Economic Cooperation’s Poor Track Record

Lincoln A. Mitchell

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It seems as if whenever there is a disputed territory or ethnic conflict, regardless of where, the strategy of pursuing economic cooperation to ameliorate political and ethnic tension is enthusiastically pursued by foreign governments and international organizations. The rationale behind this is hard to question because Palestinians and Israelis, ethnic and Abkhaz and ethnic Georgians, Armenians and Turks and other similar pairings all value the opportunity to make money and do business. This is also approach is also consistent with the post-Cold War global consensus in Washington and elsewhere that markets solve all problems.

The reality that these types of programs have rarely had a significant impact on resolving territorial disputes has not appeared to daunt proponents of the shared economic venture as path to peace approach. These programs have generally had a marginal effect as conflicts have either endured in spite of these programs, or more frequently these programs have failed to get off the ground because the conflict and rancor between the groups. It is clear that, for example, joint Palestinian-Israeli tourism ventures could generate needed income, or cooperation liberalized trade zones involving Armenia, Azerbaijan and Nagorno-Karabakh would help the economy of the South Caucasus, but even though the west supports programs to do these types of things, the underlying problems are more enduring. The China-Taiwan case is an interesting example of a conflict where trade has expanded substantially in recent years, but the tensions between the two polities remains quite strong with both sides retaining strong militaries and the threat of war breaking out no less significant, despite the economic ties.

Economic ties have played a role in promoting peace and reducing tensions, but those ties are often between two states that do not have a territorial dispute or history of ethnic tension. For example, the increasing economic ties between China and the U.S. in the last few decades, or even between Russia and western Europe today have had this effect, but those are significantly different kinds of cases.

There are powerful incentives for doing economic cooperation type projects: the logic behind these projects is strong; while they rarely succeed they also very rarely make things worse; and perhaps most importantly, they are always of interest to funders.

The reason resolving territorial disputes and ethnic tension through economic cooperation has not worked is that this approach addresses the problem without paying sufficient attention to the causes. The lack of economic cooperation is due to the same tensions and conflicts which are driving people apart in the first place. Prejudice, civil wars, declaring independence and fighting over land are often bad economic decisions, but they endure because the tensions behind them are real. Ignoring this and simply urging better economic cooperation as some kind of magic elixir is like trying to fix a broken leg by
suggesting the patient go jogging. If the patient could jog, or the two sides could meaningfully collaborate on economic projects, the problem would not exist in the first place. Evidence from recent years has shown that in these types of cases the logic of the market does not always triumph, and that even when it does, there are rarely political spillover effects.