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# The Globalization of Production and the Changing Benefits of Conquest

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This article examines the conditions under which conquest is likely to reap significant economic rewards. Scholars have largely focused on how the level of popular resistance within the vanquished country influences the benefits of conquest. What needs to be scrutinized in greater depth is how post-World War II economic transformations within the most advanced countries affect the benefits of conquest. This article focuses on examining one particular economic change that has been neglected for the most part in the security and peace literature: the globalization of production. The article delineates four recent changes in the structure of global production and outlines how each of these economic transformations alters the benefits of conquest. The collective impact of the arguments strongly indicates that the benefits of conquest have declined significantly in recent years within the most economically advanced countries.

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The promise of capturing economic benefits from conquered territory historically has been a significant motivating force for war. Unfortunately, wars of conquest still occur, as Iraq's recent invasion of Kuwait amply demonstrates. Yet, the conditions under which conquest can produce significant economic gains have not received much sustained analysis in recent years. There are a number of reasons for this neglect. The key reason likely is the widespread assumption that conquering a highly advanced state no longer can produce meaningful economic benefits due to high levels of modern nationalism. In this "quagmire" perspective, conquering a highly advanced state is seen as producing few economic gains because it is assumed that the conqueror inevitably will have to devote great resources to suppressing nationalist uprisings and, in turn, that the defeated populace will actively seek to reduce the economic surplus available to the invader.

In his recent provocative book, *Does Conquest Pay?*, Liberman (1996) directly challenges this conventional quagmire perspective and argues forcefully that it is inaccurate. Liberman's conclusion is that the conquest of modern societies still can pay so long as the conqueror is ruthless. Moreover, he asserts that economic modernization

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actually enhances the profitability of conquest. If Liberman is correct, then the incentives for aggression in the developed world might actually be increasing over time.

In this article, I further analyze the conditions under which conquest is likely to reap significant economic rewards. Because Liberman's (1996) book is the key work on this topic, I begin by reviewing the main elements of his analysis. I then argue that more extensive analysis of the economic benefits of conquest is greatly needed; in particular, it is necessary to look at factors other than the level of popular resistance that may affect the benefits of conquest. Although it is abundantly clear that there have been dramatic economic transformations during the post–World War II period, especially in the most advanced countries, scholars have so far failed to devote sustained attention to whether any of these economic changes can significantly alter the benefits of conquest. I analyze in detail how one recent economic change, the globalization of production, affects the benefits of conquest.

I draw on analyses and findings from the recent literature on the globalization of production. This literature, developed primarily by economists and management scholars, has been neglected for the most part by security and peace scholars. I stress that the structure of global production has changed dramatically during the post–World War II period, especially over the past 25 years. Four economic transformations are highlighted here: (a) the increased geographic dispersion of production, (b) the greatly enhanced significance of interfirm alliances, (c) the increased ease of engaging in foreign direct investment (FDI), and (d) the general shift toward “knowledge-based” economies in the most advanced countries. Only the last of these four changes has so far received much attention in the literature. The bulk of my analysis is not devoted to reviewing exactly how the structure of global production has changed in recent years. Rather, it advances a series of deductive arguments about why these transformations appear to have reduced the economic benefits of conquest. Although none of these individual arguments has a decisive impact, their collective impact strongly indicates that the benefits have significantly declined, but only among those highly advanced countries in which these economic transformations have so far had a substantial impact.

### **WHY MORE STUDY OF THE ECONOMIC BENEFITS OF CONQUEST IS NEEDED**

What exactly do the “economic” benefits of conquest consist of? Liberman (1996) carves out a very useful definition in his book. He brackets all other factors that do not directly affect the economic benefits of conquest: “the balance sheets evaluated in this book do not consider the costs of military conflict or economic sanctions imposed by states outside the empire, the benefits of neutralizing potentially hostile neighbors, or the utility of strategic territory” (p. 4). There are several reasons for not considering these four other factors. First, they do not affect the economic benefits of conquest; rather, all of them involve either costs associated with war or strategic benefits from seizing territory. Second, Liberman points out that scholars already have extensively studied how these four other factors affect the cost-benefit ratio for war. Third, bring-

ing in these four other factors would not leave much of a puzzle to be solved; even Liberman is perfectly willing to admit that conquest typically does not pay when the costs of seizing territory and the actions of rival states are factored in (p. 4). He argues that what is a puzzle is "whether the conquest of industrial economies pays, aside from the costs of conquering territory and the costs imposed by retaliating third parties" (p. 3).

Liberman (1996) points out two key reasons why it is important to specifically study the economic benefits of conquest. First, if conquest does pay economically, then there will exist higher incentives for expansionist states to upset the status quo, and the system consequently will become more unstable and vice versa. Second, if conquest does pay economically, then the only thing that will keep the peace will be the other factors that he excludes from his study such as military deterrence, a willingness to balance against aggression, and the costliness of modern warfare. In short, the economic benefits of conquest directly affect (a) the degree to which there are incentives to upset the territorial status quo and (b) the degree to which states must be militarily vigilant to maintain the peace.

Despite the substantive importance of the economic benefits of conquest, this topic has been relatively neglected in recent years. International relations scholars, of course, routinely discuss the cost-benefit ratio of war as a key parameter in international relations. Yet, the focus of analysis invariably is on the cost side of this equation, and little attention is paid to the benefit side (e.g., Zacher 1992, 67-71). In recent years, international relations scholars have paid great attention to a number of different factors that have increased the costs of conflict facing leaders of advanced states during the post-World War II period. They include the greatly increased potential destruction of war due to vastly more powerful modern weapons, both nuclear (Waltz 1993; Gaddis 1987) and conventional (Mueller 1988); higher levels of resistance to war on the part of domestic publics (Russett 1993; Rosenau 1990); high potential losses of economic benefits due to increased levels of trade interdependence (Oneal and Russett 1997; Rosecrance 1986); stronger international norms against the use of force (Mueller 1989; Ray 1989); and the dominance of the defense over the offense due to factors such as greatly improved reconnaissance capabilities (Jervis 1978; Van Evera 1990-91). By comparison, scant few pages have been devoted to forwarding arguments about how the economic benefits of conquest might have changed among the most advanced states during the post-World War II period.<sup>1</sup>

One possible reason for this neglect is that this subject simply falls between the cracks of international political economy and security studies (Kirshner 1998). The most likely reason is that many international relations scholars simply accept the widespread argument that conquering an advanced state no longer pays due to increased levels of nationalism (Rosecrance 1986, 34; Gilpin 1981, 142; Knorr 1975). In this conventional view, which Liberman (1996) aptly labels the quagmire perspective, empire is now seen as unprofitable due to the costs associated with suppressing upris-

1. A good portion of the references on this topic are noted by Liberman (1996) in note 29 (pp. 161-62) of his book. In addition to these citations listed here by Liberman, see also Ullman (1991, 23-25), Singer and Wildavsky (1993, 15-16), Van Evera (1990-91, 14-15), Jervis (1991-92, 49-50), and Rosecrance (1996, 48, 56). Very few existing analyses devote more than a page or two to the economic benefits of conquest.

ings by resistance fighters and a concomitant reduction in the extractable economic surplus in the conquered territory due to strikes, sabotage, and foot dragging by the defeated populace.

Lieberman (1996) directly confronts this conventional quagmire perspective and effectively shows that it is not nearly as compelling as many scholars currently assume. Lieberman's first, essentially noncontroversial argument is that states with higher levels of economic development offer larger potential economic rewards to the conqueror; the richer a country, the more that can potentially be plundered from it. The key question then becomes whether the high levels of wealth in the most advanced countries can actually be extracted by the conqueror. If the quagmire view is correct, then these large levels of economic surplus in advanced states will not be available to the conqueror due to active resistance by the defeated populace. Lieberman's key argument is that high levels of popular resistance are not a given in modern societies; rather, they vary inversely with the ruthlessness of the conqueror. He maintains that extremely ruthless conquerors, such as the Nazis in World War II, can effectively suppress popular resistance and thereby are able to extract significant economic resources from the vanquished country. Lieberman assesses his thesis through a detailed historical analysis of five occupations of industrial societies from the 20th century: Belgium and Luxembourg, 1914-1918; Ruhr-Rhineland, 1923-1924; the Japanese empire, 1910-1945; the Nazi occupation of Western Europe, 1940-1944; and the Soviet empire in Eastern Europe, 1945-1989. He finds significant support for his argument that those invaders who are ruthless can suppress popular resistance and thereby make conquest pay.<sup>2</sup>

There are several reasons, however, to question Lieberman's (1996) findings. Two issues in particular are worth highlighting. First, Lieberman's study suffers from potential selection bias in his cases. He limits his sample of cases to examples in which conquest has occurred and "there is attempted extraction" (p. 14). As a result, for a case to count in his sample, the conqueror not only has to be able to vanquish the opponent but also must establish sufficient territorial control that extraction can actually be attempted. Two key variables that affect whether a country can be successfully conquered to this degree are (a) the extent to which the population is willing to make sacrifices to repel the invader and (b) the level of resolve and effectiveness of the defender's military units on the battlefield. States with highly nationalistic populations willing to make significant sacrifices to reject an invader and, in turn, whose military forces ardently and effectively oppose the conqueror in battle (e.g., Vietnam from 1946 to 1975, Britain in World War II, Afghanistan from 1979 to 1989) will be difficult to conquer and even harder to establish sufficient territorial control for extraction to be attempted. The converse also will be true (e.g., France in 1940).

The key point is that some of the very factors that make societies easy to conquer (e.g., lack of significant popular resistance, low levels of resolve and effectiveness on the battlefield) also will make them easier to subdue once they are occupied. Not sur-

2. To be clear, Lieberman (1996) does not claim that conquest produced significant gains in all of the historical cases he examines. He maintains that conquest did not pay significant rewards in two of the cases he investigates: Belgium during World War I and the first phase of the Ruhr-Rhineland occupation. In each of these cases, however, he argues that this ultimately can be traced to a lack of ruthlessness on the part of the conquering power.

prisingly, conquerors often avoid targets that are hard to subdue. In the end, therefore, Liberman's (1996) sample of cases appears to be biased toward examining countries that are less likely to put up much active resistance both before and after conquest. For example, some of the very factors that made France easy for the Nazis to conquer in World War II likely also made it easy for the Nazis to occupy France. Consequently, it is not entirely surprising that Liberman finds that the Nazis were able to easily suppress resistance and extract significant economic gains from France. By contrast, one wonders about the counterfactual example of how easy it would have been for the Nazis to suppress popular resistance in Britain if the Nazis had actually been able to successfully overcome stiff British opposition to invasion. One suspects that some of the very factors that made it possible for the British to resist Nazi aggression so successfully likely also would have translated into significant resistance efforts following a hypothetical Nazi conquest.

In addition to concerns about potential selection bias, it is worth noting that although the evidence from World War II and earlier that Liberman (1996) examines matches up well with his underlying argument, his only case from the post-World War II period (the Soviet empire in Eastern Europe) is highly problematic for his thesis. Showing that the Soviets' East European empire was a net benefit obviously is a tough case to make given the predominant view that it was a huge drain on Soviet economic resources. For example, a prominent RAND study estimates that the costs of the Soviet empire reached as high as 3% of Soviet gross national product in 1980, of which 64% of this total was spent in Eastern Europe (Wolf 1987, 134-35). The best researched account of Soviet-Warsaw Pact economic relations, which was published contemporaneously with Liberman's study, concludes that "what had been a serious problem [for the Soviets] in the early 1970s had grown into a crisis of threatening proportions by the mid-1980s" (Stone 1996, 43). Recent analysis also indicates that Soviet decision makers themselves viewed the empire as an expensive burden (Levesque 1997).

Liberman (1996) ultimately is forced to confront the Soviet case for two reasons. First, this case is essentially the only recent example of empire that he can discuss given that most of the colonial empires have long been dismantled. Certainly, it is the only recent example of conquest of any economically modern country, although Eastern Europe obviously lagged far behind the West in terms of economic modernization, and one certainly can question whether it is reasonable to classify certain parts of the Soviet empire, in particular Bulgaria and Romania, as "modern" during any point of the Soviet occupation. Second, it is exactly because of the widespread view that the Soviet empire was not profitable that Liberman must address this case and show that this conclusion is misguided. In the end, he does not succeed.

Liberman (1996) does demonstrate that the Soviets were able to transfer substantial resources from East Germany immediately after World War II. But these short-term gains from East Germany seem to have been largely offset by the fact that the Soviets were not able to extract much of anything from the other East European countries they occupied after the war (p. 129). In turn, Liberman shows that the Soviets generally were able to suppress popular resistance effectively and that East European workers did not engage in very many strikes. But this does not necessarily mean that we should



conclude that the Soviet empire was profitable. For one thing, the East Europeans might have been fairly quiescent only because of the large Soviet troop presence in the region. The degree to which the Soviet forces in Eastern Europe were designed for external security rather than to preserve internal order (and hence should count as occupation costs) is very difficult to assess. Liberman cites the fact that large-scale Soviet military intervention in Eastern Europe was required only three times in support of the view that Soviet troops in the region were not significantly oriented toward preserving internal order (p. 133). Looking at the same evidence, one can easily reach the opposite conclusion. Beyond total troop levels, Liberman states that "the number of administrators and spies remains uncertain but represented at most a small fraction of Soviet troops" (p. 133). Why we should believe Liberman's assessment of the number of spies and administrators despite an admitted lack of data is unclear. Moreover, manpower figures only partially reflect total expenditures on monitoring and administration. In the end, Liberman might be right that Soviet costs of control in Eastern Europe were "not great," (p. 126) but we cannot reach this conclusion on the basis of the available evidence that he presents.

Furthermore, the East Europeans might have been fairly complacent only due to the large inflow of subsidies, both explicit and implicit, from the Soviet Union (Bunce 1985). Although difficult to estimate with exactitude, the size of these subsidies remained stubbornly high even after the Soviets strove to reduce them during the 1980s. Stone (1996, 45) reveals that "the Soviet premier, Nikolai Ryzhkov, had been shocked as late as 1988 by a report which estimated the Soviet subsidy to the East European allies at \$17 billion per year." Liberman (1996, 132) does recognize that Soviet subsidies were very significant in size, but he argues that "the subsidies did not represent a net imperial deficit for the Soviet Union" because they were significantly lower than the money spent on military expenditures by the East European countries. Whether these military expenditures by East European countries should fall under Liberman's restrictive definition of the "economic" benefits of conquest, however, is not entirely clear. Moreover, by Liberman's own earlier admission, the "reliability of these [East European] forces, and thus their contribution to Soviet power, is hard to judge" (pp. 130-31). Past Soviet military interventions in Czechoslovakia and Hungary hardly ensured high levels of loyalty by these countries' military forces, and the same can be said about Polish military forces following the Soviet imposition of martial law in 1981. Not only was the loyalty of these three countries highly suspect, but also the military capacity of East European military forces generally was relatively low. Within Eastern Europe, only the East German military might have been capable of effectively matching up against North Atlantic Treaty Organization (NATO) forces. But if a NATO-Warsaw Pact conventional war had ever occurred, it is unclear whether East German forces would have possessed sufficient loyalty to attack and kill their West German brethren.

Ultimately, the East European armies might have contributed to Soviet security to some degree (although once the Soviets had an ensured "second strike" capability and mutual nuclear deterrence had developed, one certainly can question exactly how much of a contribution this might have entailed). But, it is hard to fathom that any con-

ceivable security benefit these forces provided was worth the enormous long-term economic costs, in terms of both direct outlays and opportunity costs, that were associated with propping up the Soviet empire. This is, in fact, a principal reason why the Soviets decided to give up their East European empire during the late 1980s (Wohlforth 1994-95).

In the end, Liberman's (1996) argument is simply not sufficient to reject the conventional wisdom that the Soviet empire was a huge economic albatross. This is a conclusion that has only become stronger over time as evidence from Soviet sources has increased.<sup>3</sup> Of course, the Soviet case is only one of five that Liberman examines. But the fact that this is his only case from the post-World War II period and is by far the weakest one for his thesis is very significant given that there are reasons to expect that the benefits of conquest might have declined during the post-World War II era.

Despite these concerns, Liberman (1996) nevertheless has provided a very useful and compelling corrective to the quagmire view. Too many scholars have simply assumed that significant popular resistance will emerge following occupation in all modern states and, therefore, that conquest of such states by definition cannot be very profitable. Liberman clearly shows that whether popular resistance emerges and, in turn, whether it serves to constrain the gains from conquest are empirical questions that cannot simply be assumed away. In turn, he provides significant explanatory leverage in terms of understanding variation in the level of popular resistance. This is, in itself, an important contribution to the literature on resistance and collaboration.

Where do we go from here? Liberman (1996) has effectively shown that the previous conventional quagmire view is wanting. Does this mean that we should conclude that the conquest of a highly advanced state still can produce significant economic rewards? In Liberman's study, the degree to which the conquered population resists or collaborates is the essential determinant of the profitability of conquest (p. 30). His focus on the level of popular resistance makes sense given the predominance of the quagmire perspective up to now in the literature. But increased nationalism is not the only change that has occurred in modern societies over the 20th century that might significantly reduce the benefits of conquest. In particular, might it be possible that the economies of the most advanced states have changed so much since World War II that conquest will not produce significant gains even if the vanquished country's populace does not engage in active popular resistance?

Attention has so far been deflected away from this question because of the prevailing view that modern nationalism on its own greatly reduces the benefits of conquest. As a result, scholars so far have failed to pay much attention to how post-World War II economic transformations in the most advanced countries might lower the benefits of conquest. The principal arguments that have been advanced to this effect are so underdeveloped that Liberman (1996) not only is able to quickly reject most of them but actually ends up turning them on their heads. His other principal argument is that economic modernization during the post-World War II period has made it easier for con-

3. It should be noted that Liberman (1996, 126) is very forthright that his conclusions about the profitability of the Soviet empire "can hardly be considered definitive since newly opened archives in the Soviet Union and Eastern Europe promise to shed further light."



querors to successfully reap economic gains in the most advanced countries. This argument is perhaps the most provocative in his book.

A much more detailed analysis of how recent economic changes in the most advanced states affect the benefits of conquest is now required. Although many economic transformations are worthy of investigation in this regard, I focus on the globalization of production. I describe four recent changes in the structure of global production and outline why each of these economic transformations appears to have reduced the benefits of conquest within the most advanced countries. Although none of the deductive arguments presented necessarily has a decisive influence, their combined impact strongly indicates that the benefits of conquest have significantly declined within the most economically advanced countries. In this view, it likely is no accident that concerns about territorial revisionism have essentially vanished among the most economically advanced countries and that the only case of conquest of any moderately modern country during the post–World War II period, the Soviet empire, is by far the weakest case in Liberman's (1996) book.

### COMPARISON WITH LIBERAL AND TRANSNATIONALIST PERSPECTIVES

Before proceeding with my argument, I should note briefly its distinction from two related literatures. First, liberal theorists have long stressed how increased trade linkages make conquest less profitable. In the liberal view, engaging in conquest with a trading partner makes no sense because doing so destroys markets for the conqueror's exports and thereby reduces the conqueror's economic wealth (Rosecrance 1986; Oneal and Russett 1997; Angell 1910). Although my argument ultimately can be seen as complementary to the liberal perspective, it is important to recognize that my focus is on a different independent variable—changes in the structure of global production, not trade. My argument also does not focus on how conquest reduces consumer and firm welfare, as liberal arguments typically do; rather, it is concerned with the extent to which conquest has the capacity to increase the conqueror's relative power.

It is interesting to speculate why liberal theory traditionally has focused on trade linkages while ignoring global production issues.<sup>4</sup> The likely key reason is that there was very little FDI between the most economically advanced countries during the “golden age” of capitalism (1870–1914).<sup>5</sup> Hence, the theorists writing at the time (e.g., Angell, Cobden) who developed the key liberal arguments about how international economic factors affect war and conflict had little reason to pay attention to global production issues.

4. Angell (1910, 52–62) did not focus solely on trade interdependence; he also emphasized how capital market interdependence reduces the benefits of conquest.

5. In 1914, 76% of the foreign direct investment (FDI) stock was based outside of North America and Europe, with a scant 8% based in Western Europe itself (Jones 1996, 31). By comparison, the geographic distribution of FDI dramatically reversed itself by 1993. The vast majority of FDI now is based in the developed world, with 43% of the total in Western Europe and 27% in North America (Jones 1996, 54).

Global production issues no longer can be ignored. Internationalized production by multinational corporations<sup>6</sup> (MNCs) now surpasses international trade as the most important integrating force in the international economy. Global sales in international markets associated with the various international production activities undertaken by MNCs “amounted to an estimated \$7 trillion in 1992, compared to \$3 trillion in arm’s-length trade” (U.N. Conference on Trade and Development [UNCTAD] 1995, xx). It is estimated that approximately one third of international trade now occurs within firms (Jones 1996, 56). Hence, much of international trade in today’s global economy is actually a direct byproduct of the globalization of production; the very nature and level of trade flows are increasingly the consequence of the locational decisions of global firms (UNCTAD 1996, 95-125). Perhaps not surprisingly, these dramatic changes recently have prompted one leading liberal scholar to begin paying attention to how global production issues, and not just international trade flows, affect security affairs (Rosecrance 1996).

Although recent changes in the structure of global production are highly significant in quantitative terms, of key importance is that the very nature of global production has undergone a qualitative change (Dunning 1993, 128-31; UNCTAD 1993, 113; Dicken 1998, 5). Of the three globalization trends—increased integration of capital markets, increased trade linkages, and the globalization of production—the latter is the most historically unprecedented. This is not to say that the recent changes in international trade and global capital markets are “nothing new” or will not have important effects on states’ security behavior. But if we want to figure out whether the benefits of conquest are changing over time, then there are strong reasons to focus attention on the globalization of production.

Although I emphasize how changes in the behavior of MNCs affect international security, it is important to recognize that my argument is distinct from the perspective advanced by the transnationalist literature during the 1970s (e.g., Keohane and Nye 1972). This literature’s general argument was that transnational actors, in particular MNCs, were rising to prominence and replacing states as the key actors in world politics. Although this literature did not directly address security issues very much, some transnationalists argued that the rise to prominence of MNCs would lead to foreign policies within the most modernized societies that “are primarily nonconflictual” (Morse 1970, 377, 387).

The argument I advance here is different from the transnationalist perspective in two important respects. First, the state occupies a much different role in my analysis. A principal reason why the transnationalist perspective disappeared from view after the 1970s is that the state never faded away as this literature had predicted. Rather than arguing, as the transnationalists did, that foreign policy is changing because the role of the state is being curtailed, I emphasize how the globalization of production is changing the incentives facing states. Second, my focus is not on the mere fact that MNCs are becoming more important actors in the international economy. More specifically, I

6. To be clear, by *multinational* corporation, I mean a firm that owns, coordinates, or controls value-adding activities in more than one country. It should be noted that some economists and management scholars prefer the term *transnational* corporation. But there is no specific difference between the terms multinational and transnational, and they are used interchangeably in the literature.

emphasize how the particular manner in which MNCs engage in production is changing and how these new production patterns may affect security affairs.

Because the globalization of production encompasses many different trends, my analysis is divided into four different sections. Each examines how a particular aspect of the globalization of production affects the benefits of conquest within the most advanced countries.

### **WHY THE RISE OF KNOWLEDGE-BASED ECONOMIES REDUCES THE BENEFITS OF CONQUEST**

It would be incorrect to say that there are no existing arguments that recent production changes in the most modern states might have lowered the benefits of conquest. There has been one principal argument advanced to this effect. Specifically, a number of scholars have asserted that the recent switch in the most modern countries from economies based on land (agricultural/industrial economies) to ones primarily based on human capital ("knowledge-based" economies) has greatly lowered the benefits of conquest (Van Evera 1990-91, 14-15; Kaysen 1990, 49, 53; Ullman 1991, 25; Rosecrance 1996, 48, 56; McGuire 1990, 7-8).

This shift to knowledge-based economies in the most advanced countries has occurred during the entire post-World War II period. Over the past 30 years, the globalization of production has been an important driving force behind this trend (Frobel, Heinrichs, and Kreye 1980). Recent improvements in communications and transportation have made it easier to have management and research and development in one area of the world and to have production in another, thereby making it possible for the most advanced countries to increasingly specialize in knowledge-based industries. Nike represents an extreme example of this trend; its management and research and development are based in Oregon, and all of its production is located outside the United States (Dicken 1998, 235-36).

Why does the shift to knowledge-based economies significantly reduce the benefits of conquest? The most prominent justification for this claim is that (a) the rise of knowledge-based economies means that a greater percentage of the economic wealth of modern economies is now directly controlled by the populace, (b) modern nationalism will cause workers to withhold benefits to the conqueror, and therefore (c) the benefits of conquest are now relatively lower in knowledge-based economies.<sup>7</sup> Yet this line of argument ultimately is only a variant of the quagmire perspective; it is based on the view that the populace of modern countries will actively try to reduce the available economic surplus following conquest. As mentioned earlier, Liberman (1996) effectively shows that this is not a compelling assumption.

Van Evera (1990-91, 14-15) advances a potentially stronger argument for why knowledge-based economies are less profitable to conquer:

7. Most of the scholars who argue that the conquest of knowledge-based economies will not reap significant gains appear to rely largely on this line of argument (Kaysen 1990, 49, 53; Ullman 1991, 25; Rosecrance 1996, 48; McGuire 1990, 7-8).

Today's high technology postindustrial economies depend increasingly on free access to technical and social information. This access requires a free domestic press and access to foreign publications, foreign travel, personal computers, and photocopiers. But the police measures needed to subdue society require that these technologies and practices be forbidden because they also carry subversive ideas. Thus, critical elements of the economic fabric now must be ripped out to maintain control over conquered polities. . . . This is a marked change from the smokestack economy era, when societies could be conquered and policed with far less collateral economic harm.

At first glance, this deductive logic seems powerful. But Liberman (1996) is able to effectively rebut it. In particular, Liberman asserts that the technological advances identified by Van Evera (1990-91) do not simply increase the capacity for popular resistance but also simultaneously increase the capacity for coercion. Liberman (1996, 28) argues persuasively that "the subversive potential of information technologies must be weighed against their contribution to state surveillance. Bar codes, miniature microphones, video cameras, and computerized data banks—if not photocopiers—all have more Orwellian than libertarian applications." He adds that improved communications and transportation has made it easier to sanction resistance (p. 26).

By rejecting the preceding two arguments, Liberman (1996) concludes that knowledge-based economies are not less profitable to conquer. Indeed, he goes further to argue that the shift to knowledge-based economies makes such states relatively more profitable to conquer. He justifies this latter claim by arguing not only that recent advances in technology have made suppressing resistance easier but also that the massive shift away from agriculture in knowledge-based societies should make it possible for a hypothetical conqueror to effectively compel collaboration by using "work or starve" tactics (p. 26).

Liberman (1996) might be correct that knowledge-based workers will not engage in significant levels of social unrest following conquest. But the conquest of such societies nevertheless still might be much less profitable compared to that of industrial or agricultural economies. This is because there are four other lines of argument, none of which has to do with the level of popular resistance, about why knowledge-based economies are likely to be less profitable to conquer.

The first concerns the mobility of the economic surplus. For most of human history, land was the fundamental factor of production. In these circumstances, the conquest of territory directly coincided with increased control over the economic assets that provide the bedrock of political power (Rosecrance 1986; Kaysen 1990; Gilpin 1981). Rosecrance underscores that when economic capacity becomes largely a reflection of human capabilities, then much of the economic surplus available to the conqueror no longer can be definitively seized; land is fixed and can be captured, but people—and the information they possess—are mobile and can potentially flee (Rosecrance 1996, 48, 58). Of course, it is unlikely that a large proportion of a conquered country's citizens will be able to escape a potential conqueror even if they want to. But those citizens with the highest level skills often are the ones who have the greatest access to international transportation and, therefore, are the most mobile. At the same time, even those with access to international transportation might not have a chance to flee a conqueror who strikes swiftly and who, in turn, is ruthless in closing down borders following con-

quest. As a result, the ability of people to flee a conqueror will not necessarily reduce the benefits of conquering a knowledge-based economy to a meaningful degree. If this were the only other reason why knowledge-based economies were less profitable to conquer, then Liberman (1996) probably would be on safe ground in his dismissal of this general line of argument.

There are, however, three other reasons why knowledge-based economies are likely to be less profitable to conquer, which have not so far been outlined in the literature. The first builds on Rosecrance's (1996) argument regarding the mobility of the economic surplus. When much of the wealth of an economy was based on agriculture or industrial manufacturing, a conquering power could literally move a significant portion of the vanquished country's economic surplus (e.g., food stocks, machinery) back to the conqueror's homeland. This changes dramatically when economies become knowledge based and much of their wealth is based on the people themselves. Of course, a small number of key individuals certainly can be transferred back to the conqueror's homeland (as the Soviets did with many German scientists after World War II), but anything beyond that would quickly become counterproductive for obvious reasons. Moreover, a significant portion of the manufacturing that now exists within the most advanced economies employs highly skilled workers with specialized training and experience within their respective firms and who play a key role in the wealth-creating process (Kenney and Florida 1993). Hence, even many of the machines that a conqueror conceivably could transfer back to the homeland might now have greatly diminished utility when separated from the workers who have been trained to operate and service them.

A second line of argument concerns the financing of innovations within the conquered country. The importance of innovation as a source of economic productivity is much higher in knowledge-based economies than in agricultural or industrial societies. This is reflected in a number of recent trends within knowledge-based economies including the increased risk, cost, and complexity of research and development and much faster rates of product obsolescence (Dunning 1995; Mytelka 1991; Kobrin 1997). What implications does the increased importance of innovation in knowledge-based economies have for the benefits of conquest? For one thing, it is almost certain that conquest will significantly reduce the available pool of risk capital within the conquered territory needed to bring innovative ideas to the marketplace. Innovations are by definition risky. If the requisite financial backing is not forthcoming, then even if an innovation is recognized, it might never come to fruition. In this respect, the importance of risk capital is enhanced in knowledge-based societies.

Why should we expect the level of risk capital within the conquered territory to be reduced because of conquest? On this question, a significant recent political economy literature is highly relevant. A key factor influencing the level of investment within an economy is the credibility of commitment of the governing authority not to confiscate wealth (North and Weingast 1989; Olson 1993).

The more likely it is that the sovereign will alter property right for his or her own benefit, the lower the expected returns from investment and the lower, in turn, the incentive to invest. For economic growth to occur, the sovereign or government must not merely



establish a set of rights but must make a credible commitment to them. (North and Weingast 1989, 803)

How can leaders increase their credibility of commitment not to confiscate wealth? The only real way is “by being constrained to obey a set of rules that do not permit leeway for violating commitments” (p. 804).

This literature’s general conclusion is that democracies with strong institutions have the highest credibility of commitment because leaders in such systems face a number of constraints, both institutional and electoral, on their ability and willingness to undertake confiscation. Olson (1993) points out that the general form of government with the lowest credibility of commitment regarding wealth confiscation is an external invader, which he aptly terms a “roving bandit.” Olson outlines two key reasons why external invaders cannot credibly commit not to confiscate wealth within the conquered territory: they normally have short time horizons, and by definition, they have no institutional or electoral constraints on their power within the vanquished country. Because the conqueror’s low credibility of commitment within the conquered territory seems sure to reduce the available pool of investment within the occupied country, we would expect the benefits of conquest in knowledge-based societies to be significantly lower than in industrial or agricultural economies (in which the need for risk capital is relatively lower). Benefits will be constrained especially over the long term because reduced funding for innovations within the conquered country is likely to have strong cumulative effects.

Of course, capital from the conqueror’s economy can be used to finance innovations within the conquered country, but doing so entails significant opportunity costs. There will be less capital available to finance innovations and other economic activities within the conqueror’s economy itself. A greater amount of capital will have to be drained from the conqueror to maintain productivity within a conquered knowledge-based economy because innovation is relatively more important than it is within agricultural or industrial economies. In turn, a potential conqueror now has the option of securing capital to finance innovations through international capital markets. But this also will involve costs in terms of interest rate payments, which might be very substantial given that the conqueror is likely to have a low credibility of commitment regarding debt repayment.

A third line of argument concerns the level of innovation within the conquered country. Conquest might not simply increase the cost and difficulty of financing innovative ideas but also might serve to reduce the aggregate amount of innovation itself within a conquered knowledge-based country. One of the key ways in which many corporations have sought to increase rates of innovation in recent years is by weakening hierarchical structures within the firm, that is, decreasing the extent to which workers are actively monitored and directed by superiors. These decisions by many firms are consistent with findings from the management literature showing that centralized hierarchical structures within firms do tend to reduce rates of innovation (Russell and Russell 1992; Cohn 1981). These findings about firms can likely be extended to states themselves. A variety of economic literatures suggests that states with high levels of



economic oversight (where the states actively monitor and direct economic actors to a significant degree) will have lower rates of innovation compared to states with lower degrees of economic oversight (e.g., Hanson and Pavitt 1987; Evangelista 1988, 29-33). To the extent that such a negative relationship between oversight and innovation does exist, the rise of knowledge-based economies serves to increase its substantive significance. This provides foundations for Bates's (1991, 27) argument:

When firms that used high proportions of plant and machinery relative to human skill formed the basis of economies, then centrally directed systems tended to work; mid-century, the Soviet Union competed successfully with capitalist nations as measured by rates of economic growth. But as the economies of nations have moved toward forms of production that require a high level of human capital, these forms have proved increasingly inefficient.

Does conquest require significant economic oversight within the conquered territory? No. In practice, however, conquerors frequently have taken this route. The reasons are straightforward. For one thing, the conqueror must engage in some degree of oversight to ensure that the conquered populace is not shirking. In addition, oversight by the conqueror is necessary to ensure that what is being manufactured is not being used to support resistance efforts and, in turn, that the materials and goods actually being produced are useful to the conqueror.

The findings from the literature on principal/agent relationships strongly suggest that the need for monitoring is likely to be even greater following the conquest of a knowledge-based economy compared to that of an agricultural or industrial economy. Within principal/agent relationships, one of the key factors that increases the need for monitoring is "hidden action" by the agent, that is, when it is difficult for the principal to observe whether the actions of the agent are in the principal's best interests (Kiewiet and McCubbins 1991, 25-26). For both agricultural societies and basic industrial economies, it is relatively easy to monitor the amount and quality of effort by laborers because the physical tasks performed are very basic and routinized. By comparison, the problem of hidden action is much higher in knowledge-based economies for the simple reason that it is much more difficult to monitor what is inside people's heads than to monitor physical labor. Moreover, many knowledge-based workers do not repetitively perform the same basic task at a regularized time interval, and this often makes it very difficult for a supervisor to determine whether a worker is shirking or merely incubating on how to solve a complex problem.

For the preceding reasons, we would expect the need for monitoring by a conqueror to be relatively higher for a knowledge-based society than for an industrial or agricultural economy. This is not to say that monitoring conquered knowledge-based workers will be an impossible or all-consuming task. But these monitoring efforts will necessarily result in some economic oversight, perhaps to a very significant degree. Given that such economic oversight seems likely to reduce rates of innovation and, in turn, that the need for innovation is more important in knowledge-based economies, we would expect that such a society will not be nearly as profitable to conquer as an agri-

cultural or industrial society. This will especially be the case over the long term as a result of the cumulative adverse effects on innovation within the conquered economy.

### **WHY THE INCREASED GEOGRAPHIC DISPERSION OF PRODUCTION REDUCES THE BENEFITS OF CONQUEST**

A second recent change in the structure of global production is the increased geographic dispersion of production, a trend that has accelerated over the past 25 years. Recent dramatic advances in transportation and communications have made it increasingly possible for global firms to cheaply purchase a wide range of inputs from external suppliers throughout the world. This is reflected in the strong trend toward increased international outsourcing (Levy 1993; World Bank 1997, 42-43). In the extreme, some firms now rely on international outsourcing for virtually their entire production (Dicken 1998, 234-37).

Although increased international outsourcing certainly has the effect of dispersing production across wide geographic areas, these activities are not located within the global firm's direct managerial control. Outsourcing does not involve resource transfers from an affiliate to the parent firm or vice versa; rather, it consists of obtaining supplies and goods from third parties. In recent years, many MNCs have simultaneously moved toward developing much greater geographic dispersion of production within the firms themselves. Recent advances in communications have made it much easier to coordinate over wide regions and thereby increasingly possible for firms to set up transnational production networks (Malone and Rockhart 1993). As a result, many firms have increasingly sought to reap various locational advantages by locating each part of the value-added chain in the geographic area that is most advantageous from a production standpoint (UNCTAD 1993; Vernon 1992; Dunning 1993, 1994). This trend is perhaps best reflected in the rapidly increasing level of intrafirm trade (Jones 1996, 56). Although data on intrafirm trade are very limited, an examination of U.S. MNCs provides some indication of this trend: "The value of [U.S.] intrafirm exports increased by nearly two thirds between 1977 and 1982 and by over 70[%] between 1982 and 1989. By 1989, intrafirm exports and imports were one third and over [40%], respectively, of all [U.S.] trade" (UNCTAD 1994, 143).

Significantly, as more and more firms disperse their production geographically to reap various locational efficiencies, this has created pressures for other firms to follow suit to remain internationally competitive (UNCTAD 1993, 147, 154-55). These competitive dynamics have contributed substantially to the explosion in FDI in recent years. The annual global flow of FDI increased from approximately \$60 billion per year in 1985 to an estimated \$315 billion per year in 1995 (World Trade Organization 1996, 44).

Because the vast majority of MNCs is based in the most economically advanced countries, it is these countries that have had their production become most geographically dispersed (UNCTAD 1995, 10). The increased geographic dispersion of production means that conquering an advanced country might result in possession of only a

portion of the value-added chain, perhaps a very small portion. Until recently, if a conqueror invaded a country with, for example, an automotive sector, then the conqueror would be able to take possession and resume production of virtually the entire range of inputs necessary to produce the car. Now, however, the car's engine might be produced in one country, the body panels in a second country, the suspension in a third, the transmission in a fourth, and so on. As a result, to take control of the car's entire value-added chain might require conquering many countries. This obviously can quickly become extremely difficult and expensive, thereby reducing the overall economic benefits of conquest.

It is important to note that the geographic dispersion of production is not occurring equally across all industries but rather appears to be most prominent in those sectors of manufacturing characterized by high levels of research and development and significant economies of scale. Although data on sectoral variation in the extent of globalization are limited, that these sectors of manufacturing have been globalized to the greatest extent is reflected in U.S. data on intrafirm trade. For U.S. MNCs, the industries in which the level of intrafirm exports relative to total industry exports is highest are machinery, office and computing machines, electronic components, and transportation (World Bank 1997, 42). This has very significant implications for the benefits of conquest because these and other such manufacturing sectors would be especially valuable to a hypothetical conqueror due to their being, to use Van Evera's (1984) apt terminology, highly "cumulative resources." Possessing them would serve to magnify the power of the conqueror and thereby make it easier to protect or acquire other resources.

Critics might respond to the preceding argument in three ways. First, why is it necessary to capture the whole value-added chain? If, for example, a conqueror takes over a country with a car transmission factory, then won't that transmission factory still be very valuable on its own? It still will be valuable, but it will be proportionately less valuable than if the conqueror were able to take over the full value-added chain of car production. To fully exploit the transmission factory, the conqueror will need to secure supplies of the remaining aspects of the value-added chain through one of three mechanisms: by establishing a new production plant to produce them, retooling an existing production plant to produce them, or purchasing these supplies on the open market. Although it might be possible to secure the remaining aspects of the value-added chain through one or a combination of these three mechanisms, all three steps involve significant costs. These are costs that did not exist, or at least were much lower, when production was much more geographically centralized and most or all of the value-added chain could be captured through the invasion of a single country.

Second, is it necessary for the conqueror to replicate the entire value-added chain to produce the end product? Can't the conqueror simply sell the portion of the value-added chain that it has captured on the open market, thereby reaping a substantial profit? Although the component would not be worth as much on its own as it would be as part of a finished product, it still would be worth something. Exactly how much would depend on the importance of the component that is captured in the value-added chain and, in turn, how many substitutable sources of supply there are. If the conqueror captures a stage of the value-added chain that is very important, then it might have sig-

nificant leverage regarding price with the global firm that needs the component and vice versa. To the extent that the conqueror does have leverage regarding price, its duration will depend on how easy it is for the global firm to switch to another supplier source; the easier it is to switch, the shorter the time frame in which the conqueror will be able to sell the component for a significant profit. Significantly, many MNCs now often deliberately diversify their sources of supply for many components to avoid overreliance on any one source (Dicken 1998, 218).

Even if a conqueror does not try to sell the component for an inflated price, the conqueror's ability to continue producing the component and selling it to the global firm is likely to be temporarily restricted to a significant degree. Using the preceding hypothetical example, the global firm that owns or relies on the transmission factory might be willing to purchase components from the conqueror in the short term but is unlikely to continue to rely on this source of supply over the longer term. The reasons are straightforward: (a) the transmission factory within the conquered territory might be destroyed or damaged during a military reprisal; (b) a conqueror's long-term credibility of commitment regarding confiscation will be low; (c) transportation networks normally are greatly disrupted by warfare, which often makes moving goods in and out of a conflict area very difficult and expensive; and (d) the conquest of territory during the second half of the 20th century has, more often than not, been followed by substantial economic sanctions that restrict the ability of the aggressive state to participate in international markets. To guard against supply disruptions or cost increases following conquest, the global firm is likely to progressively reduce its reliance on the transmission factory within the conquered territory. This is especially likely given the large number of substitutable production sites and alternative suppliers that typically are available now. Moreover, if the transmission factory is an affiliate, then it is unlikely that the global firm will continue to invest in substantial technological improvements to the factory given the high risks involved. As a result, the transmission affiliate is likely to quickly become technologically outmoded and, hence, not valuable.

Third, critics might argue that most MNC headquarters are located in advanced countries and that all profits derived from foreign affiliates and other production operations abroad, therefore, eventually will return to the MNC headquarters in the conquered home country following an invasion. However, profits are based on the ability to continue producing finished products. To the extent that the geographic dispersion of production makes it relatively more difficult and costly for MNCs based in the conquered territory to do so due to reasons just outlined, the flow of profits following conquest will be reduced. Moreover, it is not entirely obvious that all MNC profits derived from production operations abroad will, in fact, return to the headquarters of the MNC based in the conquered country. The number and significance of regional headquarters of MNCs have greatly increased in recent years (Dicken 1998, 208-11; UNCTAD 1996, 135-41). Some of these regional headquarters have been created to coordinate a particular product line of an MNC, some are designed to coordinate all of the MNC's affiliates in a particular region, and others are responsible for a particular function for the MNC's entire worldwide production (UNCTAD 1996, 135). Because of the conqueror's low credibility of commitment regarding wealth confiscation, and because liquid capital now is so easy to transfer electronically, the increasing promi-

nence of regional headquarters likely means that some MNC profits—perhaps a large proportion—will not flow to the home country headquarters following conquest but instead will be directed toward regional headquarters. Even in the absence of regional headquarters, it is likely that a significant portion of MNC assets will be directed toward safer havens in response to conquest. Iraq's recent occupation of Kuwait is instructive in this respect. As Rosecrance (1996, 48) points out, "Saddam Hussein ransacked the computers in downtown Kuwait City in August 1990, only to find that the cash in the bank accounts had already been electronically transferred." Finally, even if MNC profits somehow remain fairly stable and are largely returned to the conquered home country headquarters following conquest, the geographic dispersion of production still would serve to reduce the gains to the conqueror. Capturing paper profits is one thing; capturing productive assets that have the capacity to enhance the conqueror's military power in the short term is something altogether more valuable.

### **WHY THE INCREASED SIGNIFICANCE OF INTERFIRM ALLIANCES REDUCES THE BENEFITS OF CONQUEST**

A third change in the structure of global production is the dramatic recent increase in the number and significance of interfirm alliances.<sup>8</sup> Until recently, firms traditionally had been very unwilling to share control of their technological assets. With recent dramatic increases in the cost, risk, and complexity of technological development, many firms have found it increasingly necessary to enter into alliances with other firms to minimize the risks/costs of engaging in technological development and increase the potential for innovation (Hagedoorn 1993; Hagedoorn and Schakenraad 1990; Dunning 1995; Kobrin 1997). A variety of studies all have found clear evidence of a dramatic upswing in the number of interfirm alliances in recent years (Mytelka 1991; Freeman and Hagedoorn 1992; Terpstra and Simonin 1993). For example, one study of interfirm alliances in information technology and biotechnology found that from "a low of 6.5 in the 1970-[19]75 period, the average number of agreements reported per year rose dramatically to 26.5 in the years 1976-[19]79, quadrupling in 1980-[19]83 to 110.8 and doubling once more in the 1984-[19]87 period to reach a high of 271.3" (as cited in Mytelka 1991, 11). Many large multinational companies such as Philips, IBM, and Toyota now have more than several hundred interfirm alliances (Dunning 1995).

Significantly, many of these alliances are among competitors.<sup>9</sup> For example, IBM, Siemens, and Toshiba formed an alliance in 1992 to share the costs of development of a new semiconductor chip (UNCTAD 1993, 143). The fact that competitors are increasingly entering into interfirm alliances reflects the extent to which the nature of techno-

8. It is important to note that interfirm alliances are not the same as mergers. Interfirm collaboration occurs only in some of the partner's business activities and can be very limited in their time span. Unlike mergers, interfirm alliances do not typically involve a direct equity relationship between firms, although they sometimes can be accompanied by cross-shareholdings.

9. One survey of 839 interfirm alliances formed between 1975 and 1986 found that 71% of them were between two companies in the same market (Dicken 1998, 228).



logical development has rapidly changed in recent years. Even though MNCs now are spending huge sums on research and development, many no longer have the capacity to manage technological development on their own. Although interfirm cooperation is, of course, not brand new, the scale and scope of these cooperative agreements—and their great importance in the global strategies of many corporations—are unprecedented in the international economy.<sup>10</sup>

It is important to note that although these interfirm alliances now are distributed throughout the world, the overwhelming majority (more than 90% by many estimates) now exist within the triad of Western Europe, the United States, and Japan (Kobrin 1997, 150). In addition, even though interfirm alliances have proliferated in many different sectors in recent years, they have been primarily concentrated in sectors with rapidly changing technologies and high entry costs such as information technology, aerospace, transportation, new materials, defense, biotechnology, electronics, and chemicals (Hagedoorn and Schakenraad 1990; Organization for Economic Cooperation and Development 1992; Kobrin 1997). Significantly, it is these and other such high-technology sectors that provide much of the foundation for military power in the modern era.

Some of the same logic outlined in the previous section about why the geographic dispersion of production lowers the benefits of conquest applies to interfirm alliances as well. Just as production now is increasingly spread across many different countries, the rise of interfirm alliances has greatly contributed to the geographic dispersion of technological development.<sup>11</sup> Until recently, a conqueror likely would be able to capture, essentially in its entirety, a particular technology that existed within a country. Now, by contrast, a hypothetical conqueror of an advanced state whose firms have many international interfirm alliances might capture only a portion of a certain technology, which is less valuable for the same reasons sketched previously regarding why capturing only a particular part of the value-added chain is less advantageous.

In addition, for those firms within the conquered economy that are highly dependent on maintaining interfirm alliances with firms in other countries, the continued ability to sustain these interfirm alliances, and hence their productivity, might be imperiled by conquest. The reasons are the same ones delineated earlier about why MNCs will be prone to not rely on an affiliate within the conquered territory for key components. Particular reasons are the conqueror's low credibility of commitment regarding confiscation, the strong threat of destruction or damage during a military reprisal, and the fact that transportation networks normally are greatly disrupted by warfare. Firms often have many different potential alliance partners from which to choose and are less likely to rely on a firm within a conquered territory whose ability to be a useful partner could be abruptly cut off at any moment.

10. Dunning (1994, 1995) argues persuasively that the dramatic recent increase in interfirm alliances is representative of a change in organizational form away from hierarchical capitalism (which emphasized competition between firms) toward what he calls "alliance capitalism" (which involves simultaneous competition and cooperation between firms).

11. The rise of interfirm alliances is not the only factor propelling this trend. In recent years, technological development within MNCs themselves has become increasingly geographically dispersed (Cantwell 1998).



A final adverse consequence of the rise of interfirm alliances for the benefits of conquest concerns collateral damages. As the number of alliance partners that are linked to the conqueror's firms increases, the potential collateral damages following a military attack also increase. With more targets on the ground that are directly linked to the conqueror's firms, the chances of any one of these alliance partners being destroyed during an attack or occupation clearly are higher. Moreover, the negative consequences of the destruction of the foreign alliance partners now are greatly magnified given the degree to which many firms are reliant in the short term on their alliance partners for crucial aspects of technological development. If a conqueror destroys its firms' key foreign alliance partners during a military attack, the conqueror likely will reduce its own country's military power by reducing the ability of the conqueror's firms to pursue technological development. In this respect, the fact that interfirm alliances are concentrated most heavily in those high-technology sectors that provide much of the foundation for military power in the modern era is of key importance.

Critics might respond to the preceding arguments by arguing that multinational firms have become "stateless" (Ohmae 1990; Reich 1991). If this contention were true, then distinguishing the conqueror's firms from those of other countries would be impossible. Although this assertion might, of course, be borne out at some future point, recent empirical work demonstrates that a firm's national origin continues to be very important (Hu 1992; Pauly and Reich 1997).

### **WHY THE INCREASED EASE OF FDI REDUCES THE WILLINGNESS TO ENGAGE IN CONQUEST**

The preceding analysis was concerned with what Most and Starr (1989) call the "opportunity" to engage in profitable conquest; by opportunity, they mean what is possible given the constraints within an environment. Specifically, the question at issue so far has been whether a state that chooses to conquer an economically advanced state would be able to reap significant economic rewards. But even if a state could potentially reap some economic rewards from conquering an advanced economy, this does not necessarily mean that it will attempt to do so given that this also depends on what Most and Starr call the "willingness" of a state to engage in a conquest; by willingness, they mean a state's resolve to employ available capabilities to further some particular policy option.

I maintain that recent changes in the structure of global production have not simply reduced the opportunity for profitable conquest among the most economically advanced countries but also have simultaneously reduced the willingness of such states to engage in conquest. Of key importance is that it has become much easier for firms to engage in FDI during the post-World War II era, especially in the past 25 years, due to recent dramatic improvements in transportation and communications as well as a greatly improved regulatory climate for FDI (Dicken 1998; Dunning 1993). The increased ease of engaging in FDI has meant that it has become progressively easier for many of the most economically advanced states to achieve most of the same ends of conquest without any of the costs (e.g., administrative burden, diplomatic isolation, war costs of

taking territory, military reprisals by third parties). To the extent that firms from country A can selectively purchase or gain control of the most valuable portions of country B, this obviously will significantly reduce the willingness of country A to engage in conquest of country B. This is consistent with Robinson and Gallagher's (1953) famous argument about British imperialism during the 19th century; that is, so long as informal imperialism (economic penetration) was possible, formal imperialism (direct political control) was not necessary. An obvious example is that the United States could conquer Canada very easily, but there is absolutely no reason for the United States to do this. American MNCs already control a massive portion of Canada's economic resources. By 1989, "fully one quarter of Canada's largest 500 corporations were subsidiaries of [U.S.] parent corporations" (Morrison and Roth 1992, 39). American MNCs already own or have significant control over much that is worth having in Canada. This helps to explain why American willingness to conquer Canada now is zero.

In general, as a state is increasingly able to rely on MNCs to secure needed external resources and supplies, the overall willingness of that state to engage in conquest should decrease. Significantly, the states with the greatest material potential to conquer a globalized/knowledge-based country also are the states that now are most able to rely on MNCs to secure what they need. By virtue of their geographic location, economic size, and military capacity, the four countries that have the greatest material potential (i.e., opportunity) to engage in conquest of a highly globalized/knowledge-based country are the United States, the United Kingdom, Germany, and France. Significantly, these four countries also are, respectively, the first, second, fourth, and fifth largest sources of FDI in the world (UNCTAD 1995, 10). Consequently, all are extremely well positioned to have their MNCs essentially now serve as a substitute for conquest.

Critics will likely point out that threats to FDI holdings, due to either domestic instability or the encroachment of military rivals, historically have often created strong incentives for states to engage in conquest to guarantee continued access to necessary resources and supplies (Holsti 1991). However, there are reasons to believe that the geographic dispersion of production has significantly reduced this incentive for conquest. Why? As mentioned earlier, recent advances in communications and transportation have made it much easier for MNCs to monitor and coordinate far-flung holdings and, in turn, to increasingly engage in international outsourcing for many supplies. As a result, the geographic dispersion of many MNCs' FDI holdings and sources of supply recently has increased to a marked degree.<sup>12</sup> This arguably has significantly reduced the incentives of advanced states to use military force in response to some form of instability that threatens FDI holdings or supplies in a particular country or region. So long as holdings or overseas supply operations were centered in a particular country or geographic region, instability in that country or region posed a substantial threat, and states consequently had a strong incentive to forcibly intervene. With more geographically dispersed holdings and sources of supply, instability in one or more countries in a particular region is much less threatening because it is more likely that another country or region can make up the difference.

12. Although data on the geographic dispersion of MNC holdings are limited, the recent experiences of Japanese and U.S. MNCs provide representative evidence on this score (Vernon 1992, 14).

## CONCLUSION

The collective impact of these arguments strongly indicates that the benefits of conquering a highly advanced state have significantly declined due to recent changes in the structure of global production. Spurred by dramatic technological changes, the most advanced states have been economically transformed to such an extent since World War II—especially over the past 25 years—that conquest now is unlikely to produce significant gains even if the vanquished country's populace does not engage in extensive popular resistance. This does not mean that we should conclude that a hypothetical future conquest of a knowledge-based/globalized country would reap zero economic benefits; rather, it merely signifies that the benefits of conquest now appear to be much lower than in previous eras. Furthermore, the globalization of production has made it structurally easier for many highly advanced states to rely on MNCs to secure needed external resources and supplies. Among the most economically advanced states, not only have the costs of war greatly increased during the post–World War II era, but it also appears that the potential benefits of conquest have greatly declined during this period.

A strong direct test of the overall argument advanced here is precluded by a dearth of cases. The only cases of conquest of any fairly economically advanced states during the post–World War II era, the Soviet occupation of Eastern Europe, are consistent with the analysis here. Recent evidence indicates that occupying Eastern Europe placed a progressively greater burden on the Soviets over time as the Eastern European countries became economically more advanced (Stone 1996). But this can hardly be considered a strong test of the overall argument given that the Eastern European countries lagged far behind the most advanced Western countries in terms of modernization and did not strongly experience, before the end of the cold war, several of the economic transformations outlined in this article.

This article highlights the need for security and peace scholars to pay greater attention to the changing structure of global production. Further analysis of these historically unprecedented transformations in the international economy can help to develop a much better understanding of a variety of important issues in international relations.<sup>13</sup>

The specific line of argument advanced here has implications for a number of existing literatures and theories in international relations. Improving the understanding of the conditions under which conquest is likely to reap economic rewards has important potential ramifications for portions of the large and diverse literature that has emerged over the past 40 years based on the notion that statesmen think in terms of expected utility; that is, states can be modeled as rational actors who make choices about war and peace by assessing the costs and benefits of alternative actions (e.g., Russett 1963; Bueno de Mesquita 1981). More particularly, this analysis holds significant implications for a range of specific theories in which the gains of capturing and holding territory play an important causal role. These include offense/defense theory (Glaser and

13. For a broader examination of how the globalization of production is affecting states' security behavior, see Brooks (1999).

Kaufmann 1998; Van Evera 1998), theories of hegemonic transition (Organski 1958; Gilpin 1989), and various forms of liberal and realist theory (Doyle 1997). Finally, the analysis here is relevant to understanding the status quo—revisionist distinction. Focusing on a particular transformation in the global economy, the argument presented in this article provides a coherent and generalizable explanation for why the most economically advanced states now lack any strong incentives to change one key element of the status quo—the current distribution of territory—and thereby helps to explain why these states have long been, and remain today, uniformly status quo powers.

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