

Trade Openness, Interdependence, and Insecurity

by

Constantinos Syropoulos
Department of Economics
Florida International University
University Park, DM-321
Miami, FL 33199
(305) 348-2592
syropoul@fiu.edu
<http://www.fiu.edu/~syropoul>

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Abstract

Unlike scholars of international relations and political scientists, economists have paid scant attention to the possible connections between insecure property, international trade, and conflict. This paper attempts to fill this void by modifying the two-factor, two-good Heckscher-Ohlin trade model to allow for the possibility of arming (and conflict) by two economies that are “small” in world markets. More specifically, we consider a setting in which countries that have ownership claims over a productive resource (e.g., land, oil, water) actively contest it with “guns” -- international institutions to temper bilateral frictions and mechanisms to control the proliferation of arms are missing. The paper first establishes how technology and the distribution of secure factor endowments across countries determine (non-cooperative) equilibrium investments in arms. Then, the paper explores how trade regimes (e.g, free trade and autarky) condition arming incentives and welfare.

It is shown that, under conditions of factor price equalization, the introduction of free trade induces countries to devote identical resources to the production (or acquisition) of arms thereby “leveling the playing field” in arms competition. Owing to the presence of a trade-related externality in the contest over the insecure resource, one or both countries may prefer autarky over free trade -- the gains from trade may be wiped out by the possible increase in arming due to opening up to free trade -- and the paper identifies conditions under which this possibility arises.

The paper also investigates the dependence of trade patterns on technology and secure factor endowments with arming being endogenously determined and identifies the channels through which the effects of trade and industrial policies travel.