

TRADE AS A TOOL OF DIPLOMACY AND GLOBAL SECURITY*

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“Free trade is God’s diplomacy. There is no other certain way of uniting people in the bonds of peace.” Richard Cobden, British politician, 1857

Astract

This paper investigates how economic-security linkages can be used in a creative way to contribute global security. It argues, although aggregate studies on correlations between alliances, trade and war have yielded conflicting results, economic interdependence and cooperation created by various economic diplomacy tools including trade can be very effective in conflict prevention. The most obvious example is the European Union as a “peace project”. Three case studies will be examined in that framework. Upon assessment of Thomas Friedman’s theory of conflict prevention, this study touches upon some aspects of the economic-security linkages like business’ role in conflict prevention, increasing number of regional trade integrations, Doha Development Agenda and trade liberalization, and finally the relationship between peace and prosperity. It concludes that trade and economic projects can help in achieving peace by facilitating interactions fostering prosperity and sustainable development.

Key Words

Economic Diplomacy, Trade, Interdependency, Global Security.

Introduction

Each year, the World Economic Forum prepares a Global Risks Report defining the challenges to global security and prosperity. 2008 report adds four “new” categories to the previously defined ones; namely systemic financial risk, food security, supply chains and the role of energy, moving from the periphery of the global risk landscape to its centre.¹ Considering the impact of globalization on security, we need to adopt a broadly based

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¹ Global Risks 2008: A Global Risk Network Report, January 2008, www.weforum.org/pdf/globalrisk/report2008.pdf.

definition of security that encompasses economic, technological and defense security.

Today's security challenges of global nature require new and innovative strategies being adopted in response to those challenges. As a result, economic diplomacy seems set to continue to grow in importance. The economic diplomacy has become more complex, with more issues now subject to negotiation; more state and non-state actors engaged in domestic decision making; and more countries actively participating in the international system. In parallel, the new strategies involving greater use of multi-level diplomacy; transparency and engaging non-state actors are giving the process more legitimacy and necessitate institutional reform in that way. On the other hand, economic diplomacy yields successful results and future projections are encouraging.

This study argues that although aggregate studies on correlations between alliances, trade, and war have yielded conflicting results, economic interdependence and cooperation created by various economic diplomacy tools including trade can be very effective in conflict prevention.

Countries like the United States use its "transformational" character effectively, as US former Secretary of State Condoleezza Rice puts it "economic diplomacy is a powerful and vital way to shape political and social change by generating economic development".²

Promotion of trade and investments has been one of the basic tools of economic diplomacy, yet it should be used in a creative way to contribute global security. In Friedman's "flat world", trade and the interdependence it creates have become very effective in conflict prevention. For example, "new generation trade agreements" have proved to be very influential with their clauses on labor standards, environmental protection, human rights etc. And, a number of studies show the positive impact of regional trade integrations to the security in those regions.

This paper further discusses how trade and economic relations could be better utilized to contribute global security. The starting point will be Thomas Friedman's "Dell Theory of Conflict Prevention", according to which, two countries which are part of the same global supply chain have to think three times before going to war.

² "Transformational Diplomacy", former Secretary of State Condoleezza Rice's Remarks at Georgetown School of Foreign Service, 18 January 2006, <http://consul-at-arms.blogspot.com/2006/01/sec-rice-transformational-diplomacy.html>.

Upon assessment of Thomas Friedman's theory of conflict prevention, this study touches upon some aspects of the economic-security linkages like business' role in conflict prevention, increasing number of regional trade integrations, Doha Development Agenda and trade liberalization, and finally the relationship between peace and prosperity.

The study will continue with some case studies supporting the arguments for and against economic diplomacy. Taking its constraints into account, some initiatives will be examined in terms of their possible contribution to the long-term stability. The main focus will be on the untested "Industry for Peace Initiative", launched by Turkish entrepreneurs to contribute to the Israeli-Palestinian peace process, and "Revitalization of the Silk Road Project", which aims to establish new links between the regional countries, increasing their interdependence and integration with the global supply chain.

This study concludes that prosperity is not a sufficient condition for peace and possibly not a necessary one, but it is unquestionably a factor that can help in achieving peace and in its maintenance. It is seldom prosperity in itself that reduces tensions, but rather the absence of extreme differences in levels of prosperity. In many cases, trade can act as a facilitator for interactions fostering prosperity and sustainable development, and thus serving peace. Therefore, this study argues it is worth trying new ways to use economic means to achieve global security without resorting to armed coercion.

I. In Need of Creative Solutions

President of Germany Horst Köhler names today's requirement of creativity, "creative unrest" and considers it as a necessary motivation in the management of global challenges.³ In his words, Europe (and the world) "will always be in a state of creative unrest". Therefore, we need creative solutions.

As stated above, it is necessary to develop new and innovative strategies in response to the recent global challenges. In doing so, economic diplomacy, which seems set to continue to grow in importance, provide us with various tools. Given that economic diplomacy yields successful results and future projections are encouraging, it merits further study for examination of economic-security linkages.

³ "On Creative Unrest". Speech by Federal President Horst Köhler in the European Parliament, http://www.bundespraesident.de/en/dokumente/-_5.629184/Rede/dokument.htm.

Economic diplomacy is generally defined as “the process of international economic decision-making”.⁴ It focuses on how states conduct their external economic relations, how they make decisions domestically, how they negotiate internationally and how these processes interact. Aside from foreign trade, it includes external investments, financial flows, aid, bilateral and multilateral economic negotiations and technology exchanges.

In this study, “economic diplomacy” refers to the use of trade and economic relationships and influence to consolidate the right political climate to facilitate peace and security, by promoting international trade and investments; developing international telecommunications, energy and transport networks, improving the functioning of markets, and reducing the cost and risks of cross-border transactions. This is a great challenge, especially for governments, which must contend with the forces of economic nationalism, cultural anxieties, embedded corruption, and resistance to reform.

European Union stands as a great example of a creative economic diplomacy solution. A “peace project” based on the idea of creating a “security community” through increased interdependence by means of free trade (common market) and some common institutions which then led to the development of a “common identity”. Here, Karl Deutsch’s “security community” refers to a community (a region) in which a large-scale use of violence (such as war) has become very unlikely or even unthinkable, and people in that community are bound by a “sense of community”, the mutual sympathy, trust, and common interests. This sense can be developed through increased relations, new institutions and shared values.⁵ Several regions of the world have been studied in the security community framework since then, most notably the European Union, Mercosur, and ASEAN.

Despite a long record of armed conflicts between Germany and France, the “European security community” has made war between these two countries unthinkable. The ravaged post-World War II Europe reasoned

⁴ Stephen Woolcock and Nicholas Bayne, *The New Economic Diplomacy: Decision Making and Negotiation in International Economic Relations*, Hampshire, Ashgate, 2007, p.1. Some studies on how economic diplomacy shape foreign policy behaviour; Lisa Blaydes, “Rewarding Impatience: A Bargaining and Enforcement Model of OPEC”, *International Organization* vol.58, Spring 2004, pp. 213–237; Lisa L. Martin, “Institutions and Cooperation: Sanctions During the Falkland Islands Conflict”, *International Security* 16, 1992, pp. 143-178; Lloyd Gruber, “Power Politics and the Free Trade Bandwagon”, *Comparative Political Studies*, Vol. 34, No. 7, 2001, pp. 703-741.

⁵ The term “security community” was coined in 1957 by the prominent political scientist Karl Deutsch whose work focused on the study of war and peace, nationalism, co-operation and communication. Karl W. Deutsch et al., *Political Community and the North Atlantic Area; International Organization in the light of Historical Experience*, Princeton: Princeton University Press, 1957.

that if nations are linked economically, socially and culturally, through gradual development of a common market providing free movement of goods, services, capital, and people, this might well prove to be a great deterrent to conflict between European countries. Today, European Union is a unique example that use enlargement as an instrument of her soft power.⁶ As it has been expanding its external borders, it has also been transforming the candidate countries through benchmarks and conditionality that had to be met as the most essential eligibility criteria for membership. Enlargement policy successfully contributed to democratic consolidation and the establishment of market economy in Central Europe. Recently, Enlarged Europe's Neighborhood Policy aims to play a similar role in supporting the democratic and economic transition in neighbouring countries.

However, Europe failed to use the same instruments in time in the case of former Yugoslavia. This partial success can be explained if one considers some of the obvious disadvantages that limit the usefulness of economic diplomacy in conflict prevention, namely the need for long-term commitment to achieving objectives. Economic diplomacy is necessarily a long-term process. Its results may start showing not in mere months or years, but rather after a decade, or even longer. So it cannot be effective by itself when a situation rapidly and unexpectedly deteriorates toward conflict, but works as part of a strategy strengthening mutually beneficial economic bonds and interests.

The same idea was used at the end of World War II by the US delegation to the Havana Charter negotiations in order to encourage countries to join in, saying "if goods do not cross frontiers, soldiers will."⁷ The Havana Charter creating the International Trade Organization ultimately failed, but the main elements of it remained in what became the General Agreement on Tariffs and Trade (GATT), the predecessor of the WTO.

Today, pressing security problems such as nuclear ambitions of Iran lead to some creative offers like a "multilateral nuclear-enrichment plan" that would replace Iran's own enrichment activities. The proposal, put forward by William Luers, suggests the US work with Iran to negotiate a consortium, or what is called a "multilateral fuel-cycle facility," on Iranian territory that

⁶ Christopher Hill and Michael Smith (eds), *International Relations and The European Union*, New York, Oxford University Press, 2005.

⁷ Pascal Lamy, "Terrorism is about increasing instability and global trade rules are about promoting stability", 8 September 2007, http://www.wto.org/english/news_e/sppl_e/sppl66_e.htm. The phrase "when goods do not cross borders, soldiers will" originally belongs to the French Economist Frederic Bastiat, best known for his writings in favour of free trade and the economics of Adam Smith.

would encompass the Iranians' existing work with their centrifuges to enrich uranium.⁸ He argues it would become a partnership with Iran to further develop their nuclear capacity for peaceful uses, and be accompanied by a very strict and thorough regime of inspections and monitoring that would make certain that Iran did not produce highly enriched uranium, necessary for nuclear weapons. He comments that it's too late to stop Iran's enrichment, and every time new sanctions passed in the UN Security Council, Iran increases its enrichment activities. Therefore, he continues, the international community had better to find a way to get control of it or have as much access as she can get to Iran's nuclear program. Whether or not this new proposal related with the Iran case offers a feasible and achievable solution is open to discussion, but it is definitely thought provoking.⁹

Another example for such "creative solutions" is a new taxation regulation of the EU. To help reduce greenhouse gas emissions and meet its Kyoto Protocol targets, the EU has agreed that average CO₂ emissions from new passenger cars should not exceed a particular limit and to levy car taxes based on cars' CO₂ emissions. This tax measure is going to influence both the supply and demand sides of the EU market for cars and vans and, the overall effect will be to promote affordable fuel efficiency improvements and reductions in CO₂ emissions, as well as substantial fuel savings for car and van drivers. This is a good example that utilizes the interface of economics and environment, showing how economic regulations can contribute to a more climate friendly production.

"New generation" preferential trade agreements are also utilized as economic diplomacy tools especially by the US. The Office of the US Trade Representative (USTR) under its trade policy, signs bilateral free trade agreements (FTAs) and regional trade agreements (RTAs) including provisions on labor protection, environment protection, investments, government procurement and intellectual property rights improvement.¹⁰ Accordingly, they incorporate a specific list of multilateral environmental agreements and basic internationally-recognized labor principles as stated in the "ILO Declaration on Fundamental Principles and Rights at Work", and other relevant provisions as an enforceable reciprocal obligation for the countries to adopt and maintain in their laws and practice. Similarly, the

⁸ William Luers, Thomas R. Pickering and Jim Walsh, "A Solution for the US-Iran Nuclear Standoff", *New York Review of Books*, Vol. 55, No. 4, (March 2008).

⁹ Although not confirmed by the relevant authorities, BBC had announced that Iranian President Mahmoud Ahmadinejad discussed with Arab nations a plan to enrich uranium outside the region in a neutral country such as Switzerland, see http://news.bbc.co.uk/2/hi/middle_east/7100793.stm.

¹⁰ http://www.ustr.gov/Benefits_of_Trade/Section_Index.html.

European Union considers its economic partnership agreements and foreign aid as the basic tools of its economic diplomacy.

Another innovative economic tool, developed by the United States is the “Qualifying Industrial Zones (QIZ)” Program.¹¹ The QIZ program was established by the US in 1996 to encourage economic cooperation, closer ties, and peaceful relations between Israel and its neighbouring program partners. QIZs are designated geographic areas, in a partner country, that enjoy a duty free status with the United States. Companies located within such zones are granted duty free access to the US markets, provided that they satisfy the agreed upon Israeli component, as per the pre-defined rules of origin. These industrial zones aim to create a daily opportunity to build business and personal relationships among the partner countries (Egyptians, Jordanians), Israelis, and Americans.

Jordan’s QIZs are the country’s strongest engine of job growth. Since 1999, the United States has designated thirteen QIZs in Jordan. Exports from Jordan to the United States grew from \$31 million in 1999 to \$674 million in 2003. Investment in Jordan’s QIZs is currently at between \$85-100 million and is expected to grow to \$180 to \$200 million creating more than 35,000 jobs.¹²

In Egypt, the QIZ program started operating in seven designated industrial locations in early 2005. Starting with an initial 397 qualified companies in these locations, QIZ has rapidly expanded to encompass over 15 currently designated industrial zones, with nearly 700 qualified companies, and more qualifying each quarter, amounting to more than \$1 billion annual revenues.¹³

Successful QIZ experience with Jordan and Egypt suggests that a similar program in troublesome regions such as Pakistan and Afghanistan would also contribute stability in the region. In August 2006 the government of Pakistan asked the government of the United States for establishment of QIZs in the Pakistan-Afghanistan border areas. According to the proposal, the US government was asked to allow the imports from the QIZs to generate healthy economic activities so that poverty, and especially involvement of the local population in terrorist activities, could be checked, giving them

¹¹ <http://www.ustr.gov/>

¹² http://www.ustr.gov/Document_Library/Press_Releases/2004/December/United_States_Egypt_Israel_to_Launch_Historic_Trade_Partnership_USTR_Zoellick_to_Participate_in_Signing_in_Cairo.html?ht=

¹³ http://www.qizegypt.gov.eg/About_QIZ.aspx

earning opportunities.¹⁴ The United States is one of the largest trading partners of Pakistan and the two-way trade volume has increased in recent years to about six billion dollars.

Supported by the State Department and the U.S. Trade Representative, the Afghanistan and Pakistan Reconstruction Opportunity Zones (ROZ) Act of 2008 (S. 2776) was prepared and sent for US Congress ratification in March 2008. The proposed reconstruction opportunity zones are similar to the QIZ program. Enactment of the ROZ legislation (now pending in Congress) offers a policy option for the new US Administration to set a new tone for development assistance to stabilize regional economic and security conditions.¹⁵ And, recently the U.S. administration renewed its support for the preferential trade program and for its early passage.¹⁶

As a recent example from the region, opening of the the symbolic trade route across the “de facto border” dividing the Indian and Pakistani parts of the disputed region of Kashmir in October 2008, is meant to bolster confidence between the nations and open contact between ordinary Kashmiris separated by the six decades of conflict.¹⁷ Kashmir has been a major source of dispute between India and Pakistan since the two countries were partitioned at the end of British rule in 1947. Muslim Kashmiris sided with Pakistan to the north, while the Hindu south joined India. The decision to reopen the trade crossing came out of a meeting in September 2008 between President Asif Ali Zardari of Pakistan and Prime Minister Manmohan Singh of India on the sidelines of the United Nations General Assembly.¹⁸

II. Increased Interdependence and the Promise of Economic Diplomacy

What a difference six months can make. In just half a year US-Russian, US-Chinese and even US-Iranian relations have experienced profound change. In August 2008, many in American media, academia and government were concerned about the “resumption of the Cold War”. In February 2009, with “delayed” US missile defense plan, Russian and American diplomats “forged

¹⁴ “QIZs to be set up at Pak-Afghan Border”, http://www.bilaterals.org/article.php3?id_article=2552

¹⁵ Council on Foreign Relations, “From AfPak to PakAf: A Response to the New US Strategy for South Asia”, April 2009, http://www.cfr.org/content/publications/attachments/POP_AfPak_to_PakAf.pdf.

¹⁶ http://www.app.com.pk/en_/index.php?option=com_content&task=view&id=74746&Itemid=2

¹⁷ “New Peace Hopes as Kashmir Trade Route Opens”, CNN International, 21 October 2008, <http://www.cnn.com/2008/WORLD/asiapcf/10/21/kashmir.trade/index.html#cnnSTCText>.

¹⁸ “India and Pakistan Open Kashmir Trade Route”, New York Times, 21 October 2008, <http://www.nytimes.com/2008/10/22/world/asia/22kashmir.html>.

an alliance” that would prove critical to US goals in Central Asia.¹⁹ Difficulty of the NATO operation in Afghanistan requiring at least tacit support of Iran, which shares a 560- mile border with Afghanistan, together with the global economic crisis changing the priorities in US foreign policy agenda have led the Obama administration take a softer stance on Iran. Meanwhile, trade with Iran has been an important factor shaping EU’s approach towards the country, which was different from the US approach. Now, both US and Iran are considering ways to open a new page in relations. US-Chinese relations are also in a similar trend, suggesting that human rights accusations and “currency manipulation” issue shouldn’t get in the way of cooperation on the financial crisis.²⁰

The responsible agent for such a change is the current global economic crisis; a “financial 9/11”²¹ reshaping foreign policies, with its impact more diffuse and more long-term. And, what makes the current crisis “unprecedented”, in terms of being “the worst since the Great Depression of the 1930s”, is our increased interdependence through global production and supply chains. That means when a crisis hit country x (in our case the US) it inevitably impacts almost all other countries as well. This interdependence is of great implications in terms of foreign policy behaviour, as studied in International Political Economy.

The rise in China’s trade surplus, the volatility of oil prices, and a slowdown in demand for U.S. assets from private investors abroad, for example, has increased the United States’ reliance on foreign governments for financing. Recently it is widely discussed whether America’s ability to secure large quantities of external financing from foreign governments is a reflection of its political power, a constraint on its ability to exercise power, or a combination of the two.²²

This interdependence not only poses problems by diffusing the impact of crises but also offers opportunities through economic diplomacy.

¹⁹ David Axe, “From Enemies to Friends in Just 180 days: The Curious, Rapid Thaw of U.S.-Russian Relations”, *EurasiaCritic* March 2009, pp. 6-9.

²⁰ Meanwhile, some Chinese scholars and commentators have been circulating more radical visions of how China should use the current crisis to boost its strategic influence. According to the Economist, a recent article in “Economic Reference”, a journal published by a Chinese government think-tank said “the crisis would severely weaken the economic, political, military and diplomatic power of developed countries. This would create an historic opportunity for China to strengthen its position. China should export capital to South-East Asian countries to strengthen their economies. By so doing, it would help prevent political turmoil and win strategic influence in the region”. See, “A Time for Muscle-flexing”, *The Economist*, 21March 2009, p. 30.

²¹ David Miliband, “A Financial 9/11”, *Newsweek*, (6-13 April 2009), p. 19.

²² Brad W. Setser, “Sovereign Wealth and Sovereign Power: The Strategic Consequences of American Indebtedness”, Council Special Report No. 37 September 2008, http://www.cfr.org/content/publications/attachments/Debt_and_Power_CSR37.pdf.

Therefore, it is vital to interpret and use it as a “smart power” element to prevent and solve problems in international relations.

As the leaders put it at the G-20 summit in London pandering to trade protectionism and economic nationalism would only deepen its global impact. However, it is equally important not to defer action on problems such as climate change, global food crisis and sustainable development. Climate change, for example, was one of the hottest topics just before the outbreak of the global credit crunch in September 2008. Since then it falls off the global agenda, with its objectives are now “too costly” to attain.

All these examples make the relationship between economic developments and political behaviors very obvious. And this relationship should be a balanced one, because in today’s interdependent world any imbalance creates insecurity. First imbalance is the gap between the rich and poor; governments need to rebalance the relationship between the state and markets to create fairer, more equal distribution of wealth. The second imbalance is environmental; developed countries through their fiscal stimulus packages should step up investment in developing countries in low-carbon energy, transport and housing. The third challenge is to ensure a new and effective multilateralism. The developed world must not abandon its commitments to increasing aid to poor countries, achieving the Millenium Development Goals and completing the Doha round of trade talks.

In a nutshell, today’s challenges are complex and interdependent. Complexity of these global challenges reshaping International Relations require us to adopt a broader definition of security that encompasses economic, technological and defense security, and adopt a new and innovative approach by using economic diplomacy effectively.

III. Economic Diplomacy and Conflict Prevention

At least since 1750 when Montesquieu declared “peace is the natural effect of trade”, a number of economists and political scientists consider trade to be a major factor towards peace and prosperity for all.²³

This approach, once criticized severely by the mercantile school, is today challenged by the realists on the ground that it overemphasizes the

²³ Solomon W. Polachek and Carlos Seiglie , “Trade, Peace and Democracy: An Analysis of Dyadic Dispute”, *Institute for the Study of Labor Discussion Paper*, No. 2170, (June 2006), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=915360.

importance of trade exchanges, disregarding their possible implications on national security. In that respect, it is argued that the gains by international trade are not distributed equally, and therefore affect the relations of power negatively. Some realists further argue that this negative change in the balance of power could even lead to conflicts.²⁴ Another argument against is that the interdependency is usually not symmetric; therefore one of the sides can be more dependent than the other, making her economic costs heavier and limiting its political leverage.²⁵

III.a. Friedman's Dell Theory of Conflict Prevention

In his book "The World is Flat" Thomas Friedman questions how the classic geopolitical threats might be moderated or influenced by the new forms of collaboration fostered and demanded by the globalization, particularly supply chaining.²⁶ He basically argues that to the extent that the countries tied their economies and futures to global integration and trade, it would act as a restraint on going to war with the countries they are integrated economically.²⁷

His "Dell Theory of Conflict Prevention" stipulates no two countries that are both part of a major global supply chain, like Dell's, will ever fight a war against each other as long as they are both part of the same global supply chain. Because they want to make just-in-time deliveries of goods and services, and enjoy the rising standards of living that come with that.

He continues, since Iraq, Syria, south Lebanon, North Korea, Pakistan, Afghanistan and Iran are not part of any major global supply chains; all of them remain "hot spots that could explode any time".²⁸

Friedman acknowledges that this relation does not guarantee that governments will not engage in wars of choice, even governments that are

²⁴ Robert Gilpin, *War and Change in World Politics*, New York: Cambridge University Press, 1981; A. Arthur Stein, "Governments, Economic Interdependence, and International Cooperation", in Philip E. Tetlock, Robert Levis, Paul C. Stern and Charles Tilly, *Behavior, Society and Nuclear War*, New York, Oxford University Press, 1993, pp. 209-333; John J. Mearsheimer, "Back to Future: Instability in Europe after the Cold War", *International Security*, No. 15, 1990, pp. 5-56.

²⁵ Joseph M. Grieco, *Cooperation Among Nations: Europe, America and Non-Tariff Barriers to Trade*, New York, Cornell University Press, 1990; Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition*, Boston, Little Brown, 1977.

²⁶ Thomas L. Friedman, *The World is Flat: The Globalized World in the Twenty-First Century*, London: Penguin Books, 2006, pp. 580-604.

²⁷ *ibid.*, p. 586 In the earlier version of the theory, namely the "Golden Arches Theory of Conflict Prevention"/"McDonalds Theory", Friedman had argued that when countries reach to the level of economic development where it had a middle class big enough to support a network of McDonalds, they don't like to fight wars anymore. See *The Lexus and the Olive Tree* by Thomas Friedman).

²⁸ *ibid.*, p. 589.

part of major supply chains can go to war. It guarantees only that governments whose countries are enmeshed in global supply chains will have to think three times, not just twice, about engaging in anything but a war of self-defense. And if they choose to go to war anyway, the price they will pay will be ten times higher than it was a decade ago.²⁹

He gives two cases as examples testing the “Dell Theory of Conflict Prevention”; namely, tensions between Taiwan-China and India-Pakistan. He refers to a “silicon shield protecting Taiwan from China”. In the past decade, Taiwan has become the third largest information technology hardware producer after the United States and Japan. Military aggression by China against Taiwan would cut off a large portion of the world’s supply of these products, which is not desirable for Chinese companies working together with their Taiwanese partners. Friedman also refers to the results of the parliamentary elections in Taiwan in December 2004, where majority of Taiwanese voted against the pro-independence governing party. He commented that the message Taiwanese voters were sending was not that they never want Taiwan to become independent; but they just didn’t want to upset the status quo with China that was beneficial for them.³⁰

Another example given by Friedman was the tensions rised between India and Pakistan in May 2002, during which the prospect of a nuclear exchange between the two countries was becoming real, but “just-in-time services supply chains won over the old-time geopolitics”.³¹ Both nations were massing troops on their borders and intelligence reports were suggesting that both countries might be dusting off their nuclear warheads. Politicians stepped back only after international companies like the American Express, General Electric and Avis, having huge investments and outsourcing business operations in both countries threatened stopping their business. India’s place in the world’s services supply chain played a restraining role on escalation of the tensions, because economic gains weighed heavier than geopolitical gains.

III.b. Business’s Role in Conflict Prevention, Peacekeeping and Post-Conflict Peace Building

What role should business play in conflict prevention and resolution or in development efforts constitutes an additional dimension of economic

²⁹ *ibid.*, pp. 590–591.

³⁰ *ibid.*

³¹ *ibid.*

diplomacy. The role of private companies operating in conflict zones or conflict-prone countries can be mutually contradictory. Their decisions on investment and employment, relations with local communities, protection for local environments and their own security arrangements can help a country avoid the conflict, or worsen the tensions that fuelled conflict in the first place. Some of them are manufacturing and selling the main hardware of conflict from tanks to small arms. These enterprises may be involved in the trade of lucrative natural resources, such as oil, diamonds, narcotics, timber and coltan, which would contribute some governments and rebel groups finance and sustain their military campaigns.³²

A comprehensive study carried out by the United States Institute of Peace (USIP) on the relationship between oil and conflict in oil producing states and the evolution of corporate social responsibility standards questioned, whether there is a role the private sector can play in helping the international community address potentially explosive ethnic conflicts around the globe.³³ To better understand the role of oil in zones of conflict, the research focuses on three case studies: Angola, Azerbaijan, and Sudan, all of which has both a rapidly increasing level of oil production and a history of violent conflict. The results state that investor companies in each of the three cases are lacking awareness of the potential impact oil revenues could have on exacerbating conflict and overestimated the effectiveness of traditional peace agreements or partial peace negotiations.³⁴

Based on the findings, in respect to the potential application of corporate social responsibility by the oil industry in zones of conflict, the final report makes the following recommendations for both oil companies and policymakers alike:³⁵

- *“Increased private-public-nonprofit sector collaboration in zones of conflict would be of mutual benefit to all”*. More specifically, the study suggests that major oil companies with experience in managing the social impacts of oil projects and pipelines should collaborate more extensively with other experts in the World Bank, NGOs, and governments.

³² Security Council Press Release SC/8058, “Security Council discusses role of Business in Conflict Prevention, Peacekeeping, Post-conflict Peace-building”, 15 April 2004, Security Council 4943rd Meeting, <http://www.un.org/News/Press/docs/2004/sc8058.doc.htm>.

³³ http://www.usip.org/fellows/reports/2004/0708_shankleman.html

³⁴ *ibid.*

³⁵ *ibid.*

- “*Public officials need to better understand the potential role that the private sector and oil industry in particular can play in preventing, managing, and resolving conflicts*”. The study pointed to a need to increase the awareness of issues and potential opportunities amongst officials and civil society organizations/leaders in oil producing countries and to clarify how the industry works. According to the study, one way this problem could be addressed, would be for international organizations to sponsor regional conferences where oil industry officials, public officials, and groups working on civil society development could discuss issues of mutual concern and potential ways they can address common problems.

- “*Increased transparency by the oil industry in zones of conflict is key to promoting lasting stability*”. The study underscores the importance of transparency for long-term stability from the findings of the three case studies. To help promote this practice, the study recommended that companies push for disclosure of concession agreements in order to encourage an open information model.

On a special session UN Security Council discussed the role of business in conflict prevention, peacekeeping, and post-conflict peace-building on 15 April 2004.³⁶ In his opening remarks, former Secretary General Kofi Annan explained that many attempts were made to tackle the issues surrounding business and countries in or emerging from conflict, such as the Kimberley Process, which focuses on the trade in “conflict diamonds”, and the UN’s own Global Compact. Mr. Annan said that these had largely been *ad hoc* in nature and that a “more systematic approach” was necessary. In this connection, he announced the creation of an *inter-agency group* within the UN to study the political economy of armed conflict. In that regard, the United Nations, international institutions, and national governments were called upon to create the necessary framework for private sector engagement.³⁷

Last year, the World Economic Forum member companies and the United Nations launched initiatives to facilitate further and deeper private sector support of humanitarian relief operations. In that respect, three leading logistics and transport companies Agility, TNT and UPS are joining forces to help the humanitarian activities with emergency response to large-scale natural disasters.

³⁶ <http://www.un.org/News/Press/docs/2004/sc8058.doc.htm>.

³⁷ <http://www.un.org/News/Press/docs/2004/sgsm9256.doc.htm>.

The role of business in conflict prevention requires further study as hopes are high in the international community that Iraqi oil revenues play a leading role in bridging the divides between its diverse ethnic population and Iraqi oil revenues be used to reconstruct the country.³⁸

III.c. Doha Development Round and Trade Liberalization

Director-General Pascal Lamy, in a speech to the International Institute for Strategic Studies on 8 September 2007, said that the successful conclusion of the Doha Round has “a strategic importance for security” as it would “give a clear signal that globalization can be harnessed through the collective efforts of the international community”.³⁹

There is increasing acknowledgement today that, despite an apparent irreversibility and spontaneity, it is possible to manage the globalization process towards better development outcomes. In that respect, a prime concern today for most policymakers everywhere is how to maximize the development benefits of globalization and trade and to minimize their economic, social, human and environmental costs. The failure to do so has the potential of posing a setback to the attainment of internationally agreed development goals.

Although measuring the costs and benefits of liberalization is still an inexact science, it is widely accepted that trade liberalization can help foster prosperity, stability and peace by creating jobs and boosting economic growth. Openness tends to increase mutual understanding and economic interdependence. Less open economies are generally more corrupt, and subsidies and trade barriers create additional opportunities for rent seeking and bribery. Reduced income inequality across countries can also reduce tensions. Increasing prosperity should contribute to better educational outcomes, especially among the very poor for whom even primary education is unaffordable. Overall, the evidence is that liberalization can contribute to lessening conflict.

According to the United Nations Conference on Trade and Development (UNCTAD), who provides developing countries with technical assistance on trade and development, assuring development gains from international trade in the context of globalization necessitates improving

³⁸ “As Iraq Surplus Rises, Little Goes into Rebuilding”, New York Times, 5 August 2008, <http://www.nytimes.com/2008/08/06/world/middleeast/06surplus.html>.

³⁹ Pascal Lamy, “Terrorism is about increasing instability and global trade rules are about promoting stability”.

the quantitative benchmarks of integration in international trade through increased trade performance, increasing shares in world trade and in GDP.⁴⁰ More importantly, a major improvement in the qualitative benchmarks of integration such as increased competitiveness and enhanced productive capacity, adequate and modern infrastructure (physical and social), trade facilitation, human resource development, diversification, a sound financial and investment climate, competition culture, technological advances, and more environmentally sustainable and climate-friendly production and consumption patterns will also be required.⁴¹

Concerning the impact of trade liberalization on development, a joint study carried out by the UNCTAD and the Government of India on the “Impact of Trade and Globalisation on Gender in India” worths examining.⁴² The study maps and assesses the relationship between trade and gender in India at the sectoral levels with relatively high women labour and at different states (on the basis of the concentration of the sectors where women workers are mainly engaged), to draw up nation-wide implications. According to UNCTAD’s study, “women’s employment in India following reform and liberalization has increased to the extent of about 5-10%. Women employment and wages have increased in export-oriented sectors with dynamic export growth such as handicrafts, wearing apparel, fisheries and IT. Conversely, women seem to have borne the major brunt of fall in employment in case of decline of exports, such as in tea and coffee production, which are dominated by plantation production. There is a definite increase in demand for casual workers to cope with export-related trade growth, which led to a rise in the informal sector workers, a high percentage of them being women”.⁴³ The study concludes overall that there are positive gains across a wide spectrum of sectors for women’s employment and empowerment with trade and globalization. However, the situation is yet to achieve a notable improvement in the real empowerment for women, equitable distribution of household responsibilities, equal pay for work of equal value and gender balance across occupations. The study argues that the process of feminization with export-oriented manufacturing industries has not been large enough to counteract other forces which contribute to the downward pressure on women’s work participation rates. There is thus a need to consciously work in India and within the global economy towards exploiting fully the potential of women

⁴⁰ UNCTAD, “Globalization for Development: the International Trade Perspective”, New York, 2008, http://www.unctad.org/en/docs/ditc20071_en.pdf, p. vii.

⁴¹ *ibid.*

⁴² *ibid.*, p. 10.

⁴³ http://www.unctadindia.org/internationalConferenceOnMovingTowardsGenderSsensitisationOfTradePolicy25-27Feb2008_AbhijitDas.

labour power in the service of trade and development.

Another platform supporting sustainable development through trade liberalization is WTO- Doha Development Agenda talks. The Doha Round of multilateral trade negotiations, which was launched in November 2001, offers an important opportunity to mainstream a substantial development content that reflects the needs and interests of developing countries into the multilateral trade system. The completion of the Round is also considered imperative in realizing the Millennium Development Goals of “an open, equitable, rule-based, predictable and non-discriminatory” multilateral trading system.⁴⁴

Meanwhile, WTO members are struggling to make any progress with the Doha Development Agenda, western countries are questioning the wisdom of allowing significant immigration, and there is a broader disenchantment with globalization. The alternative to further liberalization could be more protectionism rather than the status quo.

Collapse of the Doha Round Negotiations in July 2008 mainly due to disagreements on the details of Special Safeguard Mechanism for agriculture for the developing world would have risked the development advantages of trade facilitation. Taking this and deteriorating global financial outlook into consideration, WTO Director-General Pascal Lamy says even “smart” isolationism (such as “Buy USA”, “Buy French” clauses in fiscal stimulus bills) would be a recipe for a global slump, because protectionist measures taken by one government would be replicated by others, creating a domino effect of dire consequences.⁴⁵ Therefore, it is necessary to reignite the process, building consensus and involving all members.

Downturn of the global economic crisis further threatens the prospects for Doha success. Since early this year, there has been “significant slippage” in the global commitment to free trade due to the global economic crisis, the WTO said. There have been increases in tariffs, new nontariff measures and more resort to trade defense measures such as antidumping actions. The WTO has predicted that global trade will shrink 9% this year.

⁴⁴ “Lamy Ready to Call Ministers Back to Geneva”, http://www.wto.org/english/news_e/sppl_e/sppl100_e.htm.

⁴⁵ Lamy’s speech at Sydney think-tank the Lowy Institute on 2 March 2009, http://www.wto.org/english/news_e/sppl_e/sppl117_e.htm.

Director-General Pascal Lamy reported to the General Council on 14 October 2008 that he had “constituted a Task Force within the Secretariat to follow up the effects of the financial crisis on our different areas of work”. He suggested that WTO members “keep the situation under review, and be ready to act as necessary”.⁴⁶

At Davos World Economic Forum leaders recognized too the dangers of sliding into trade protectionism, which have proven so devastating in the past. They also underlined the necessity to preserve and maintain the integrity and openness of a rule-based multilateral trading system, which is at the heart of economic growth, furthering jobs and prosperity.

III.d. Regional Trade Agreements

We have recently witnessed an upsurge of bilateral and regional trade talks and agreements. As of January 2009, 425 regional trade agreements (RTAs) have been notified to the GATT/WTO of which 234 are currently in force. China and the Association of Southeast Asian Nations (ASEAN) signed an agreement on January 14, 2007, which foresee the establishment by 2015 of a China-ASEAN free trade area, the world’s biggest trade zone of nearly two billion people.⁴⁷ The number of agreements negotiated and signed by the US also shows a steep increase.

The discussion on whether regional trade agreements, the number of which increase every day, are “building blocks” or “stumbling blocks” to world trade is not new. But, in the midst of endeavors to put the Doha Round back in track and ambiguities on the future of multilateral trade system, regional trade agreements have become more controversial. It is a common concern that with countries turning to bilateral and regional agreements as a result of the stagnation in the Doha Round, opportunity to further liberalize markets is at risk.

Some scholars such as Baldwin, argue that regionalism increases the costs of being out, therefore more countries become eager to join, and in particular small countries try to enter regional agreements in order to get foreign investments.⁴⁸ Because of the exclusive nature of the RTAs, Baldwin

⁴⁶ http://www.wto.org/english/thewto_e/gcounc_e/meet_oct08_e.htm

⁴⁷ Turkish Daily News, “China signs key deal with ASEAN nations”, 16 January 2007, <http://www.turkishdailynews.com.tr/>, visited on 16 January 2007.

⁴⁸ Richard Baldwin, “Multilateralising Regionalism: Spaghetti Bowls as Building Blocs on the Path to Global Free Trade”, *The World Economy*, Vol. 29, No. 11, (November 2006), pp. 1451-1518.

suggests, non-member countries respond to an RTA either by joining the RTA or creating a new one, and this cause what he called “domino regionalism”.

We need to look at the manner in which regional agreements operate, and what effects they have on trade opening and on the creation of new economic opportunities. We also need to reflect on whether regionalism is causing harm to multilaterally based trading relations. Regionalism might be hurting multilateralism, either by bolstering discriminatory interests, or by fostering protection behind enlarged closed markets. Another concern is whether building on the stock of regional agreements distracts from Doha multilateral trade talks. In that respect “multilateralizing regionalism” is gaining importance.⁴⁹

Leaving aside the economic rationale, regional cooperation is also indispensable with regard to the extended scope of security sectors falling within the ambit of soft security. As governments seek to consolidate peace and increase regional security with their RTAs, it has become clear that security based reasons play an important role-in addition to economic benefits-in the recent surge in RTAs.⁵⁰

There are a number of studies analyzing the impact of the recent upsurge of RTAs building trade links between states previously at war or risk of war or violent conflict, and peace-building both within and between states.⁵¹ The results of these studies show that in the regions like Asia, where the threat of intra-state conflicts developing into full-scale inter-state strife is real, this threat has been curbed to a considerable extent by the region’s representative grouping, the Association of Southeast Asian Nations (ASEAN) and its associated RTAs; the ASEAN Free Trade Area (AFTA) and the ASEAN Community.⁵² These act as political and economic security buffers to promote peace and prosperity in the region.

⁴⁹ Richard Baldwin and Patrick Low (eds.), *Multilateralizing Regionalism: Challenges for the Global Trading System*, WTO, New York: Cambridge University Press, 2009; Richard Baldwin, “The Spoke Trap: Hub-and-Spoke Bilateralism in East Asia” in *China, Asia and the New World Economy*, Charles Wyplosz, Barry Eichengreen and Yung Chul Park (eds.), New York: Oxford University Press, 2008, pp. 51-86.

⁵⁰ WTO, “The Changing Landscape of RTAs”, *Seminar on Regional Trade Agreements and the WTO*, Geneva: WTO Secretariat, 14 November 2003, http://www.wto.org/english/tratop_e/region_e/sem_nov03_e/boonekamp_paper_e.doc.

⁵¹ Kathy Powers, “Trade Institutions as Security Institutions: RTAs, Civil War and Ethnic Conflict” Paper presented at the annual meeting of the International Studies Association, Montreal-Quebec, Canada, 17 March 2004, http://www.allacademic.com/meta/p73401_index.html; Kathy Powers and Goertz, Gary, “Regional Trade Agreements as Security Institutions Project: Challenges in Coding Multi-Issue Treaties” Paper presented at the annual meeting of the American Political Science Association, Washington DC, 1 September 2005, http://www.allacademic.com/meta/p41937_index.html.

⁵² International Institute for Sustainable Development, “Regional Integration, Trade and Conflict in South Asia”, January 2007, <http://www.iisd.org>.

AFTA's non-bidding and non-punitive nature arguably promotes the mitigation of potential conflict, while at the same time pushing towards lower tariffs to raise the level of intra-regional trade, and create more interdependence within ASEAN. With closer economic integration, the cost of conflict becomes higher, as AFTA serves as a 'passive' indirect link between trade/investments and confidence/peace-building, with tariff reductions under the Common Effective Preferential Tariff (CEPT) scheme playing the role of enhancing security.

The number of such agreements increases every other day. On August 28, 2008 India agreed a free-trade agreement with the Association of South-East Asian Nations (ASEAN). ASEAN also announced a second big regional deal, with Australia and New Zealand. Together, the agreements cover trade worth about \$70 billion.⁵³

Considering their positive impact on security, RTAs can be negotiated in a way that reduces inter-state tensions and helps construct institutional barriers to violent conflict, and non-trade provisions such as the rule of law and respect for human rights can be included in RTAs improving domestic governance and reducing the risk of future conflict. America, for example, offers trade deals to strategic allies as a reward for fighting the war on drugs or stabilising the Middle East.⁵⁴ USTR also creates specific obligations through its bilateral trade agreements (BTAs) on a range of issues, from trade and investment regimes, as well as intellectual property rights, labor rights and environment protection.⁵⁵

IV. Some Inspiring Initiatives

IV.a. Industry for Peace Initiative

The Israeli-Palestinian conflict constitutes a security threat of serious concern not only for the Middle East region but for the world. And, one of the countries mostly affected by this problem is Turkey, which has also a unique position having good neighbourly relations with both sides of the conflict. This gives an impetus for Turkish businessmen to search for an opportunity to cool down the tension and thus provide a better environment for peace talks.

⁵³ "Regional Trade Agreements: A Second Best Choice", *The Economist*, 4 September 2008, http://www.economist.com/opinion/displaystory.cfm?story_id=12068114.

⁵⁴ "Afta Doha: Should Free Trades Applaud the Rise of Preferential Trade Deals?", *The Economist*, 4 September 2008, http://www.economist.com/finance/displaystory.cfm?story_id=12060235.

⁵⁵ http://www.ustr.gov/Trade_Agreements/Section_Index.html.

Turkish businessmen concluded that the growing unemployment problem in Gaza among the Palestinians is a major impediment to the peace and stability of the Middle East. Although political conflicts require political settlement, job creation in Gaza has the capacity to create a conducive environment for consensus building efforts.

Taking this into consideration, Turkish entrepreneurs launched the “Industry for Peace Initiative” in 2005 to be carried out by the “Ankara Forum” bringing together the Palestinian, Israeli and Turkish business associations, namely the Federation of Palestinian Chambers, the Manufactures Association of Israel, and the Union of Chambers and Commodity Exchanges of Turkey (TOBB).⁵⁶ The Forum aimed to serve as a confidence building mechanism and to encourage businessmen to focus on viable business opportunities and concrete projects. In its first phase, the Forum successfully held seven meetings in Ankara, East Jerusalem, Istanbul, Tel Aviv, and Washington, DC. The World Bank had established a similar endeavour- “the Private Sector Working Group”- but later dissolved it and preferred to continue its business-sector dialogue under the umbrella of the Ankara Forum. The United States Chamber of Commerce declared that it would participate in the Ankara Forum as an observer. As its first tangible project, Ankara Forum decided to focus on managing and developing industrial parks in order to contribute to private sector development and employment generation in the Palestinian Territories.

The first project of the Ankara Forum involved the revitalization and management of the Erez Industrial Estate (EIE), which is adjacent to the Israel-Gaza border and the Erez Crossing connecting Northern Gaza to Israel. Around 200 companies were operational at the EIE before Israel’s disengagement from Gaza, employing around 5000 workers.⁵⁷

While choosing to put the Erez Project on hold until the political environment on the ground is conducive for such an initiative, TOBB-BIS (the firm established to carry out the Industry for Peace Project) and the members of the Ankara Forum explored opportunities to embark on another industrial park project in the West Bank. During the sixth meeting of the Ankara Forum held in East Jerusalem on September 4, 2007, Forum members decided that the new site was selected to be the Hebron area. High-level political support was certified for this new location.

⁵⁶ www.industryforpeace.org.

⁵⁷ www.tepav.org.tr/eng/admin/dosyabul/upload/PIFZv05.ppt.

Successful implementation of this project would not only generate jobs for around 10.000 people and boost the private sector activity in the West Bank, but also would set up a model that can be replicated elsewhere in the West Bank, Gaza, and other areas in the region.

Security situation on the ground and its political reflections have not allowed the Industry for Peace be implemented so far. However, recognition by all sides of the importance that trade can play an important role in facilitating peace talks, has led the USA and EU to support similar initiatives.

Accordingly, the US Agency for International Development (USAID) announced on July 7, 2008 a three-year, \$12 million program aimed at boosting trade in the West Bank and Gaza Strip.⁵⁸ According to a USAID press release, the Trade facilitation Project aims to reduce transportation costs for Palestinian shippers by helping them satisfy Israeli packing and shipping requirements, while supplying Israeli border control with equipment to speed merchandise inspection. Expected improvements include better lighting of loading areas, tracking trucks moving from factory to border, and better monitoring of border crossings.

USAID stated that Israeli and Palestinian firms would both benefit from the Project, which will make it easier to move materials and products in both directions and thus provide opportunities for mutually beneficial production arrangements. For example, Israeli textiles can be shipped to Palestinian factories for sewing and finishing and then shipped back to Israel and other destinations. The Project also allows for more exports of perishable agricultural products, particularly to Europe.⁵⁹

EU also seems eager to utilize economic diplomacy to support the peace process. During the 7th Euro-Med Trade Ministerial Conference in Marseilles, France on July 2, 2008, EU Trade Commissioner Peter Mandelson proposed Turkey to host an international conference to help normalize commercial ties between Israel and Palestine. Mr. Mandelson conveyed his proposal to the former Minister of State Kürşad Tüzmen, who accepted the proposal and said Turkey would organize such a conference if the mentioned parties approved it.⁶⁰ Upon receiving positive political feedback from the Is-

⁵⁸ "USAID Announces \$12 Million Trade Facilitation Program for West Bank and Gaza", *World Trade Interactive*, 10 July 2008, Vol. 15, Issue 138.

⁵⁹ *ibid.*

⁶⁰ "Minister Opposes Club Med Reference in Euromed Document", *Today's Zaman*, 4 July 2008, <http://www.todayszaman.com/tz-web/detaylar.do?load=detay&link=146589>.

raeli and Palestinian authorities on the conference proposal, Turkish authorities hold meetings with the relevant parties in both sides like the manufacturers' associations, chambers of commerce federations and trade institutes/agencies. The Conference was originally scheduled to take place in Istanbul in the last quarter of 2008 or at the beginning of 2009, with participation of the US, EU, Japan and regional actors such as Egypt and Jordan, in addition to Turkey, Israel and Palestine. Now, position of the new Israeli government on the peace process as a whole would have a determinative influence on feasibility of such projects.

Lately there are some positive steps taken by Israeli businessmen as well, supporting the argument that business and trade opportunities can contribute confidence building and support better relations. Jonathan Levy, an Israeli high-tech executive decided to outsource some software engineering work to seven recent graduates from West Bank universities. More than 2000 Palestinian students graduate with computer science or engineering degrees each year, and the high-tech industry in neighboring Israel needs the workers. "In Israel, high-tech executives wield political power and some hope their inroads into the Palestinian business community can push forward political negotiations," reports Robert W. Gee for Cox News Service.⁶¹

The number of such examples should grow, for sure. Any peace effort in the region requires serious political leadership by the Israelis and Palestinians and the willingness to make challenging decisions. If positive expectations prevail, then such difficult decisions can be made much more effectively. However, if no steps are taken, the growing frustration in the region will be a major obstacle to peace initiatives.

IV.b. Revitalization of the Silk Road

In addition to several economic diplomacy tools, transport has proven to be an important factor in sustainable development and better utilization of the benefits of globalization. Investment in transport infrastructure and cooperation in developing new transport routes and linkages are essential to make freer movement of people, goods and services possible and thus increase development opportunities in the relevant regions.

⁶¹ "High-tech ties bridge Mideast divide", by Robert W. Gee, STLToday.com, <http://www.stltoday.com/stltoday/news/stories.nsf/news/world/story/1ad4efe6b5717d328625749200189fde?OpenDocument>.

In this regard, the second Project to be examined by this study, is the “Revitalization of the Ancient Silk Road Project”, which aims to contribute regional prosperity and security through strengthened economic ties. The project, launched by the International Road Transport Union (IRU) in partnership with the UN Economic Commission for Europe (UNECE), hypothesizes that the modern Silk Road would not only connect goods and services with the market, but also allow everybody to benefit from globalisation, equally, and bring countries in this geography closer to each other.⁶²

The Asian Highway network, the nexus of the Silk Road Revitalization Project, was first conceived in 1959. Today, it connects 32 member countries and consists of 141,000 km of highways. It is covered by an Intergovernmental Agreement signed by 28 member States and in force since 4 July 2005.⁶³

From the economic perspective, road transport, allows for the full potential of regions and cities to be developed and also to facilitate the mobility of key labor resources. In many cases, road transport can act as a facilitation of interactions among people either directly or in combination with other modes and modern telecommunications networks. In addition, transport costs are a central determinant for trade costs, thus export competitiveness.

Well functioning transport infrastructure and services mean opportunities in terms of access to local and international markets, access to basic social services, like education or healthcare, and opportunities in terms of making a living, as the number of people employed in transport is considerable in all countries.

Less than one percent of trade between European and Asian countries is carried through Central Asian countries, which were in earlier days at the heart of world trade. This is due to the fact that only road transport, with its unique door-to-door, high-quality service, can interconnect all the businesses and regions from the Far East to Europe. The project of revitalizing the Great Silk Road has just taken a giant step forward through the 31 st IRU World Congress, which took place on May 15-16, 2008 in Istanbul with the theme “Road Transport Driving Peace and Prosperity”.⁶⁴

⁶² <http://www.turkishdailynews.com.tr/feeds/iru.pdf>.

⁶³ http://www.iru.org/index/en_2008_istanboul_highlights.

⁶⁴ *ibid.*

Economic facts on the ground supports the project; while the continued expansion of Chinese demand for producer goods and resources shaping Chinese-Central Asia rapprochement, rising shipping costs due to volatile oil prices and jammed ports of China force her to develop new routes and transport cooperations to sustain its export to the West.⁶⁵

Establishment of Euro-Asian transport links is a long term process however, and requires first and foremost strong political will and commitment of the countries concerned, careful use of scarce financial resources, as well as an appropriate balance between development of new and maintenance of the already existing infrastructure. As a response to this problem, UNECE organized a Meeting of Transport Ministers from countries in the Euro-Asian region on 19 February 2008, where eighteen countries signed a Joint Statement on the Future Development of Euro-Asian Transport Links. There is no longer any doubt that construction of missing road connections along the Silk Road, including bypasses in urban areas is the joint interest of both the public and the private sectors. And this big long-term project is considered an important integration project that would contribute sustainable development, prosperity and thus peace in the region.

Conclusion

To sum up, there are success stories such as the EU, and promising initiatives such as the QIZ program, Industry for Peace Initiative and Silk Road Revitalization Project. QIZs, developing trade between Israel and Jordan and Egypt are working quite well, contributing to the peace process in the Middle East. Some even argue that this trade may arguably explain to some extent slow and reluctant behaviours of Jordan and Egypt in the latest Israeli attacks on Gaza Strip. Although it can be argued that the Industry for Peace Initiative may yield successful results only after a long period, it is obvious that supporting efforts to ensure peace and stability and the Palestinian economy must occur side by side. Without tangible signs of improvement in people's lives, closed-door negotiations would not have enough time to make progress.⁶⁶ Finally, the Silk Road revitalization project offers great potential in terms of increasing the trade volume in the region

⁶⁵ Sebastien Peyrouse, "Economic Aspects of the Chinese-Central Asia Rapprochement", *Silk Road Paper*, Central Asia-Caucasus Institute, September 2007; "Business in China: High Seas, High Prices", *The Economist*, 9 August 2008, p. 60.

⁶⁶ Ian Bomberg, "Developing Economic Tools" Middle East Progress, <http://www.middleeastprogress.org>; Tony Blair, "Comprehensive Approach to Palestinian Statehood", 6 January, 2009, Middle East Progress; "Palestinian Economy and the Peace Process: Challenges and Possibilities", Middle East Bulletin, 10 February, 2009; "Jump-Starting the Palestinian Economy", Middle East Progress, 10 February, 2009; "The Obama Administration and the Unavoidable Issue of Palestine", <http://www.americantaskforce.org>; Peace Through Commerce Program website, <http://www.peacethroughcommerce.com>.

and contributing to development. With the same rationale, the EU developed road, railway and sea-ports networks through projects like Trans-European Network for Transport Program (TEN-T)⁶⁷ and Transport Corridor Europe Caucasus and Asia (TRACECA).⁶⁸

In light of the above mentioned arguments and examples, this study concludes that although prosperity is not a sufficient condition for peace, it is unquestionably a factor that can help in achieving peace and in its maintenance. It is seldom prosperity in itself that reduces tensions, but rather the absence of extreme differences in levels of prosperity. In many cases, trade, as one of the main economic diplomacy tools, can play a facilitating role in fostering sustainable development and peace.

Therefore, it is imperative that the international community work to make trade and globalization contribute to successful development. To this end, accelerated economic growth and increased returns from trade should be channelized into achieving human and social development including food security, energy security, rural development, universal access to essential services, gender equity, and poverty reduction.

Achieving these objectives necessitates collaboration. That is why the world civil society leaders for a collaborative and innovative leadership to address the challenges of globalization. Former British Prime Minister Tony Blair stated “globalization is forcing changes in how people collaborate in a fundamental way,” and concluded “if we are interconnected and the world is interconnected, the only way for the world to work is to have a set of common values. We have no option but to work together.” Trade in particular, and business and economic relations in general provides a suitable framework to work on that collaboration.

Managing political economy effectively and devising multi-faceted solutions is at the centre of today’s policy challenges, truly testing the capacity of governments to cooperate efficiently with one another. It is therefore no surprise that in addition to various stimulus packages, and laying the foundations for better global financial governance, leaders also sent a powerful message on trade and the importance of rapidly concluding the WTO Doha Development Agenda Negotiations.

⁶⁷ www.ten-t.com

⁶⁸ www.traceca-org.org/; www.traceca.org.tr