

# International Conflicts and its Menacing Impact on Global Economy: A Suggestive Policy Making Model

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## ABSTRACT

The research is aimed at initially defining conflict and transmitting the idea emanated towards modern-day international conflicts. It subsequently uncovered the types of such conflicts and their prevalence across the globe. The qualitative expectation of the conflict mechanism was subsequently represented in quantitative terms when the economic impact of the conflicts is assessed. The research performed a correlation analysis between two key indicators- one of the key causes of economic cost which is military expenses and one major impact of the cost- the capital formation. While analysing the result, we could reaffirm the fact that such relationship varies from countries of different strata. Hence the desired policy model with all-encompassing ideological framework would also vary. Once the economic impacts have been quantified and the causal factors have been pointed out, we have suggested a 5-Dimensional model of policy consideration where the major ideological biases have been embedded for more efficient and conflict-free international policy making.

**KEYWORDS:** *International Conflicts, Economic Value of Violence, GPI and growth, GPI and Economic Value of Violence, cross-country Correlation study of military expenditure and Gross Capital Formation*

## 1. INTRODUCTION

*“The compleat diplomat of the future should remain cognizant of realism’s emphasis on the inescapable role of power, keep liberalism’s awareness of domestic forces in mind, and occasionally reflect on constructivism’s vision of change.”* – Stephen M Walt. Conflict is defined in Cambridge Dictionary as “an active disagreement between people with opposing opinions or principles” and “fighting between two or more groups of people or countries”. According to the Macmillan Dictionary, conflict is the angry disagreement between people or groups. Generally, a conflict arises from the difference in opinion and interest. Conflict is not restricted to inter or intrapersonal conflicts, in contemporary world the international conflicts greatly contribute to the international relations, policy making and policy research. The term ‘international conflict’ depicts the dispute among people of various sovereign nations irrespective of proximity, socio-economic-political strata and national ambition. The key causal factors of international conflicts, in gross terms, are inequalities within the society, non-inclusive distribution of resources, difference in public policies, different views on international politics, preferential treatment in trade and commerce, economic dominance, racism etc. and these lead to the emergence of mainly 3 types of conflicts. The territorial disputes such as the South China Sea dominance conflict; political disputes like the targeted control of overambitious countries on weaker third world countries

like Russia’s invasion in Afghanistan or US dominance on many Latin American nations; and the economic conflict which occurs due to the aspiring countries pushing others to uphold its dominance in trade and commerce. Global conflicts not only create a gloomy ambience amongst the nations involved but also entail multifarious social and economic loss. At the end of 2016, 65.6 million people around the globe has been displaced from their homes, The Institute for Economics and Peace estimates that violence and conflicts cost \$ 13.6 trillion in 2015 whereas in 2016, the price was higher at \$14.3 trillion or 12.6% of the world GDP according to the World Humanitarian Affairs. Globally, 278 political conflicts took place in 2006 and after ten years it went on to 402. The region with highest number of conflicts was Asia and Oceania in 2006. In 2016, 22.5 million people were categorized as refugees, Syria war displaced 6.3 million people, and 5.5 million became refugees. Apart from Syria, countries like Afghanistan, South Sudan, Somalia, Sudan, Pakistan, Lebanon, Iran, Uganda produced refugees in millions. Figure 1 represents the trend in global economic impact of violence whereas Figure 2 signifies the areas which contribute to the enormous burden on sovereign exchequer. This research detailed the international conflict types with its economic impact and suggested a policy model to cater to the ideological and developmental needs of the countries in figuring out policies to overcome the conflicts.

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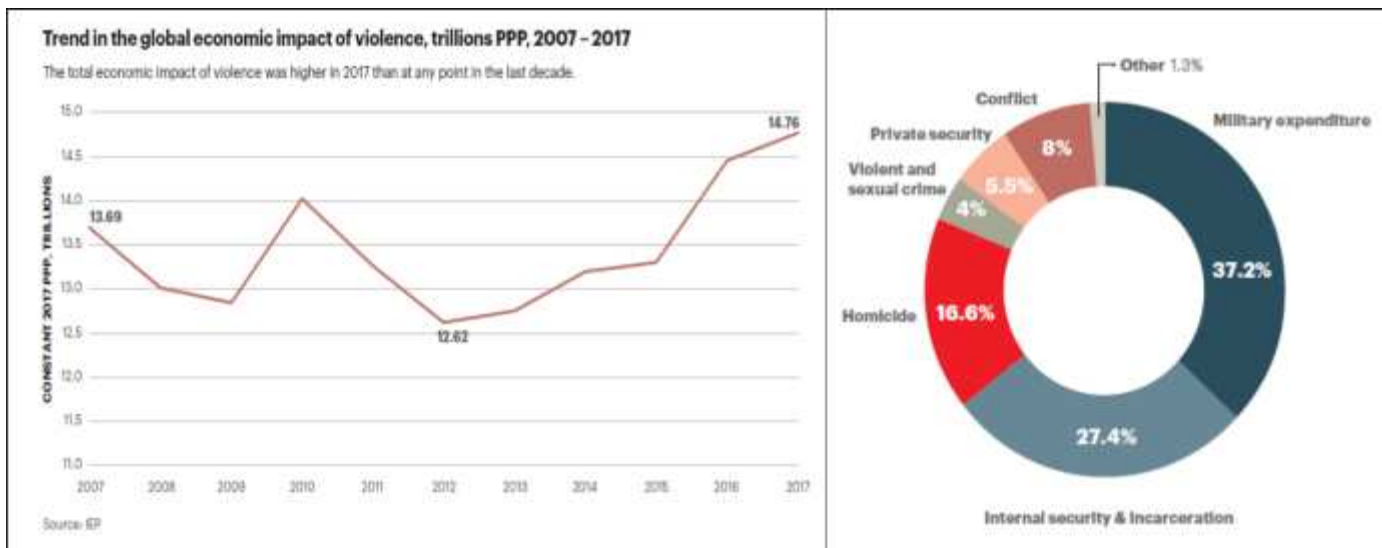


Figure 1

Figure 2

**2. Previous Research**

As the history of conflict is rich since primitive days, the effort of human being in conflict resolution is also prevalent. The modern-day conflict resolution varies significantly from the earlier periods and the focus is more on policy part. Abadie, Alberto and Javier Gardeazabal, in their working paper and Anderton, Charles H., in his research paper in 2001 unveiled the core concept of historical conflicts and its umbilical linkage with economic destitution. Countries in the winning side always roped in to devastate the economic balance of the losing entities. Azam, Jean-Paul, in 1995 and Amirahmadi, H., in 1990 had elaborated with field experiment at African countries and Iran respectively. These researches emphasized the need to have an experimental research mechanism to frame international policies.

Choucri, Nazli and Robert C. North, in 1972 and Colletta, Nat J., Michelle Cullen, and Johanna Mendelson Forman, in their report in 1998 framed the conflict mechanism and the resolution to solve these conflicts. These were one of the seminal works in international peace building. Doyle, Michael and Nicholas Sambanis, in 2000, Knight Malcom., Norman Loayza, and Delano Villanueva, in 1996 and North, Robert, and Nazli Choucri, in 1983 analyzed the economic impact of conflict, consisting both violent and non-violent conflicts, in the global economic scenario.

They also provided us the detailed deliberation on the key question- Who are responsible? How are they impacting the international politics? How to exact the policy framework? How military expenditure can be traded off with peace building? How to weigh the internal and external security aspects of a country? How to prioritize conflict resolution? In addition to these, The Economic Value of Peace 2018 report of Institute for Economics and Peace guided our research towards obtaining a logical framework of international policy making.

**3. Initial Theoretical framework and Methodology**

The research work started with defining conflict in broader sense and restricting it to international conflicts. We tried to figure out the various arms of such conflicts like military, social, economic and political conflict. With a definite aim to understand the economic value of the conflict, we analyzed data pertaining to the impact areas or factors of such disputes. The expenditures incurred to reestablish the pre-conflict status quo namely internal and external expenses, peacekeeping expenses, economic value of conflicts in terms of rehabilitation etc. were evaluated. Global Peace Index (GPI) was compared with the economic cost of violence for the least and most affected countries. Relevant indicators that define economic impact of violence were subsequently identified and its impact on total economic value was assessed. The key component of the economic value of conflict i.e. military expenditure was further analyzed. It was compared for many countries with gross capital formation (both as % of GDP) to assess the correlation among them. A further comparison was made between countries with various peace levels with its growth rate to reiterate the very fact that conflict-free international relationships inculcate healthy growth scenario. Once the details are evaluated, we suggested a model based on various existing and long-cherished international relationship theories and ideologies to enable the policy making authorities to consider the relevant factors while deliberating of policies of international importance.

**4. Presentation of data and explanation**

As stated earlier, this research work initially assessed the economic cost of violence due to international conflicts on the Global Peace Index. Figure three highlighted the most and least affected countries by economic cost of violence as a percentage of GDP. Countries in the headlines due to their strife-torn state of affair from multiple intra and international disputes have not only posed extreme

Most affected countries	Economic cost of violence as % of GDP	GPI 2017 rank	Least affected countries	Economic cost of violence as % of GDP	GPI 2017 rank
Syria	68%	163	Switzerland	1.4%	12
Afghanistan	63%	162	Indonesia	2.2%	55
Iraq	51%	160	Burkina Faso	2.2%	88
El Salvador	49%	116	Canada	2.2%	6
South Sudan	49%	161	Taiwan	2.4%	34
Central African Republic	38%	155	Ghana	2.4%	41
Cyprus	37%	62	Malawi	2.6%	44
Colombia	34%	145	Iceland	2.7%	1
Lesotho	30%	104	Madagascar	2.7%	38
Somalia	30%	159	Equatorial Guinea	2.7%	65

Source: IEP

**Ten most and least affected countries by economic cost of violence as a % of GDP**

Figure 3

low in their Global Peace Index(GPI) but also had enormously high economic cost of violence as per 2017 data. Countries with very less economic cost of violence had fared well in GPI 2017 rank. The exorbitantly high economic cost of more than 50% of GDP for Syria, Afghanistan and Iraq with their abysmally low GPI rank exemplifies the interconnectedness. Figure 4 includes the cost of violence to GDP proportion for the countries ranked top in terms of GPI score. It also covers the indicators related with the economic impact of violence which concludes that military expenditure, internal security, homicide and private security expenses cater to nearly 90% of the total impact. It also unveils the economic cost of homicide which is surprisingly very high (more than 20% of GDP) for many small countries like El Salvador, Honduras and Lesotho.

Country	GPI score (1= most peaceful)	Cost of violence (% GDP)	Indicator	Direct costs	Indirect costs	The Multiplier Effect	Total
Iceland	1.096	2.7%	Conflict deaths	131.8		131.8	263.5
New Zealand	1.192	4.2%	Refugees and IDPs	0.6	355.2	0.6	356.5
Austria	1.274	2.9%	GDP losses		390.1	0.0	390.1
Portugal	1.316	5.6%	Private security	405.4		405.4	810.7
Denmark	1.353	2.8%	Violent crime	89.0	416.2	89.0	594.3
Canada	1.372	2.2%	Internal security	2,021.4		2,021.4	4,042.9
Czech Republic	1.381	5.0%	Small arms	4.7		4.7	9.4
Singapore	1.382	4.9%	Homicide	285.0	1,882.3	285.0	2,452.3
Japan	1.391	2.8%	Fear		137.6	0.0	137.6
Ireland	1.393	3.3%	Military expenditure	2,743.6		2,743.6	5,487.3
Slovenia	1.396	4.0%	Peacebuilding	13.9		13.9	27.8
Switzerland	1.407	1.4%	Terrorism	18.8	123.3	18.8	160.9
Australia	1.435	5.5%	Peacekeeping	12.6		12.6	25.1
Sweden	1.502	3.7%	<b>Total</b>	<b>5,726.8</b>	<b>3,304.7</b>	<b>5,726.8</b>	<b>14,758.4</b>
Finland	1.506	3.7%	<b>Economic impact of violence, constant 2017 PPP, billions</b>				
Norway	1.519	3.4%	Country	Economic cost of homicide as % of GDP			
Germany	1.531	4.1%	El Salvador	43%			
Hungary	1.531	5.6%	Honduras	25%			
Bhutan	1.545	7.6%	Lesotho	21%			
Mauritius	1.546	4.6%	South Africa	17%			
			Jamaica	15%			
			Venezuela	13%			
			Colombia	13%			
			Trinidad and Tobago	12%			
			Guatemala	12%			
			Brazil	9%			

Source: IEP

**The economic cost of violence as % of GDP for the 20 most peaceful countries**

**Highest economic cost from homicide as a % of GDP, 2017**

Figure 4

As the research was keen in pointing out the components / indicators involved in causing economic impact due to international conflicts, the trend of that impact is in expected line where it witnesses a significant rise in the period of 2007-2017 (Figure 5) and the costs associated with internal and external conflict reemphasizes the fact that cost associated with external conflict has a considerable drop since 2007 (Figure 6). The increasing cost dynamics of internal conflict makes the fact clear that nations are more concerned nowadays about their never-diminishing internal issues like radicalism, racism, religious jingoism, regionalism etc. that very often turn out to be blatantly violent. Trend in UNHCR annual expenditure (Figure 7) and trend in global military expenditure (Figure 8) clarify the fact that countries are continuously bothered about securing their socio-economic-politico aspects from the hostile nations. These efforts along with the economic impact of the peacekeeping initiatives by the multilateral developmental and rehabilitation institutions had taken a toll on the global economy. Economies struggling to survive with their multiple limitations are spending more time to protect from international aggression than to focus on developmental aspects.



Figure 5

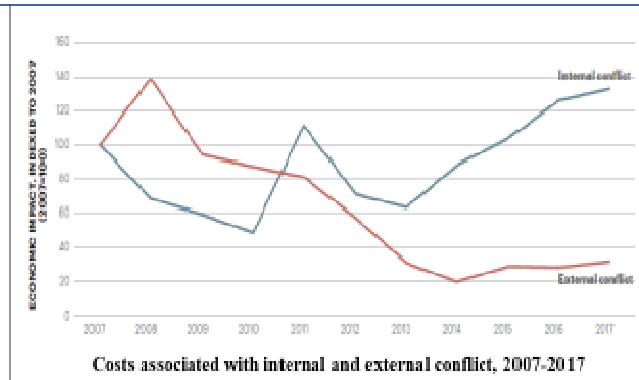


Figure 6

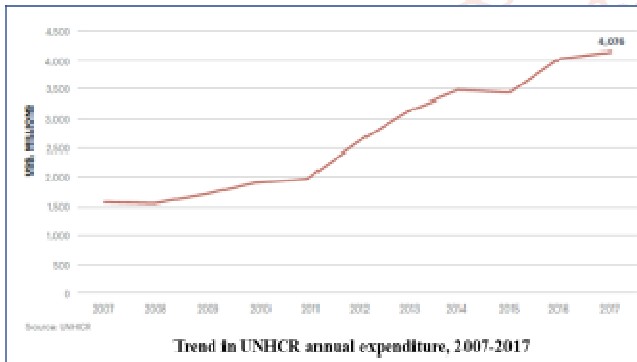


Figure 7

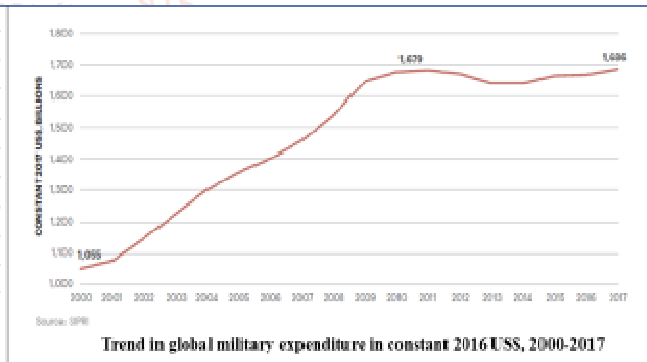


Figure 8

Figure 9 talks about region wise proportion of economic cost of violence in 2017. It is obtained from the analysis that the proportional expenses due to military is exorbitantly high in case of Asia-Pacific, North-America, Middle-East and North African countries whereas it is surprisingly low for Sub-Saharan, Central American and Caribbean nations. Notwithstanding low military expenses, expenditure due to violent crime and homicide is comparatively high for South American, Sub-Saharan, Central American and Caribbean countries. The proportion of internal security is considerably high for Asia-Pacific and European countries. All these also reflect the status of peacefulness in those countries. The military conflicts in Syria and Iraq, multiple racial disputes in Sub-Saharan countries, terrorism-hit state of Middle-East and North American nations revalidate the data. Figure 9 also portrays the fact that average per capita GDP growth is convincingly higher for countries at very high peace and abysmally low for nations with very low peace as per GPI data.

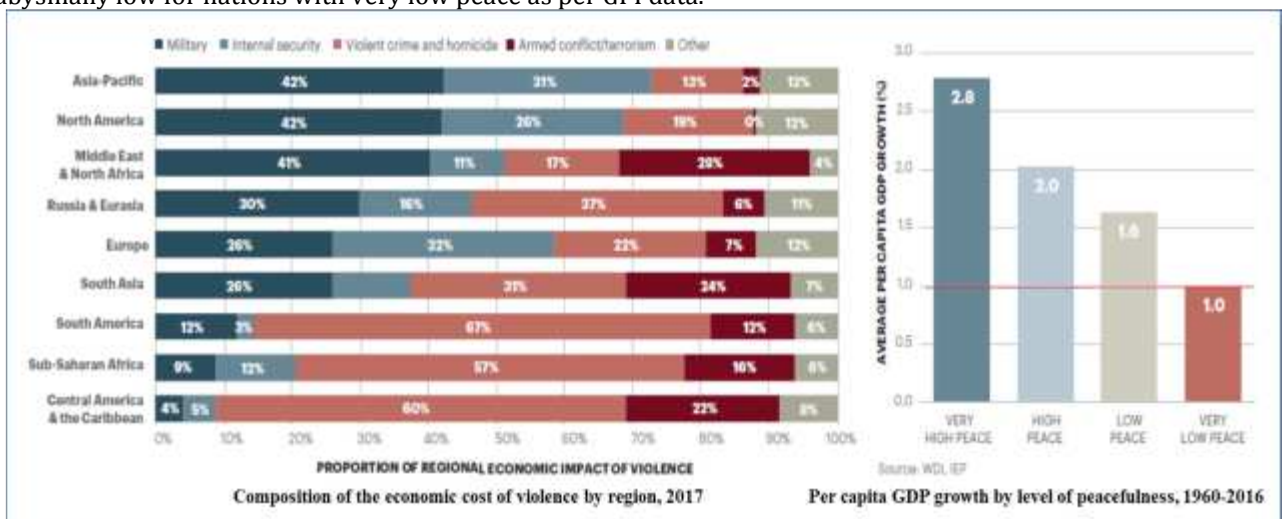


Figure 9

#### 4.1. Cross country correlation analysis

As stated earlier that the cause and the effects of international conflicts keep varying from countries to countries, the tendency of these conflicts on the developments of the nations also vary across the continents. While assessing that, we have performed a detailed data analysis for countries across the globe with various growth and economic profile. The two data we compared are military expenditure as percentage of GDP that represents the degree of economic cost of violence and gross capital formation as a percentage of GDP which signifies the multiplicative growth trajectory through capital formation in those countries. Table 1 represents the data for European Union countries, US, India, Iran and Pakistan. For all these countries, it has been observed that the proportional military expenses have been decreasing for all these countries in a steady manner. Gross capital formation (GCF), the combination of fixed and current capital creation, mostly represents creative asset generation that sometimes contribute to continuous regeneration resulting in contributing to steady GDP growth.

YEAR	EU		US		India		Iran		Pakistan	
	GCF/ GDP%	Military Exp/ GDP %	GCF/ GDP %	Military Exp/ GDP %	GCF/ GDP %	Military Exp/ GDP %	GCF/ GDP %	Military Exp/ GDP %	GCF/ GDP %	Military Exp/ GDP %
1970	28.663	3.324	21.415	7.690	16.196	3.185	40.636	5.857	15.793	6.158
1975	25.273	3.302	20.277	5.398	18.437	3.535	41.395	12.069	16.228	6.322
1980	25.579	3.156	23.310	4.956	20.499	3.134	47.865	5.343	18.482	5.523
1985	22.374	3.173	24.188	6.121	22.032	3.569	24.275	6.512	18.320	6.922
1990	24.552	2.687	21.529	5.278	27.839	3.146	33.022	2.943	18.935	6.522
1995	21.505	2.028	21.273	3.638	27.029	2.578	30.180	2.154	18.546	5.820
2000	22.868	1.829	23.675	2.933	25.947	2.949	35.101	2.295	17.227	4.169
2005	21.692	1.724	23.380	3.861	37.428	2.755	38.718	3.037	19.081	3.897
2010	20.382	1.682	18.743	4.657	39.786	2.707	40.262	2.907	15.805	3.424
2015	20.082	1.483	21.041	3.272	32.117	2.405	34.034	2.760	15.707	3.551
2017	20.590	1.491	20.585	3.109	30.941	2.510	34.738	3.105	16.094	3.766

Table 1

As the data has been obtained for the said countries, we performed a correlation analysis for the countries to find out the relationship between the military expenses and the creation of regenerative assets. The results depict a wider range of variation from countries of various economic strata. Figure 10 tabulates the correlation coefficients. The stark contrast, in analysing the coefficients, is the changing nature across continents. In case of developed nations, it is significantly positively correlated and it proves that with higher military expenditure these countries ensure internal and external safety to

Countries	Gross Capital Formation as % of GDP and Military Expenditure as % of GDP
European Union	0.7746
United States	0.2051
India	-0.6875
China	-0.2656
Iran	0.0217
Pakistan	0.3226
Russia	0.4771
OECD Countries	0.7373

Figure 10

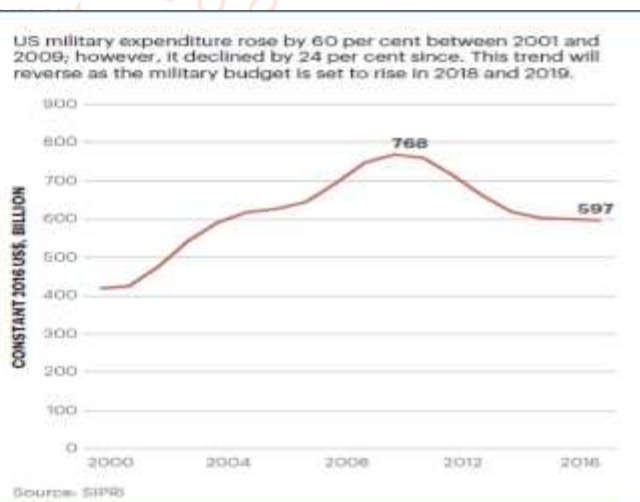


Figure 11

secure more investment resulting in higher capital formation. But it changes for US and Russia where these factors, though positively correlated, are less significant. Developing nations like India and China shows negative correlation where the correlation coefficient is significant for India. It shows, with limited resource and investment capacity, it requires less investment in maintaining military to ensure higher capital formation. Figure 11 shows the trend in US military expenditure, the highest in the world, which reached its peak at approximately \$770 million in 2009 and declined significantly since then. This trend projects another strong peak in 2018-19. The correlation analysis not only signifies the conflict absorption strength of the nations but also reflects the conditional need of investment in those places. This has strong relationship with the past of the countries and their sovereign strength.

#### 4.2. Source of Data

The above analysis was performed with the data available at various related forums namely World Economic Forum, World Bank and Institute for Economics and Peace (IEP). IEP data helped us to represent economic values of the conflicts whereas some relevant data were obtained from UNHCR. The data pertaining to the detailed correlation analysis, which have been

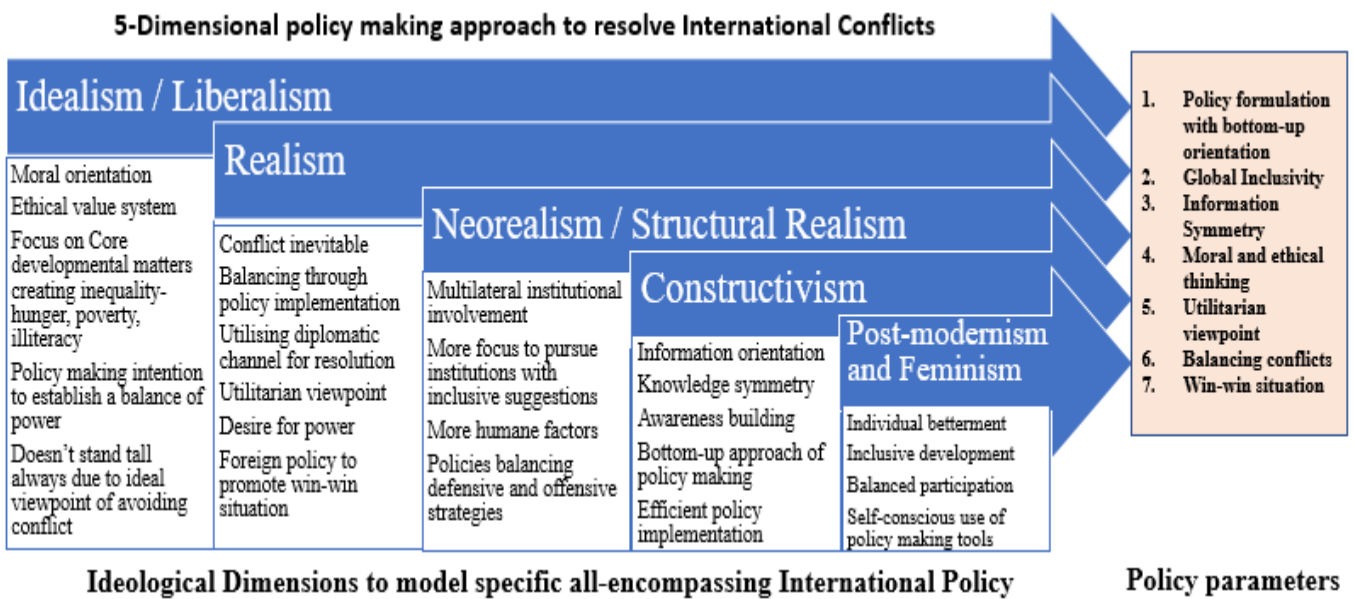
performed for various countries, has been obtained from World Bank open data. We have considered the military expenditure and gross capital formation data, both in comparison with GDP percentage.

### 4.3. Scope and limitations of research

Further, it is imperative that detailed analysis of more indicators would have added more values to the paper. However, the parameters considered to gauge the systemic concern of international conflicts over the years were mostly in value terms. The qualitative measures of the impact of the conflicts could have added some more flare in this the analysis. Still the objective of the paper has been met with an original impact correlation study of the parameters.

### 5. Conclusion

The research which began with defining the core idea of international conflict slowly moved towards analysing the relevant data that reinforces the very fact of economic loss and cost due to various disputes. The data analysis emphasizes the need to have an all-encompassing international policy making framework that caters to the need of the world as a whole- irrespective of socio-economic-politico strata of the countries. The only differences across countries would be the implementation and manoeuvring with the basic guidelines. The one size fits all model is not relevant in this case due to variations among nations in multiple parameters/ indicators.



But it would be a staggering accomplishment if they follow a defined framework with similar ideologies and policy making attributes. Former UN Secretary-General Ban Ki-Moon put forward a new Agenda for Humanity where he pointed out five core responsibilities aimed at reducing humanitarian suffering namely “Prevent and end conflicts”, “Respect rules of war”, “Leave no one behind”, “Work differently to end need” and “Invest in humanity” which broadly deal with inclusivity, equality, conflict resolution, developmental orientation resulting in a peaceful world to live in.

Various ideological biases and multiple policy orientations are used by countries to draft their international policies. In this research paper, after evaluating policy drivers and hindrances related with win-win policy making, we are proposing a 5-Dimensional policy making approach (Figure 12). This approach, notwithstanding the fact of non-applicability for all countries, is a guiding framework for the policy making bodies. This may act as a checklist and enable them to verify every time the need of consideration of all the major decision-making indicators. This qualitative recommendation through multiple quantitative analysis not only serves as an ideal roadmap for policy formulation but also works out to be a guideline for avoiding international conflicts.

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