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# Economic Warfare and Dominance Expectation Theory

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# Does “Economic Warfare” Matter?

- The positive view: Economic Wars happen – but what defines an economic war? And is it relevant?
- The normative-paradigmatic view: A Theory of Economic Warfare – is it helpful? Is it more than a new-wave thinking?
- The normative-prescriptive view: How to conduct an economic war efficiently?

## General:

- What can be learned from the military? What is the contribution from non-economic disciplines? What is the hybrid context? What is the core economic context?

# Points to Address

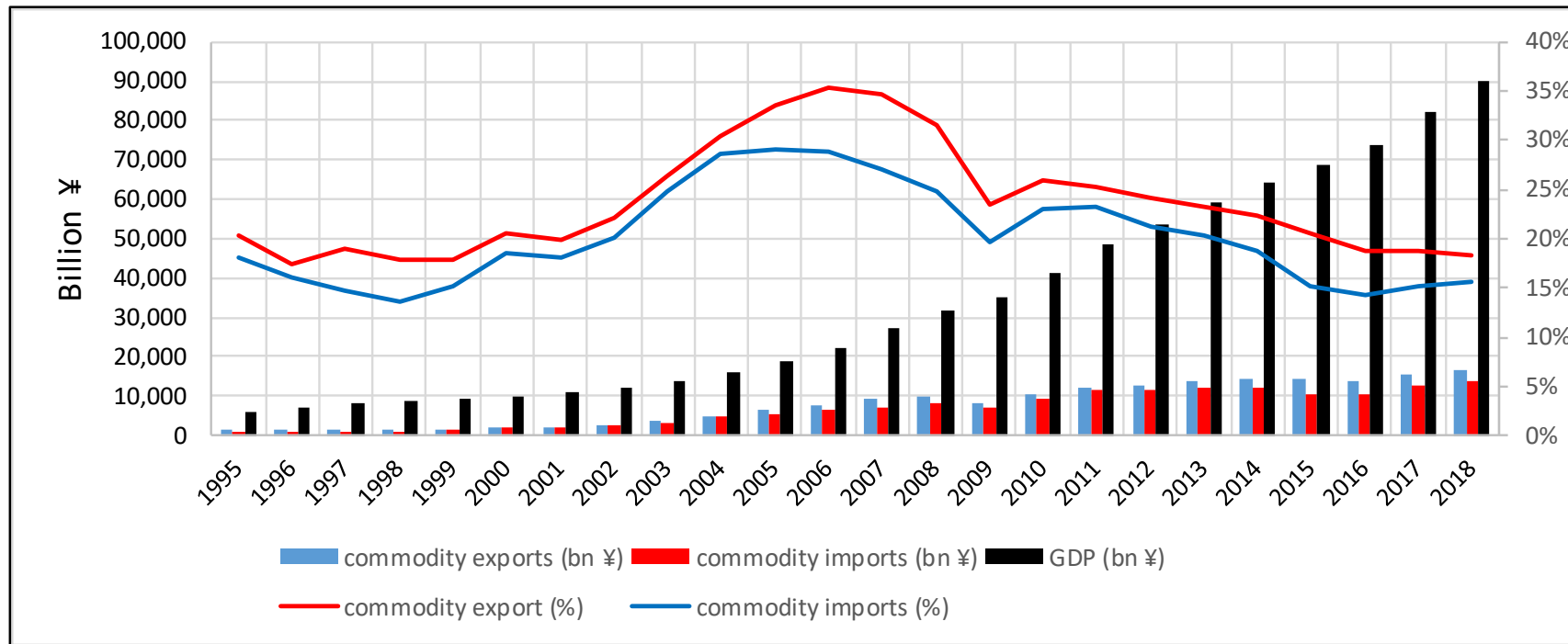
1. Economic War – an Economic Perspective
2. Economic War and its Drivers in Literature
  - 2.1 The Socio-Biological and Psychological Background
  - 2.2 The Economic and Economic Politics Background
3. Foundation of Economic Warfare
  - 3.1 Microeconomic Context
  - 3.2 System's War East-West
  - 3.3 Car Wars
4. Dominance Expectation Theory
  - 4.1 A Microeconomic Foundation
  - 4.2 US-China Trade War
5. Conclusions



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# Economic War – an Economic Perspective 1

**Figure 1: Imports, Exports and GDP, China 1995 to 2018**



Source: CHINA STATISTICAL OFFICE, <http://data.stats.gov.cn/>

China globalizes only in absolute terms.

How compatible are globalization, nation-state and democracy?



# Economic War – an Economic Perspective 2

*War: mutual mass killing with a clear conscience*

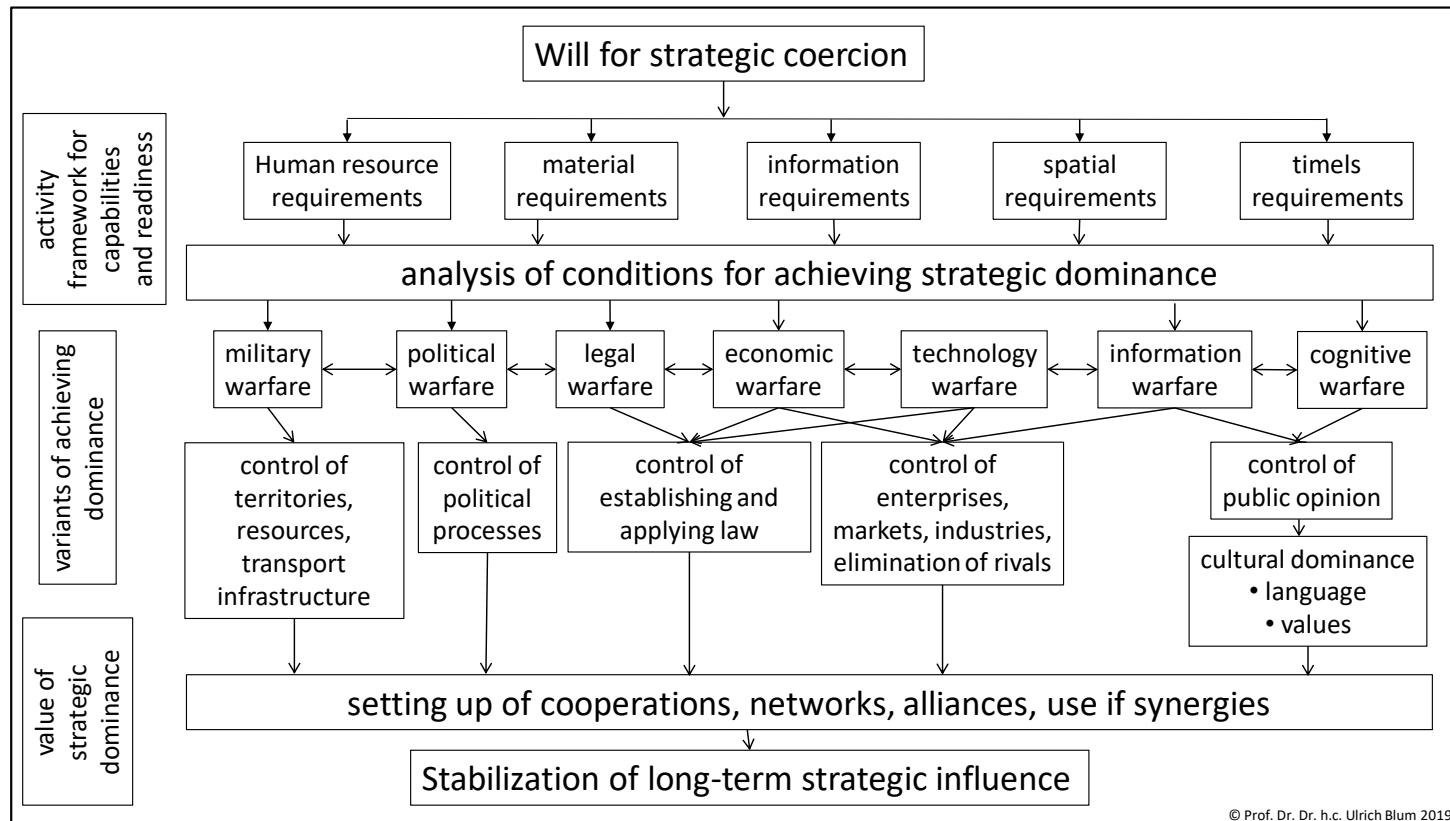
Numerous definitions exist, but it is not clear, why Schumpeterian creative destruction is not economic war!

## **Proposition:**

*“Economic war is the deliberate, aggressive use of appropriate means to destroy or devalue human capital, physical capital, intellectual capital, and organizational or social capital of an economic rival by individuals, corporations, and / or states without moral reservations or under their justification or back-up in a demarcated market to maintain or achieve economic dominance.”*

# Economic War – an Economic Perspective 3

**Figure 2: Hybrid Elements of Domination**



Source: own design, HDV 100/200, DIDIER (2003)

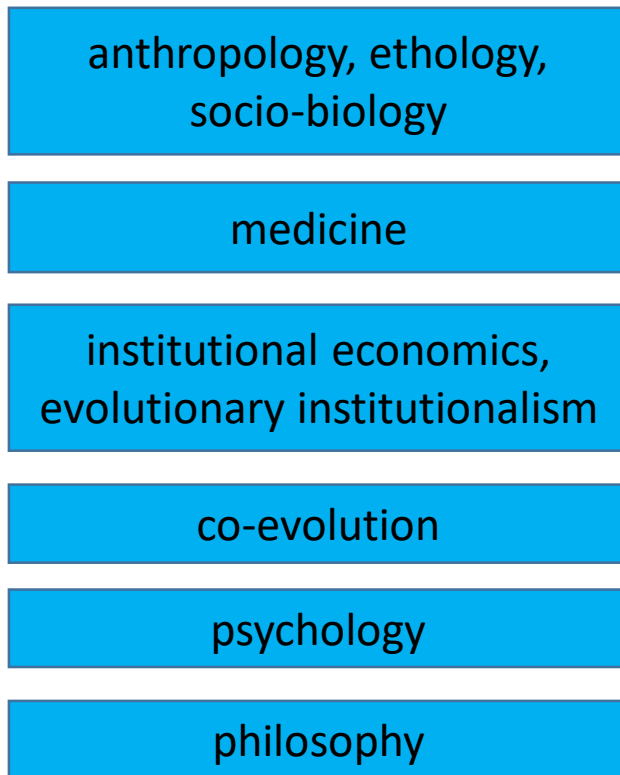
Domination and coercion are important characteristics of economic warfare.

They should be included in a rather complex system of other domination- and coercion-appropriate instruments.

Warfare in this complexity becomes an art.

# Economic War and its Drivers – an Overview

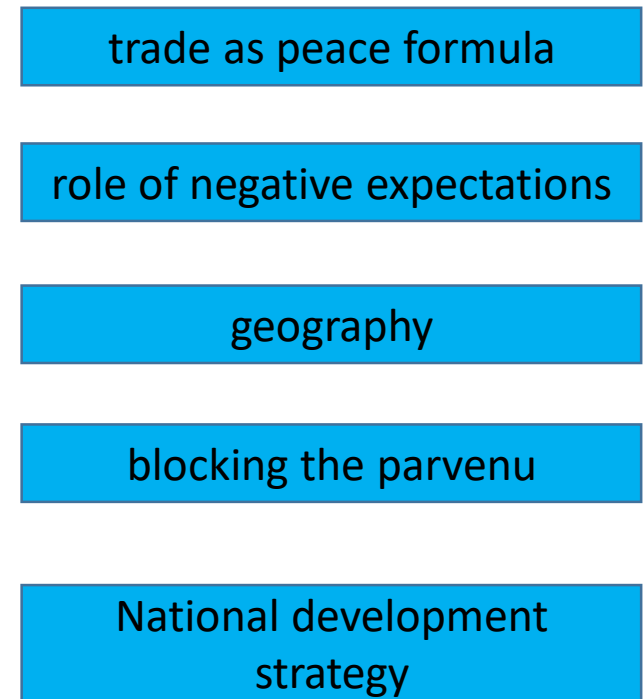
## Socio-Biological and Psychological Background



aggressive behavior  
individual-group interaction



## Economic and Political-Economy Background



aggressive behavior  
market conditions

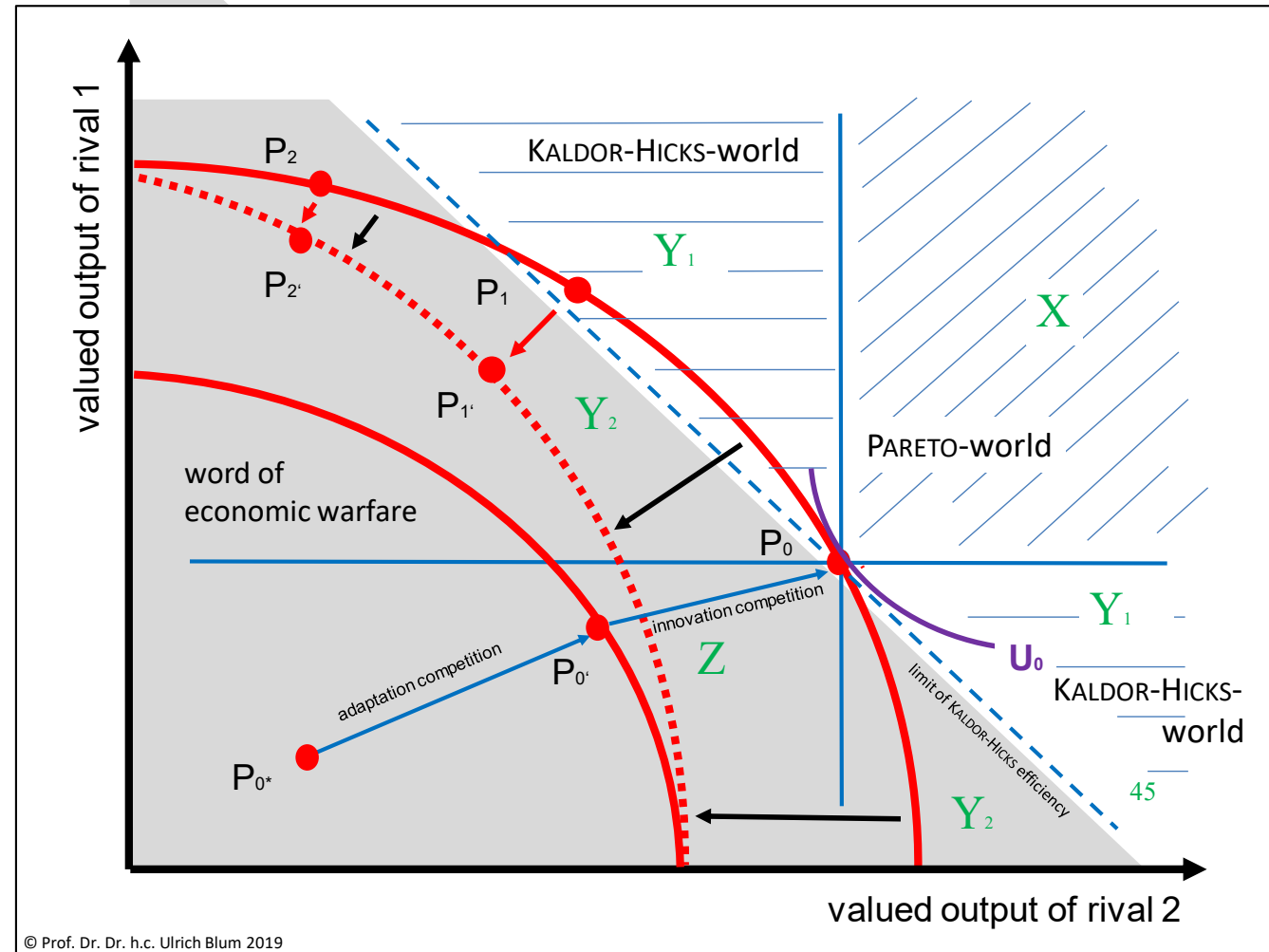


# Micro-Foundations of Economic Warfare

Distinction is made between

- PARETO-world
  - KALDOR-HICKS-world
  - ALEXANDER-I-world
  - PYRRHUS-world
- } SCHUMPETER-world

**Figure 4: Microeconomic Distinction between Competition and Economic Warfare**



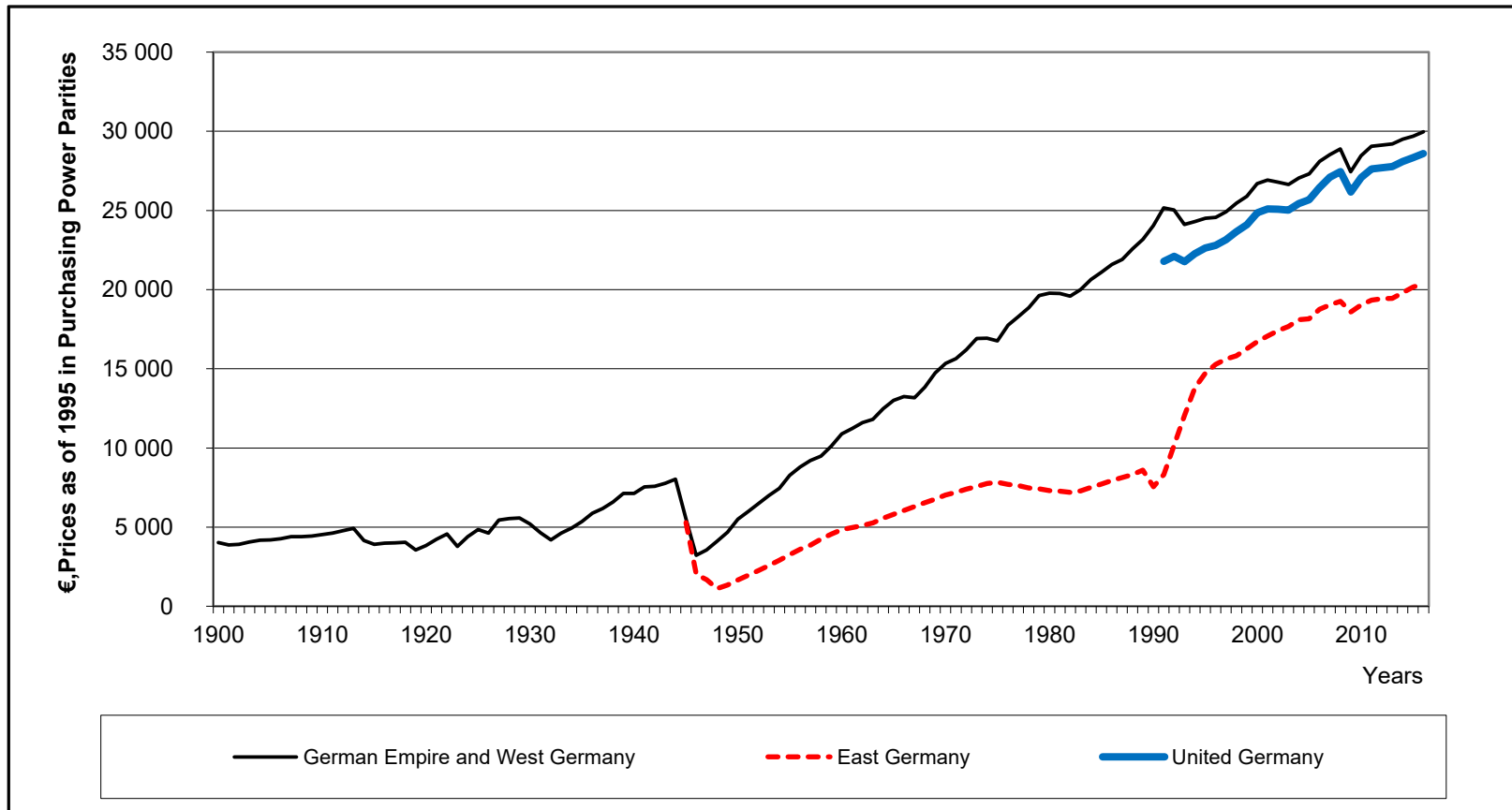
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Source: own representation, BLUM (2020)



# Example: System's War East-West

**Figure 5: Development of Per-Capita Income in Germany, 1900 - 2016**



Source: BLUM (2019)

# Dominance Expectation Theory – Micro-View

$$(4.1) \quad E(\eta_t, \gamma_t, \tau_t) = \eta_t \cdot \gamma_t - (1 - \tau_t) \geq 0.$$

$\eta_t \in [0,1]$  : stochastic term for growth sustainability

$\gamma_t$  : capital growth rate

$$(4.2) \quad SCD_t = \frac{(\eta_t \cdot \gamma_t - (1 - \tau_t))}{\gamma_t}.$$

$\tau_t$  : triage factor

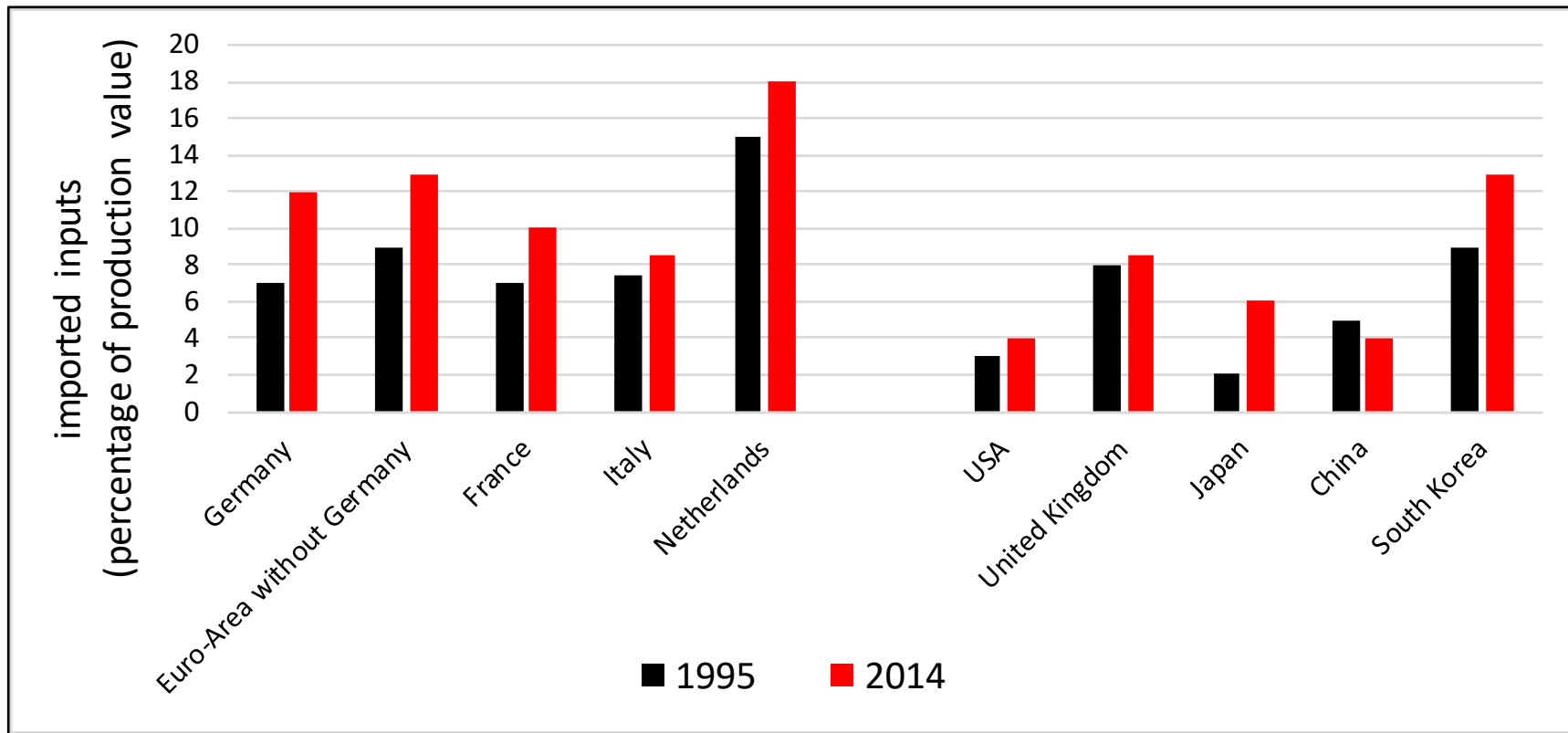
$Y_t, t = 0, 1, 2, \dots, T$  : theoretical growth process

$$(4.3) \quad \sum_{t=0}^T \frac{E(\eta_t, \gamma_t, \tau_t) \cdot Y_t}{(1+i)^t} = \sum_{t=0}^T \frac{(\eta_t \cdot \gamma_t - (1 - \tau_t)) \cdot Y_t}{(1+i)^t} \geq \sum_{t=1}^T \frac{Y_t}{(1+i)^t}.$$

$i$ : capital interest

# Dominance Expectation Theory – Sino-US-Trade War 1

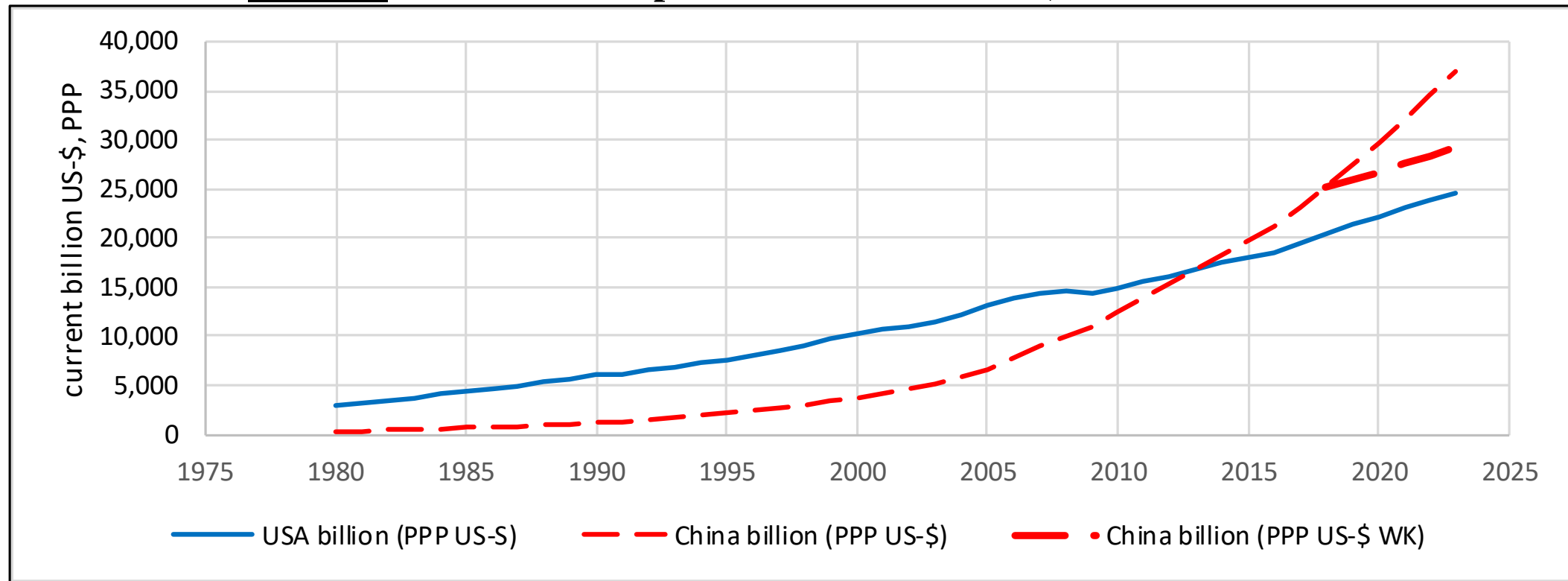
**Figure 6: Change of Value Chains, 1995 and 2014**



Source: DEUTSCHE BUNDESBANK

# Dominance Expectation Theory – Sino-US-Trade War 2

**Figure 7: Dominance Expectations China vs. US, 1980 - and 2023**



Source: own design, data from INTERNATIONAL MONETARY FUND (2018)



# Conclusions

Thank You