

TRADE IN WAR



**ECONOMIC COOPERATION
ACROSS ENEMY LINES**

**MARIYA
GRINBERG**

Crossroads Conference

MIT 14.04.26

Topic

**Trading
with the enemy
during war**

Conventional Wisdom

- Trade is the first casualty of war
- Despite war, business as usual

What We See in the World

1. Evidence of Trade in Some Wars But Not Others

- Trade with the Enemy in War:
 - India – Pakistan, First Kashmir War (1947-9)
 - Yugoslavia – Croatia, War of Bosnian Independence (1992)
 - Japan – China, Third Sino-Japanese War (1937-41)
 - Somalia – Ethiopia, Second Ogaden War (1977-8)
- No Trade with the Enemy:
 - India – Pakistan, Kargil War (1999)
 - England – Argentina, Falkland Islands War (1982)

What We See in the World

1. Evidence of Trade in Some Wars But Not Others

2. Variation across Products

- Wheat
 - prohibited by Russia in Crimean War (1854-6)
 - permitted by Britain in Crimean War
 - prohibited by Britain a month into WWI
- Coal
 - permitted by Britain for the first year of WWI
 - prohibited by Britain in WWII
 - permitted by both sides in Ukraine Civil War (2014)

What We See in the World

1. Evidence of Trade in Some Wars But Not Others

2. Variation across Products

3. Variation across Time

<i>Product</i>	–	<i>Date Prohibited</i>
• Rubber, raw	–	Sept 8, 1914
• Jute, raw	–	Oct 6, 1914
• Wool, lamb & sheep	–	Oct 6, 1914
• Cotton, raw	–	April 26, 1915
• Wool, raw (other)	–	Sept 8, 1916

Question

**Why do states trade
with their enemies
during war?**

Answer

- Requires incorporating ideas from trade into our understanding of war
- Specifically, interactions between
 - Product characteristics
 - War expectations

Talk Outline

1. What is Trade With the Enemy (TWE)?
 - All about helping yourself by helping the enemy
2. What explains TWE?
 - Minimizing security externalities
 - Maximizing revenue from trade
3. TWE in Ukraine War

Definitions

- **Trade with the enemy:** any commercial dealings with, or for the benefit of, an enemy belligerent
 - Only during wartime
 - Only between belligerents
 - Divides trade into legal and illegal component
- **Wartime Commercial Policy**

TWE is Usually Indirect

- Direct Trade
- Indirect Trade
 - Substitution
 - Minimal manufacturing



TWE is Usually Indirect

- Direct Trade
- **Indirect Trade**
 - Substitution
 - Minimal manufacturing



TWE is Usually Indirect

- Direct Trade
- Indirect Trade
 - Substitution
 - Minimal manufacturing



TWE is Usually Indirect

- Direct Trade
- Indirect Trade
 - Substitution
 - Minimal manufacturing



Competing Incentives

1. Military Incentives

- Gains from trade can be channeled by the state into increasing military capabilities

Sever All Trade

2. Economic Incentives

- Trade is mutually beneficial = Severing trade is costly
- Revenue from trade can be channeled into long-term security of a state

Keep All Trade

Theory: Balancing Incentives

- Wartime Commercial Policy needs to balance the two conflicting goals
 - Minimize security costs of trade
 - Maximizing revenue to the state
- Gains from trade are not instantaneous
 - Conversion Time
- Not all products are equally important to the economy
 - Revenue from Trade

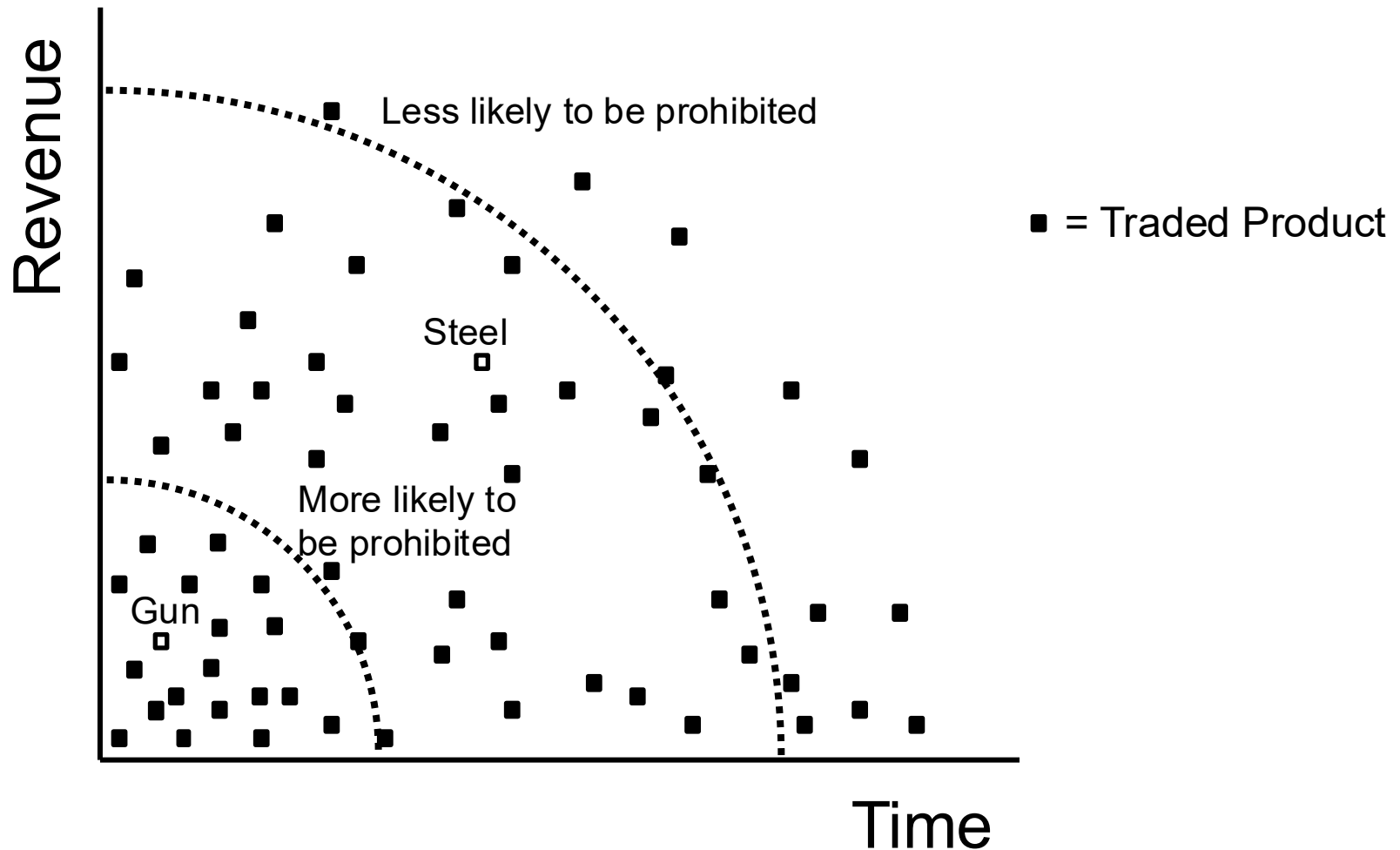
Product Level: Conversion Time

- How long does it take to convert gains from trade into military capabilities
 - Transportation
 - Transaction
 - Production
 - Taxation
- For a given product: the **shorter** the enemy's conversion time, the **less likely** a state is to allow trade during the war

Product Level: Revenue from Trade

- Interruptions to revenue stream can affect long term security of a state
 - Alternative suppliers or substitutes
 - Import tax
 - Taxes on domestic production
 - Export tax
- For a given product: the **greater** the state's loss of revenue from severing trade, the **more likely** a state is to allow trade during the war

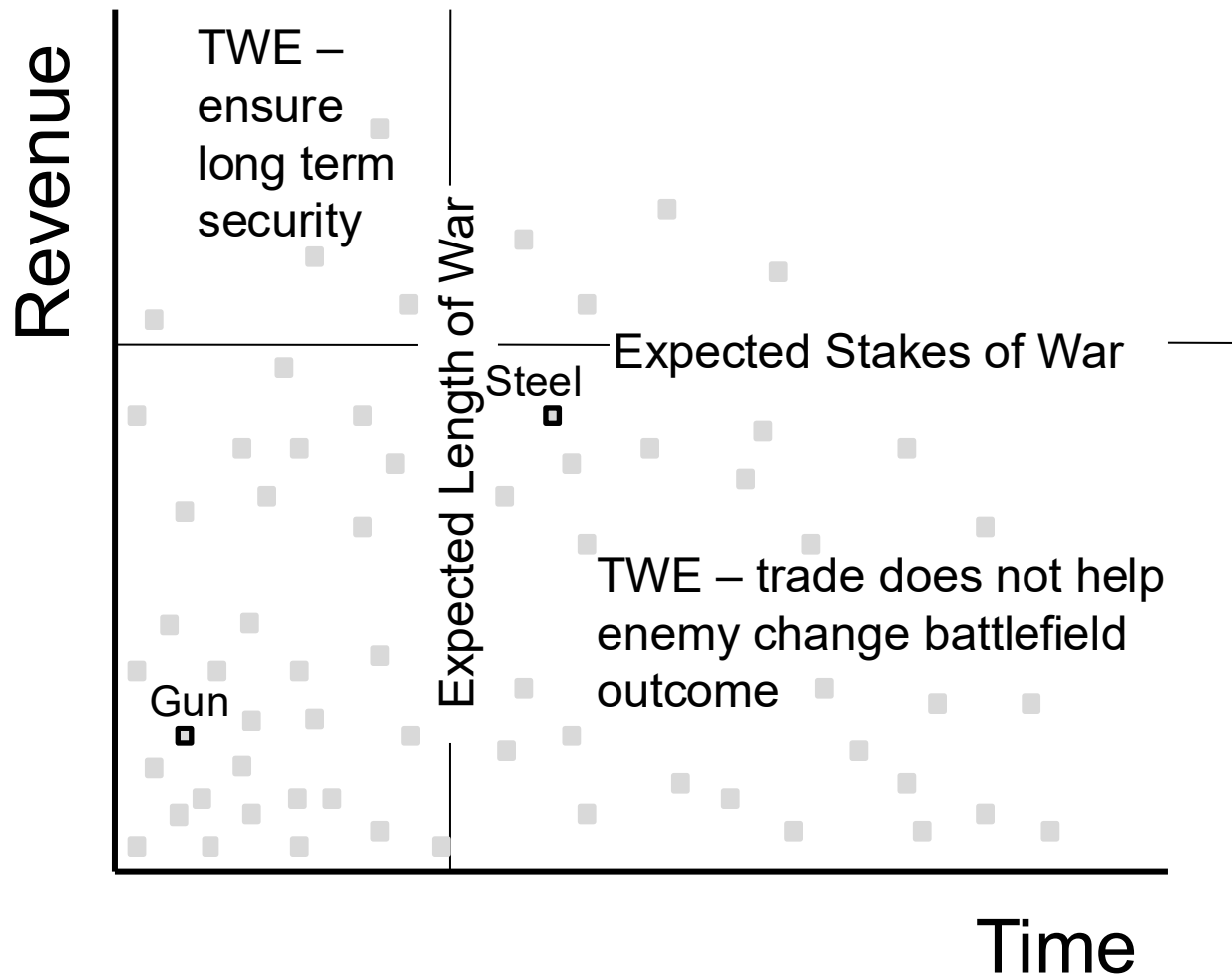
Product Level Effects on Wartime Policy



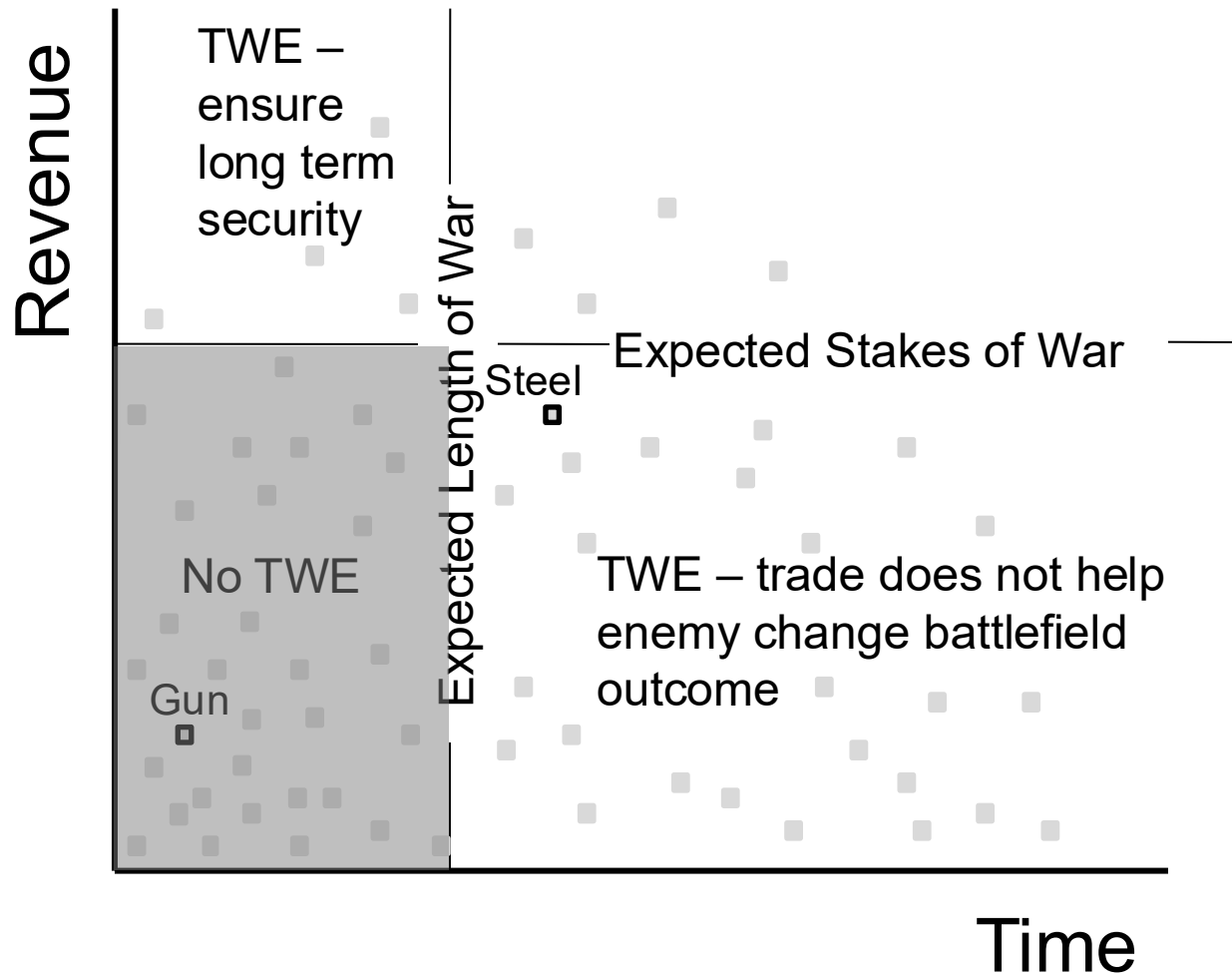
War Level

- Decision-makers adopt policies to match the specific war they expect to fight
- Expected Length of War
 - Quick victory vs prolonged struggle
- Expected Stakes of War
 - Foreign policy disagreement vs struggle for survival

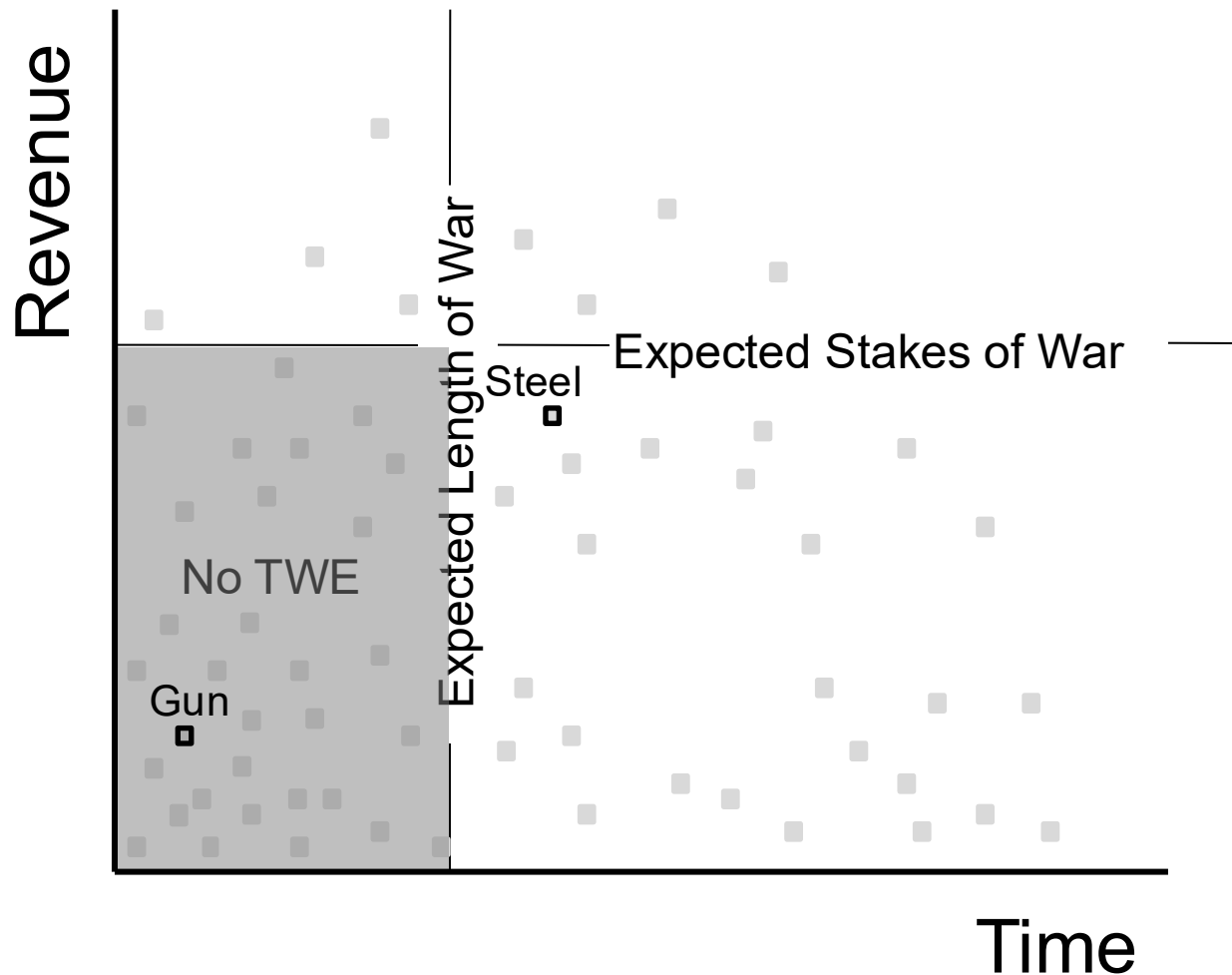
Combined Product and War Effects



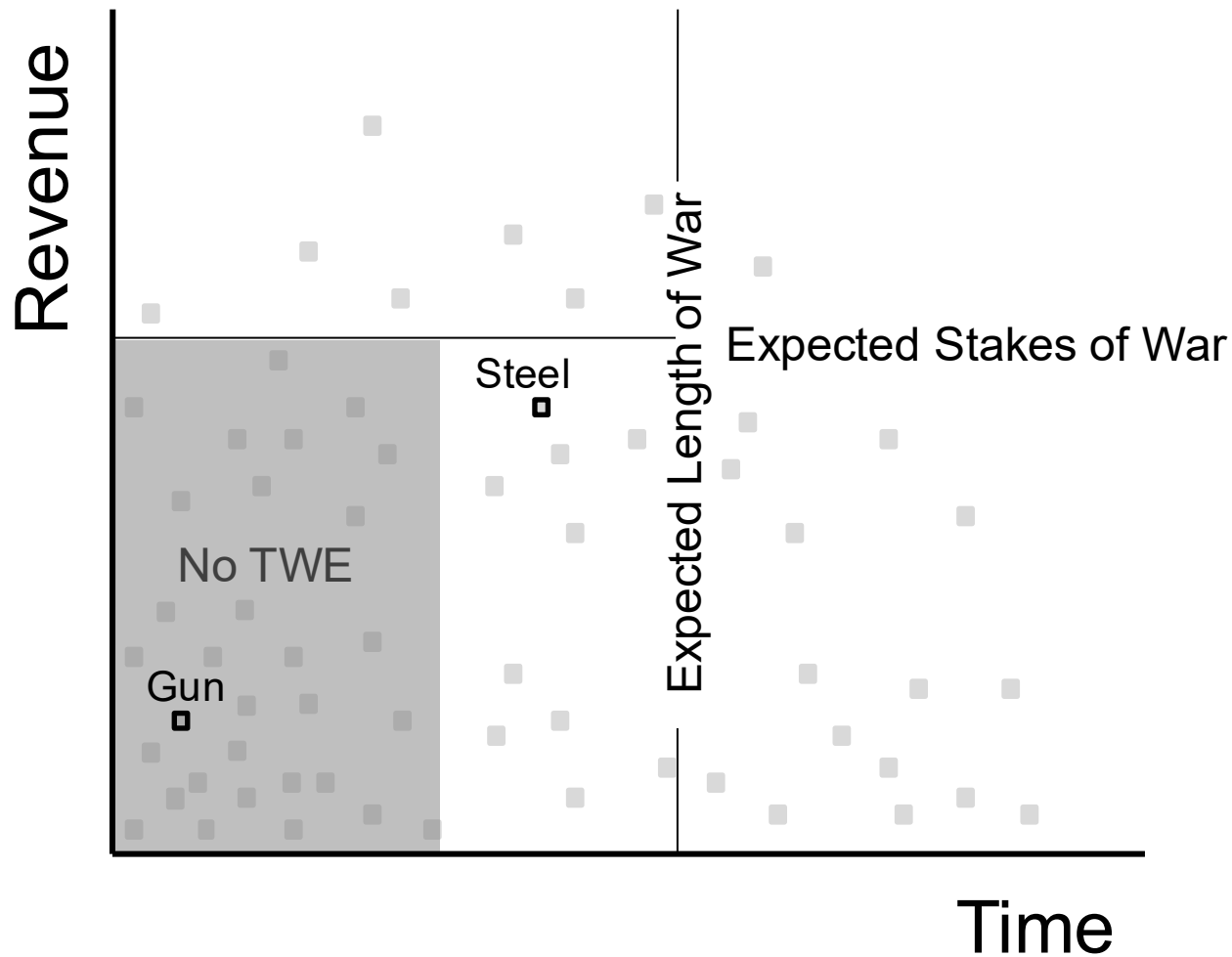
Combined Product and War Effects



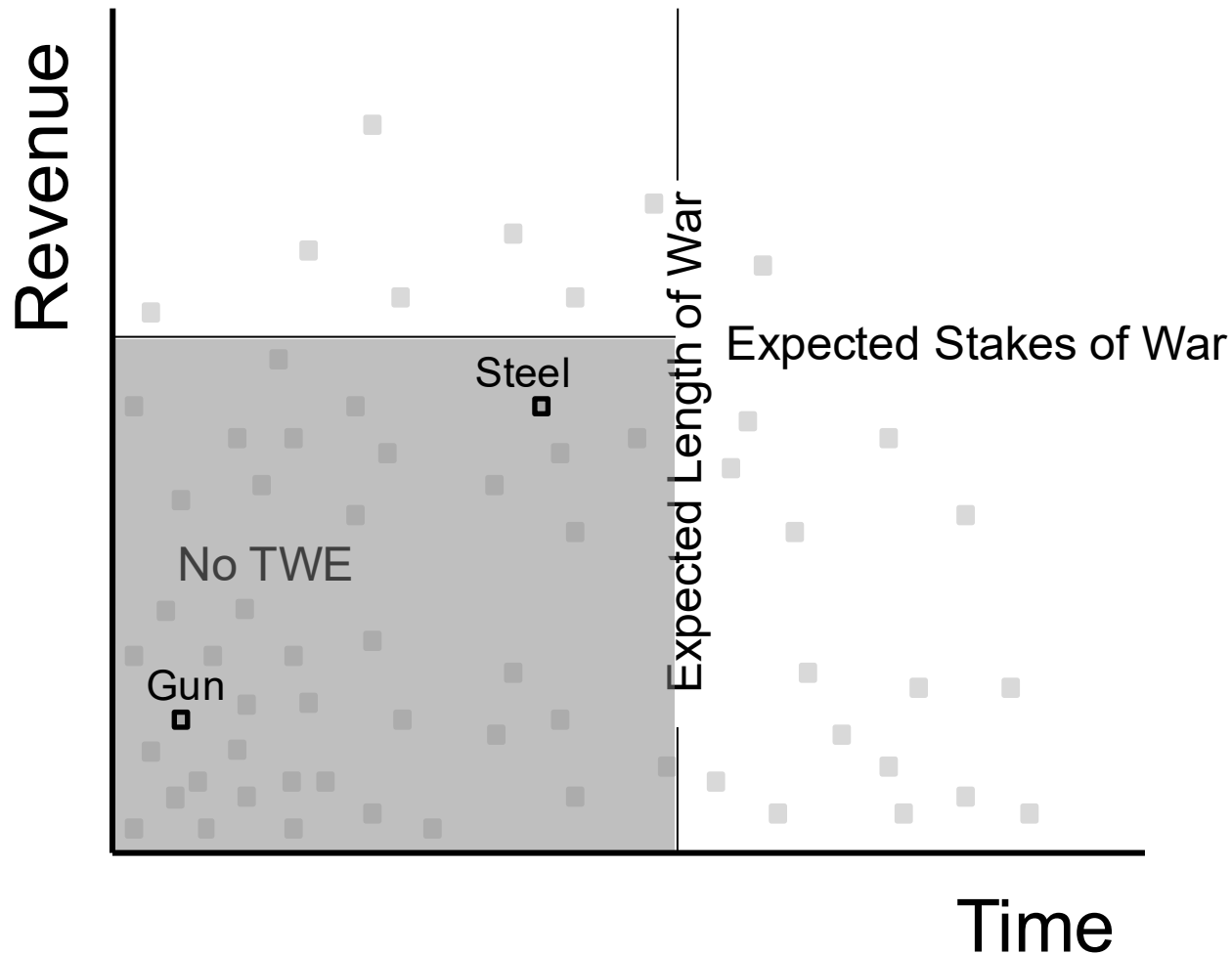
Policy Change over Time



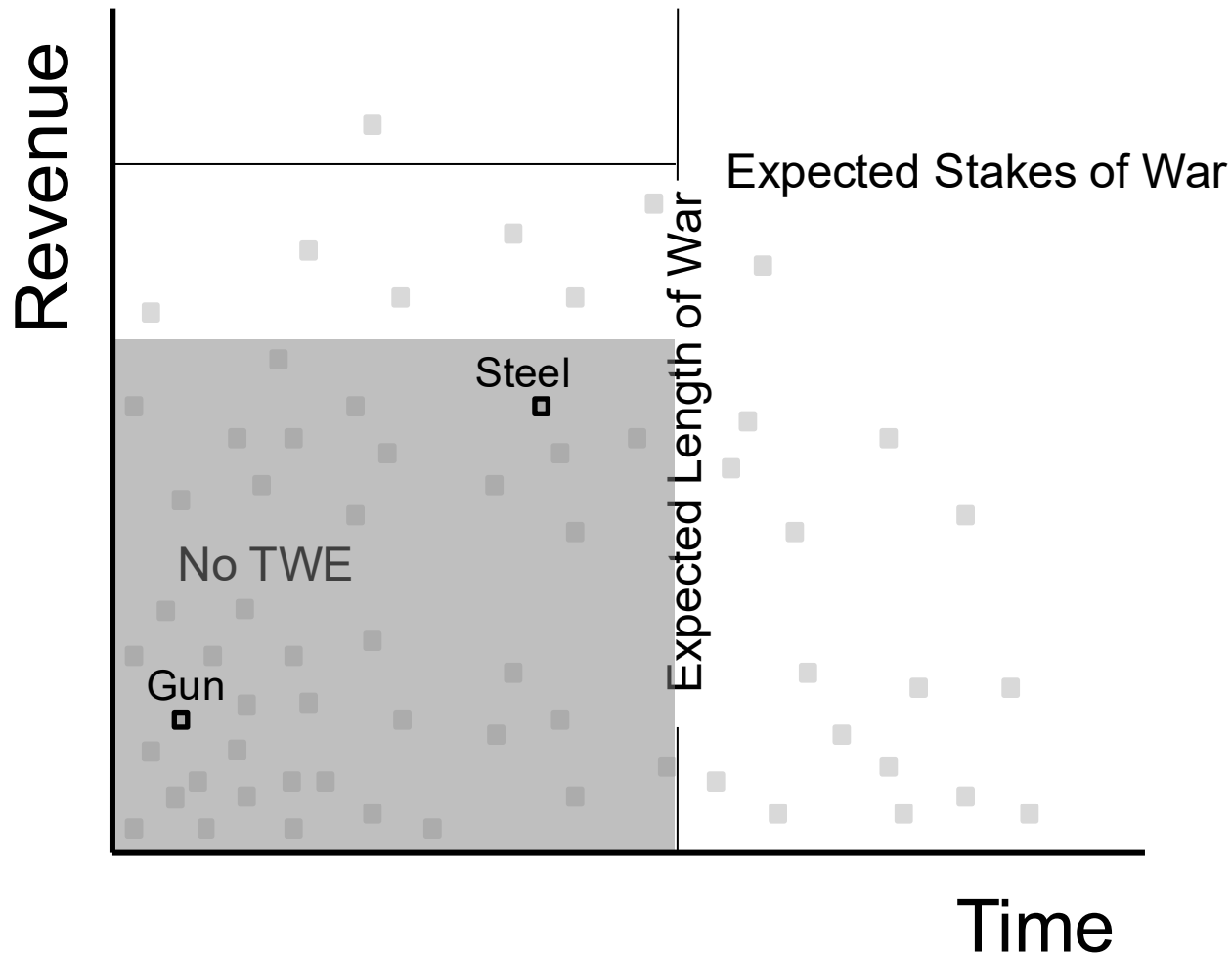
Policy Change over Time



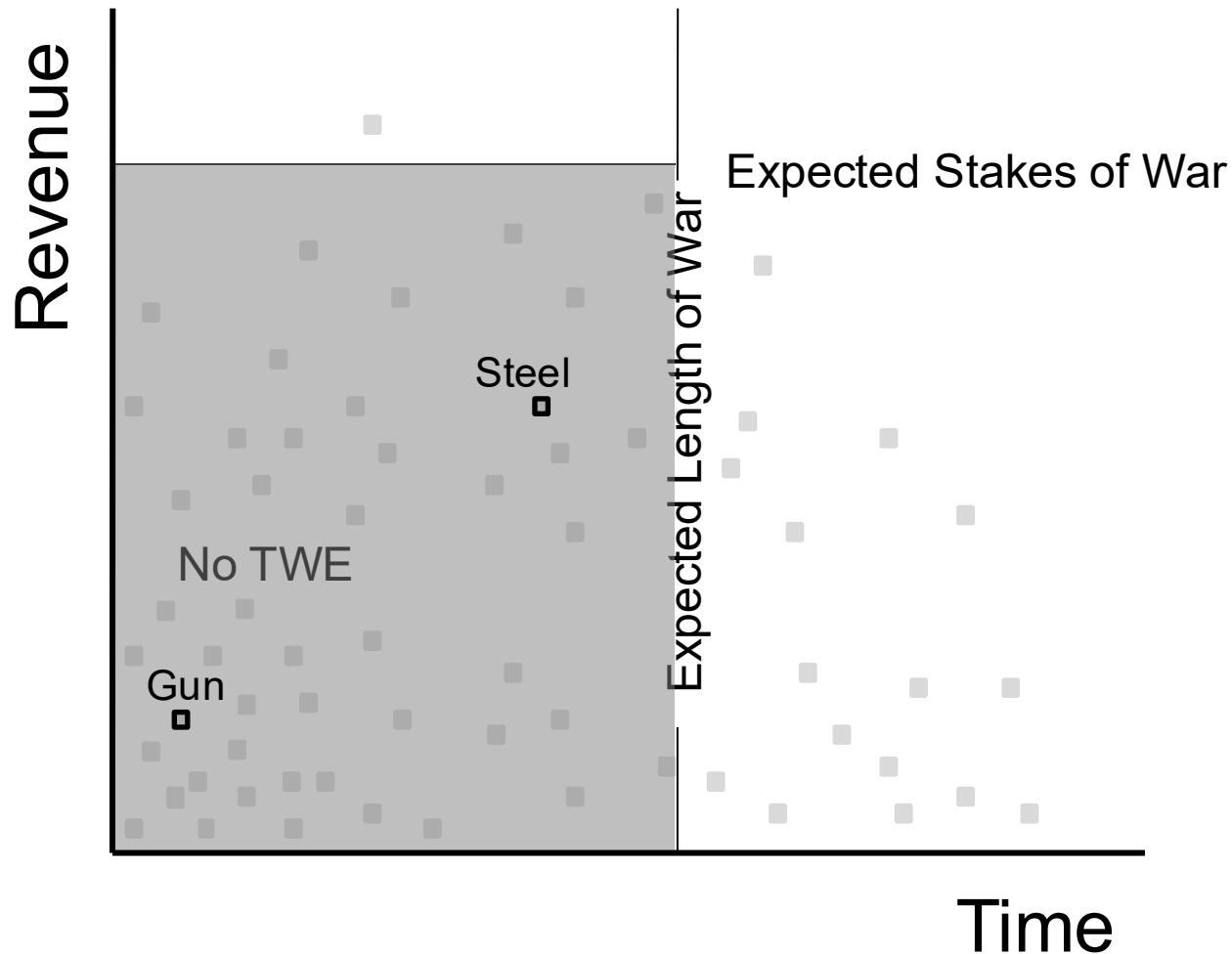
Policy Change over Time



Policy Change over Time



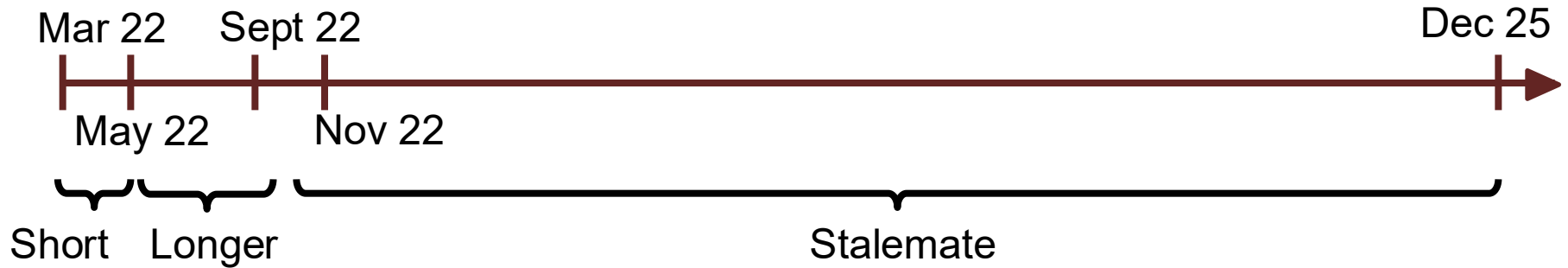
Policy Change over Time



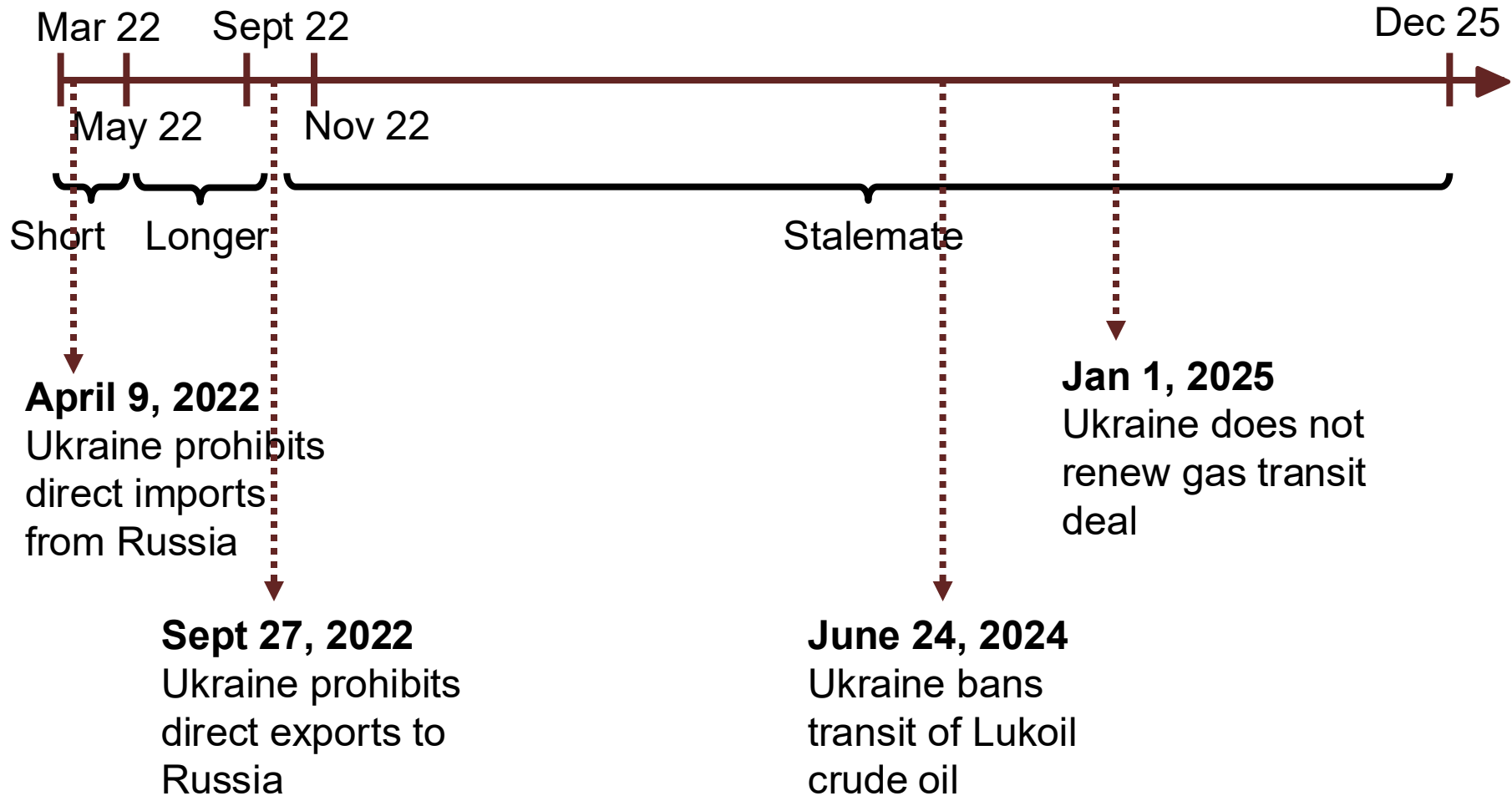
Russia-Ukraine War

- Direct Belligerents: Russia, Ukraine
- Proxy War: US + NATO/EU

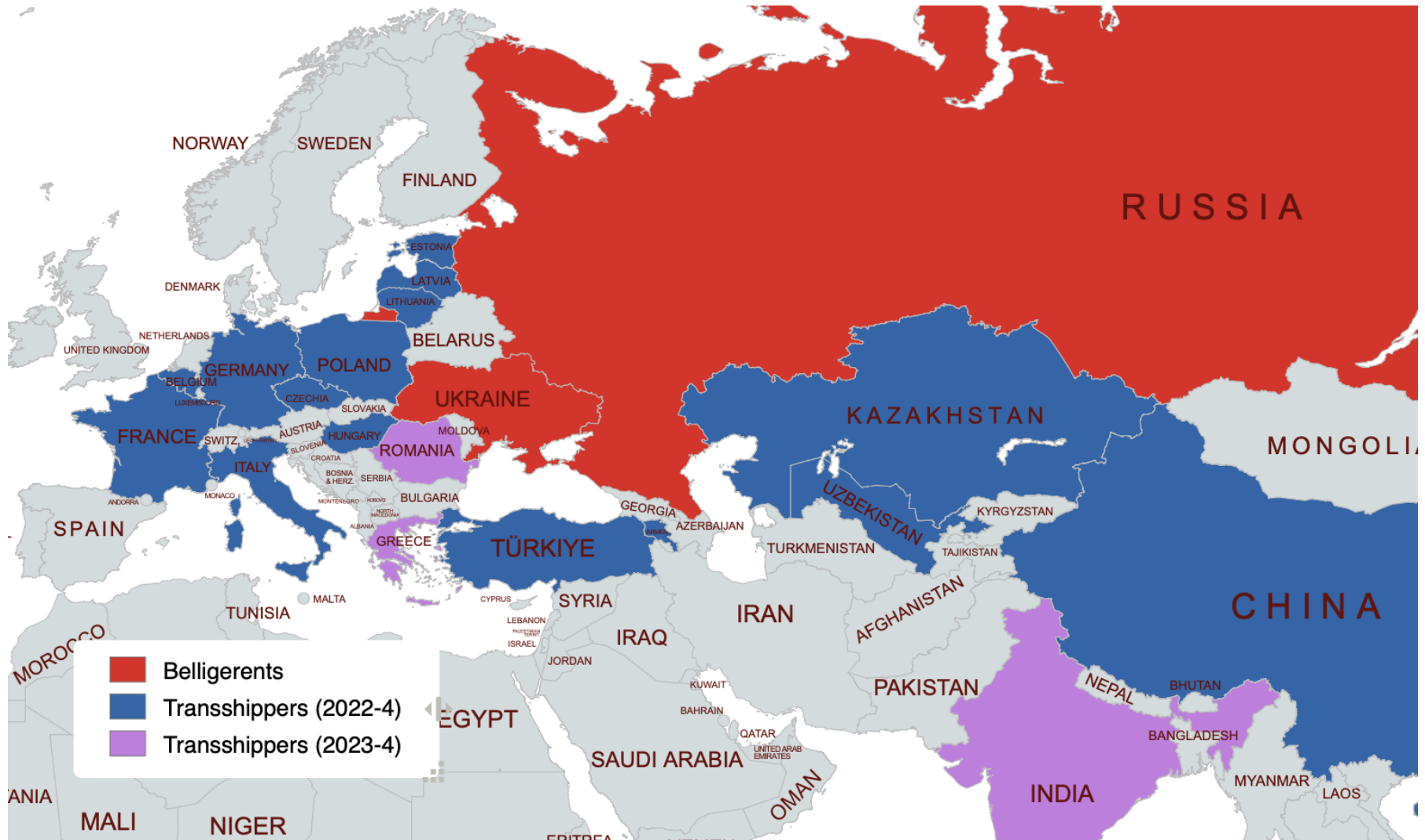
Ukraine: Direct Prohibition



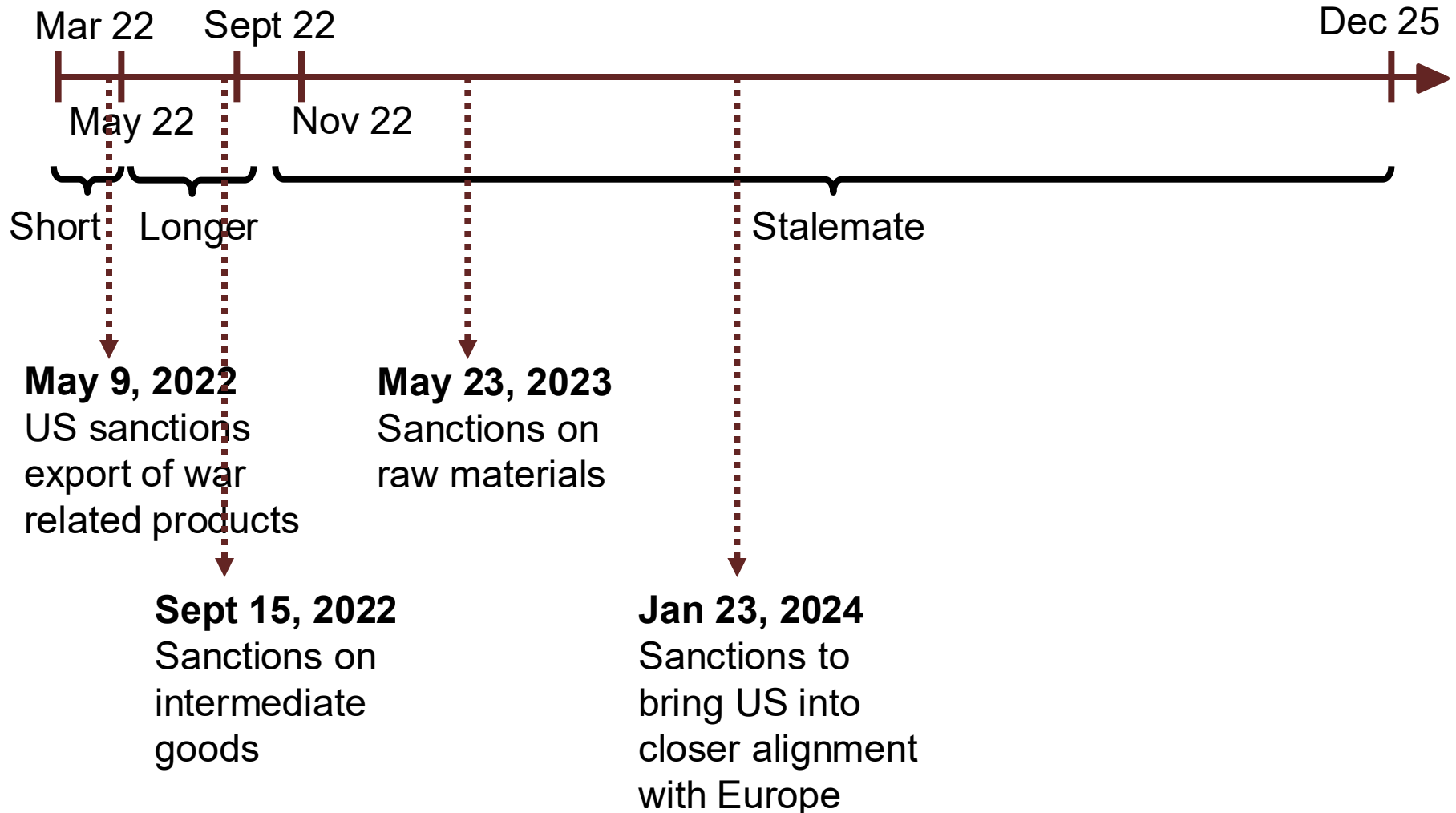
Ukraine: Direct Prohibition



Ukraine: Indirect Trade



United States: Direct Prohibition



Thank you
