and foreign aid), capital investments (foreign direct investment and portfolio investment) and other foreign assets. Unsurprisingly, the authors conclude that “the bigger a country’s economy is, the more integrated it is in the global economy, and the more diverse it is, the less vulnerable it is to sanctions. However, the results for Syria go against this evident conclusion because Syria had very little economic activity with the U.S. that could be sanctioned.”<sup>30</sup>

The real meaning of the economic war appears here: the economic power or vulnerability has a direct influence on the level of national security. But rather than of a war, one should speak about a situation of unequal relative power.

Thus, the problem of economic dependence did not necessarily ease since 1945. To give only one example, 89 % of the exports of Mexico are made towards the United States today. This may question the unbalanced economic relations between both countries. But economists do not agree on

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<sup>28</sup> Hirschman A.O. (1980 [1945]), *National power and the structure of foreign trade*, University of California Press, Berkeley.

<sup>29</sup> Askari H., Forrer J., Yang J. and Hachem T. (2005), “Measuring vulnerability to U.S. foreign economic sanctions”, *Business Economics*, April, 41-55.

<sup>30</sup> Op.cit., p. 54.

the issue of the economic impact of a high export concentration ratio. A study of the UNCTAD<sup>31</sup> shows an apparent relation between a high export concentration ratio and a weaker economic development in some less developed countries, compared with other developing countries. Besides, some economic studies on small countries have tended to show that the more open an economy, the higher its income volatility, like Rodrik<sup>32</sup> and Easterly and Kraay<sup>33</sup>. Such conclusions have been contested by a recent study of M. Jansen<sup>34</sup>, which shows the impact of a high level of export concentration on the income volatility of less developed countries. The author concludes, though this hypothesis is not tested, that the lesser openness of LDC's markets may explain a higher vulnerability to income volatility than in small economies also characterized with a high rate of export concentration. Beyond this debate, the data shows a parallel structure of export concentration and income volatility of different groups of countries.

## **II.2. The interweaving of the interests of the military sector and the civil sector in the advanced capitalist societies**

The link between the civilian and military sectors is an essential aspect of the “economic war”, in the field of social organization, of technological development and of the use of military means for economic purposes.

During the 1980s, the Japanese and German economies were generally considered as the most suitable to the international economic competition ones. However, the crisis undergone by these two countries during the 1990s has led to moderate this optimism. The reforms of their model seem to have confirmed the victory of the Anglo-Saxon capitalism on the German one. And yet the idea of the superiority of the German model was not new, and it was essentially based on the specific link between the military sector and the civilian one within societies. In his publication of 1915, *Imperial Germany and the industrial revolution*<sup>35</sup>, T. Veblen underlined the tendency of “modern” capitalist societies (Anglo-Saxon capitalism) to become more and more peaceful, as “commercial interests” predominate against “dynastic

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<sup>31</sup> UNCTAD (2004), *Trade and development benchmarks: a work in progress*, Eleventh session, note by the UNCTAD Secretariat, 13-18 June, Sao Paulo, p. 6.

<sup>32</sup> Rodrik D. (1997), *Has Globalization Gone too Far?*, Washington DC: Institute for International Economics.

<sup>33</sup> Easterly W. , Kraay A. (2000), « Small States, Small Problems? Income, Growth and Volatility in Small States », *World Development* 28,11:2013-2027.

<sup>34</sup> Jansen M. <sup>34</sup> (2004), *Income volatility in small and developing economies: export concentration matters*, World Trade Organization, Geneva.

<sup>35</sup> Veblen T. (1964 [1915]), *Imperial Germany and the industrial revolution*, Augustus M. Kelley, New York.

interests". On the other hand, the dynastic societies (like Japan or Germany) remain marked by specific mental customs inherited from feudal era: military conflicts and mercantilist policies are essential for the survival of these systems. However, the dynastic model of society should normally disappear and be replaced by that of modern one, but this theory is not determinist. In the early 1980s, several analyses have taken up this distinction between two types of capitalism, and have underlined the superiority of the German capitalism in the field of economic war, compared with the Anglo-Saxon one. These analyses generally developed the idea of a decline of the Anglo-Saxon capitalist model (and thus of the American economy). Thus, J.K. Galbraith<sup>36</sup> links his concept of technostructure with the importance of the military sector in the American economy; L. Thurow<sup>37</sup> discusses the distinction between two types of capitalism, with regard to the balance of power; R. Väyrynen<sup>38</sup> analyzes the role of the military sector in the process of industrialization and draws its conclusions as for the respective performances of the studied savings. He shows that the countries which had at first a net perception of the stakes of economic war and which society remains marked by the military organization have an advantage in the current international economic competition. However, the evolutions of the American economy during the 1990s tended to contradict this diagnosis.

And nevertheless, the specific link between the military sector and the civilian sectors may have based the renewed success of the American industry. The economic impact of military research & development is widely discussed today. In Europe, as in the United States, the armament firms now realize an important part of their turnover in the civilian sector, since the cuts of defense budgets. This facilitates transfers from military to civilian sectors, in technologies, products or human resources. The question of the impact of R&D on the rise of industrial productivity remains polemical today<sup>39</sup>. Indeed, some technologies at first focusing on the military sector, as computers or satellite communications, seem to have played an important role in the American growth during the 1990s and to have given the country the control of numerous ultramodern technologies<sup>40</sup>. Certainly, econometric analyses have been little numerous to show a link between the growth of the

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<sup>36</sup> Galbraith J.K. (1969 [1967]), *The new industrial state*, Penguin Books, Harmondsworth.

<sup>37</sup> Thurow L. (1992), op.cit.

<sup>38</sup> Väyrynen R. (1992), *Military industrialization and economic development - Theory and historical case studies*, Genève, UNEDIR, Aldershot, Dartmouth.

<sup>39</sup> Coulomb F., Fontanel J. (2005), « An economic interpretation of French military expenditures », article, to be published in *Defence and Peace Economics*, fall 2005..

<sup>40</sup> Alesina, A., Giavazzi, F. (2004), 'Inégalité de l'Europe en matière d'investissement de défense', *Project Syndicate*, [http://www.project-syndicate.org/article\\_print\\_text?mid=842&lang=4](http://www.project-syndicate.org/article_print_text?mid=842&lang=4).

American industrial productivity and the development of these new technologies. It seems however that, if it is true that in the short-term, patents ensuing from the military R&D are limited, most of the modern technologies have nonetheless been at first developed in the military sector. Besides, the increasing use of intelligences for economic objectives can have an impact on the level of military expenditures, notably in the United States where the structures of economic intelligence are particularly important.

Beyond the statistical debate, this issue represents an essential stake for the understanding of the national economic dynamics, in particular for industrial nations, which dedicate an important part of their public R&D to the military sector. France spent in 2003 about 2 billion euros on the military R&D against 3 billion euro for the United Kingdom. But globally in Europe the ratio military R&D expenditures / public R&D expenditures (24,2 % for France) is very lower than that of the United States, where it reaches 54,4 %<sup>41</sup>. As the military sector remains out of the world trade organization negotiations, the use of military expenditures in purposes of “industrial policy” may be an explanatory factor of their level in the United States. In France also, the industrial policy seems always more concentrated on defense. So, a ministerial report of 2002<sup>42</sup> showed that one third of the companies financed through some defense programs were also financed by some large traditional technological programs. Furthermore, the military sector perceives a part of the civilian budget of R&D (1,9 billion euro in 2003)<sup>43</sup>. But today France remains below Anglo-Saxon countries in military R&D, following the example of the other European countries.

**Table 1: Expenditures of military research, except nuclear, in billion euros.**

	1999	2000	2001	2002	2003
<b>France</b>	2.15	2.03	2.11	1.85	1.99
<b>United Kingdom</b>	3.51	3.81	3.91	3.35	2.95
<b>Germany</b>	1.19	1.22	1.15	0.85	1.08
<b>U.S.A.</b>					

Source: French national Assembly, *Loi de Finances 2004, tome IV*.

A report of the French Defense Observatory in 2002 had used the concept of “technological disarmament” in Europe, beyond a simple delay with regard to the United States. If the European military expenditures

<sup>41</sup> Perrier J.J. (2003), ‘Que pèse le militaire dans la recherche française ?’, *Revue du Vivant* n°1, [www.vivantinfo.com/numero1/recherche\\_militaireimp.html](http://www.vivantinfo.com/numero1/recherche_militaireimp.html). Chiffres de l’OCDE 2003, base MSTI.

<sup>42</sup> Ministère de la Jeunesse, de l’Education et de la Recherche, DEPRD, résultats 2000, estimations 2001 et objectifs socioéconomiques du BCRD 2002.

<sup>43</sup> Rapport au Sénat n°117 sur la loi de programmation militaire 2003-2008



represented then 40 % of those the United States, the ratio was only 25 % for the R\*D expenditures and 12 % for the R\*T ones. This report underlined the strong support of the American government in favor of the national firms on R\*D, notably in the aerospace. In front of this policy, there is no European policy of power.

Another aspect of the relation between the civilian and military sectors is that of the use of military means for economic purposes. The policies of « economic intelligence », led by some firms or some states, seem central today to gain markets. It is in reaction to the offensive Japanese policy of economic information that the United States has work out a doctrine of economic security. In November, 1993, the State secretary Warren Christopher so considered, in a paragraph titled “Economic Security”, that “*security in the post-cold war era will depend as much on strong economies as on strong arsenals. This administration understands that America's strength at home and its strength abroad are interlocking and mutually reinforcing. That is why President Clinton and I have placed economic policy at the heart of our foreign policy.*”<sup>44</sup>

One of the first consequences was the National Information Security Program, to prevent the risks linked with the circulation of strategic information for the American firms. But the concept of "economic security" must be also understood as an offensive instrument. So, some adjustments of the American legislation now allow the theft, the seizure and the transfer of confidential information by information agencies, opening the way to the use of a policy of interception, influence and manipulation. The role of the program "Echelon", revealed in Europe in 1997, is essential. The NSA (National Security Agency) used repeatedly this system for the benefit of American firms. European companies as Airbus or Thomson CSF have indeed been subject to economic espionage, according to the first European report on this subject<sup>45</sup>. The American economic intelligence system has besides been strengthened by the creation of the *Advocacy Center*, which allows the use by national companies of all public means (including information agencies), to help them with regard to foreign competition<sup>46</sup>. They are inserted into a vaster set of private information agencies, many were of which have been created by former CIA members. More widely, the

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<sup>44</sup> “The strategic priorities of American foreign policy” - Secretary of State, Warren Christopher speech – transcript; US Department of State dispatch </p/articles/mi\_m1584>, nov 22, 1993.

<sup>45</sup> Commission temporaire sur le système d’interception ECHELON (2001), *Projet de rapport sur l’existence d’un système d’interception mondial des communications privées et économiques (système d’interception ECHELON)*, Rapporteur Gerhard Schmid, Parlement Européen, Bruxelles.

<sup>46</sup> Carayon B. (2003), *Compétitivité économique et cohésion sociale*, La Documentation Française, Paris, pp. 121-129.

studies on the American policy of influence underline the action of several actors with imbricated interests, as pension funds, non-governmental organizations, *think-tanks*, higher education diplomas (type MBA) or the attraction of foreign students<sup>47</sup>.

In contrast with the American model of “economic power”, some European countries are far behind, and notably France. Certainly, a French system of communication interception, nicknamed “Frenchelon”, managed by the DGSE, is used for industrial espionage. But apart from that, the French resources of economic intelligence seem very few. Two reports<sup>48</sup> on this issue, published in 1994 and 2004, stigmatized France's backwardness on economic intelligence, and more widely, on economic security's stakes. In France, the "ordinance" of 1959 still limits the scope of this concept to economic or industrial espionage against enemy powers. Several cases have however alerted some leaders on the necessity of protecting some key firms, essential for the long-term growth and national security. The takeover by American capital of the French firm Gemplus, the inventor of the smart card, has made the French legislation evolve towards a better protection of to strengthen the protection of strategic firms against foreign control<sup>49</sup>.

### **II.3. What future for strategic trade policies?**

The idea of a States implication in the economic competition is quite widespread today. However, the evolution of economic structures can decrease the interest for this type of policy. So, Japan has suffered a grave economic crisis during 1990s, in spite of its advance in economic intelligence and in the role of the government in the promotion of the economic interests abroad. For some economists, these policies exercise only a limited effect, and the relative ineffectiveness or the illegality of numerous instruments of the “geo-economics” may justify their critic or their abandonment. So, if the new theory of the international trade showed the interest of the public policy in case of imperfect markets, barriers to entry or positive externalities, in the practice, the difficulty targeting the good industries and the possible costs linked to the " strategic commercial policy " come to moderate the optimism for this type of solution.

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<sup>47</sup> Pichot-Duclos J. Général (2004), *Les guerres secrètes de la mondialisation*, Editions Lavauzelle, Paris.

<sup>48</sup> Martre H. (1993), *Intelligence économique et stratégie des entreprises*, Commissariat Général du Plan, Paris.

Carayon B. (2003), *Compétitivité économique et cohésion sociale*, La Documentation Française, Paris.

<sup>49</sup> Carayon B. (2003), op.cit., p. 42.

P. Krugman<sup>50</sup> has indeed criticized the “strategic commercial policy” presented by J.A. Brender and B. Spencer: certainly, the public support to specific industries (through subsidies or tax allowances) is theoretically beneficial, as it allows the state-owned firms to enter "imperfect" markets with strong entry barriers (as it was the case for Airbus in the 1980s); moreover, this policy also favors the development of industries liable to generate « positive externalities », as high technology ones. However, according to Krugman, it is difficult to target the adequate industries for public support. Besides, the risk of reprisals or of similar measures on behalf of a rival country limits the advantage of these measures (because of the “prisoner dilemma”). So, in practice, the cost of industrial or of strategic commercial policies may be superior to its advantages. A recent study of J. DeCourcy<sup>51</sup> based on a strategic trade policy model between two countries shows that it is jointly optimal for both governments to allow their firms to participate in the same cooperative R&D, and that allowing cooperation in R&D can be superior to the use of R&D subsidies.

Besides, the existence of lobbies, which incite the government to set up protective measures of some industries, leads to question the efficiency of protectionist policies. They may be contrary to the general interest; as an example, the American system of *Foreign Sales Corporations (FSC)*, which supports the exports of some American multinationals thanks to a system of tax allowances, gives rise to the dissatisfaction of numerous manufacturers in the United States which do not benefit from this system. Indeed, retaliatory measures of the European Union (which were authorized by the WTO in 2004) have provoked a loss of their export markets. The case of the FSC is therefore a subject of discord in the United States.

According to R.B. Freeman<sup>52</sup>, political leaders exaggerate the importance of trade in economic growth, either by the ones who advocate for trade treaties and open markets and by their opponents, to reinforce their arguments. Trade wars are therefore put forward in the political debate, “to attract the attention of the public”.

So, the interventionism may provoke “perverse effects”, which may cast doubt on the efficiency of the offensive economic strategies led by some States. Moreover, all countries do not necessarily choose a policy of power. As stated below, the European policy does not match the criteria of an

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<sup>50</sup> Krugman P.R. (Ed.) (1986). *Strategic Trade Policy and the New International Economics*, MIT Press, Cambridge.

<sup>51</sup> DeCourcy J. (2005), “Cooperative R&D and strategic trade policy”, *Canadian Journal of Economics*, 38 (2). 546-573.

<sup>52</sup> Freeman R.B. (2004), “Trade wars: the exaggerated impact of trade in economic debate”, *The World Economy*, 27 (1), 1-23.

interventionist “geo-economics policy”. Besides, the regionalization of the world economy does not inevitably reinforce the economic war. The questioning about the nature of economic agreements, the number of which has doubled during the 1990s, according to the figures of the WTO, still remains today. Do they show a reorganization of the world economy between protectionist blocks or on the contrary an accelerated liberalization within regional borders, towards a greater globalization? These agreements seem to have difficulty to go beyond the stage of the free trade area (according to the WTO, free trade areas represent more than 70 % of the existing trade agreements)<sup>53</sup> and to adopt joint institutions. The European Union, which is the most advanced regional agreement in the world, has undertaken accelerated reforms of liberalization and privatization, but there have been no changes concerning the "policy of power", in particular the industrial policy, demanded by economists in favor of interventionism. 40% of the current regional trade agreements reported to the WTO are interregional agreements<sup>54</sup>, which are between countries belonging to different regional zones, as the APEC (Asian-Pacific Economic Cooperation) that gather about twenty countries. The scenario of a regionalization-liberalization thus seems more credible today than that of a reorganization of the world economy in big conflicting regional blocks, leading a relentless economic war.

## **Conclusion**

The extensive use of the concept of economic war is not necessarily judicious. Certainly, there are important conflicts between States and between firms, as well as public or private strategies (sometimes unfair) in favor of the economic power. But to speak about an economic war is excessive, while it is only an aggravated economic competition.

It is indeed advisable to distinguish the “economic war” from the “State conflicts in a global market economy”. In the first case, both opponents, who are ready to sacrifice a part of their prosperity to reach their objectives, endure the costs. In the second case, the game outcome may be positive; the question is not to weaken the opponent, but rather to eventually improve the power, the independence and the prosperity of the Nation. In this game, the State gives new cards to the national competitors. It is not an economic war, but a rather a game with " loaded dices", what explains that international

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<sup>53</sup> [www.wto.org/english/tratop\\_e/region\\_e/sem\\_nov03\\_e/boonekamp\\_paper\\_e.doc](http://www.wto.org/english/tratop_e/region_e/sem_nov03_e/boonekamp_paper_e.doc)

<sup>54</sup> [www.wto.org/french/tratop\\_f/region\\_f/region\\_f.htm](http://www.wto.org/french/tratop_f/region_f/region_f.htm)

organizations are often in conflict with States and are sometimes asked to modify the rules of international trade by the major powers when they do not defend their interests.

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