

Research Article

Financial and Economic Mechanisms for Preventing Military Conflicts

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Abstract

The work is devoted to a new approach to ensuring the enforcement of international treaties and agreements. As you know, there are no real guarantees for the fulfillment of treaties in the field of international politics, just as there are no coercive measures to fulfill political obligations and security guarantees. Just as in the physical world, the forces of nature force material systems to return to equilibrium, in both local and global economic systems, the market plays the same function as the main tool for preventing shocks and overcoming their consequences. This publication offers a set of ideas describing the use of economic methods in solving the problems of preventing military action. Among these methods, special attention is paid to sub bonds (Suirprize Attack bonds), which can be useful as a safeguard against sudden aggression, they also mitigate the socio-political and military consequences for the victim of an attack.

Keywords

Security Guarantees, Economic Mechanisms, Embedded Stabilizers, Attack Bonds

1. Introduction

The global political space as an arena of clashes, conflicts and crises today is governed by agreements developed in the middle of the 17th century (the Peace of Westphalia, [10]), somewhat refined in the first third of the 19th century (the Peace of Vienna, [7, 9]) and consolidated in the middle of the 20th century (the United Nations, [5]). By and large, there have been no significant changes in the meanings and forms of international relations over 350 years. Treaties are being signed - on peace, eternal peace, friendship and the recognition of borders... But the basic principle of international law, "pacta sunt servanda" ("a treaty must be executed"), is not universally respected, since the existing treaty system does not have the means, forces, and tools to actually influence aggressors. International structures and agreements are clearly

not coping today. For example, the Budapest Memorandum on Security Guarantees to Ukraine has already shown its weakness [8, 11, 14] we note that the 5th paragraph of the NATO Protocol has not yet been seriously tested [3].

To be fair, we note that, as history shows, politicians have already resorted to various more or less economic means of guaranteeing the discharge of obligations, some of which are still in use, while others are only of historical interest. For example, the exchange of hostages as a measure to ensure international treaties. In the relatively recent past (1748), there was a case when, in order to fulfill the Treaty of Aachen, concluded by France and England, it was necessary to send two English peers to Paris as hostages. Alas, nowadays hostages are taken both in peacetime and in wartime under

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completely different conditions and with completely different goals, far from peaceful. But the mortgage and the pledge are already much closer to economic security measures. Unknown by chance, she once helped her native billionaires, once she wanted to go into the hall In Half with a very strong reputation. contraband. In later times, the Treaty of Versailles of 1871 He also ruled that the occupation of a part of French territory by German troops would serve as security for France's payment of the indemnity in favor of Germany ([4]).

As of today, assets, investments and reserves that are located outside the country of ownership can be considered as collateral for the fulfillment of certain obligations.

Modern economics and practice have made tangible progress in terms of effectively strengthening the role of regulators, risk mitigation, conflict resolution, crisis prevention and mitigation. It is important that the global market has created and developed a system of built-in stabilizers, i.e. rules and automatically triggered tools. On the one hand, the very existence of such mechanisms is an important factor in conflict prevention, on the other hand, their operation promptly returns complex systems to a state of equilibrium after the crisis has already taken place.

With their (built-in stabilizers) help in international treaties within the framework of the future security system, conditions such as "Nash equilibrium" [1, 12] should be protected, i.e. the very fact of signing a security treaty should contain boundary conditions that exclude the possibility of either side winning when changing the strategy of peaceful coexistence.

Below we present the main provisions of our proposed security system "Parity". A more detailed description is given in [13].

1. Basic Theses

The new security system (national, regional, block...) provides that at the earliest (pre-draft) stages of the preparation of interstate treaties, their texts contain norms containing clearly formulated and recognized direct economic threats by the parties, multiplying the risks of a potential aggressor many times over. Among the inevitable consequences, damage to the aggressor country is guaranteed in predetermined (frightening) forms and amounts, and the same documents guarantee the aggressor country inevitable reparations and indemnities after the conflict ends, addressed not only to the object of attack, but also to its guarantors and allies, providing full compensation for all types of costs and damage at the expense of the aggressor.

The same texts contain provisions containing clearly formulated and understood terms, sizes and forms of guaranteed direct support to the victim of the attack, multiplying her own capabilities many times over. Among other things, victims of aggression are guaranteed immediate payments of pre-set amounts for the purchase of weapons, the payment of contractors and the elimination of the consequences of the attack.

Such special parts in the documents of international treaties and agreements will, in fact, be prohibitive in nature for violating the terms of the Agreement.

It is extremely important that all these provisions (threatening the aggressor and supporting the victim of the attack) should be fully reflected in the public space of the signatory countries and have a deterrent effect on the formation of public opinion and domestic political programs in these countries. Moreover, they should become part of the global political space, be fully communicated to the world community, and be taken into account by participants in international organizations, blocs, alliances, and coalitions in their strategic plans and the alignment of forces in the global balance.

It can be assumed that recent attacks might not have occurred at all if the leaders of the aggressor states had fully realized the inevitability and scale of the consequences of aggression for their economies.

2. The security system in the pre-war period, in essence, is a set of documented threats that are spelled out in peace treaties and in themselves are prohibitions, or at least warnings against violating the terms of the Treaty.

3. Operation of the security system during the war period.

Threats to the aggressor, outlined in international treaties in the pre-war period, are organized according to the principle of built-in stabilizers. Being tied only to certain sets of circumstances, and not to decisions on individuals and organizations, they themselves have an operational character:

- (1) Financial punishment of the aggressor, including the automatic seizure of reserves and assets;
- (2) Sanctions that automatically take effect, including blocking accounts of the aggressor country, refusal to fulfill insurance, futures and other financial obligations and loan certificates;
- (3) Automatically effective bans on the supply of goods and dual-use goods to the aggressor, as well as restrictions or even bans on export and import operations with the aggressor [15],
- (4) The introduction of personal sanctions against decision makers and certain categories of citizens of the aggressor country;

On the other hand, the system of integrated stabilizers provides:

- (1) -Instant financial support to the victim of aggression, including prompt payments of the amounts guaranteed to her, as well as incentive payments to her guarantors and allies.
- (2) -Immediate repayment of insurance policies, sale of bonds and other obligations guaranteed by a special part of the security agreements;
- (3) -Automatic early triggering of forward contracts for the purchase of weapons and related products by the defending side and its allies.

4. The actions of the system in the post-war period

Every action of the aggressor, accompanied by destruction and other losses of the victim State of the attack, is transformed into the debt burden of the aggressor State's citizens, their children and grandchildren [4].

The aggressor's long-term and multiple responsibility to the

victim of aggression and its allies includes reparations, indemnities, and individual payments to regime collaborators. These payments are comprehensive compensation for the damage caused not only to the victim of the attack, but also to its guarantors and allies at the expense of the attacking party.

5. Security Guarantors

Political alliances and coalitions ("block system"), as well as regional communities of states can act in this role. Guarantees of the fulfillment of peace treaties by the United Nations and its subdivisions (the General Assembly, the Security Council, and the Economic Security Council) may become the most authoritative. This will expand their powers and change their status in the real political space.. Moreover, it is possible to assume a drastic increase in the importance of the United Nations and its return to the original functions of war prevention.

6. The main financial and economic instruments for guaranteeing the fulfillment of international treaties.

These include:

- (1) Means of collateral for the execution of international agreements: guarantee deposits, deposits, reserves and other assets of the parties;
- (2) Financial guarantees from reputable intermediaries for the provision of military and stabilization loans in favor of the victim of the attack and her allies;
- (3) Insurance obligations - as guarantees of financial support in cases of an attack;
- (4) Extraordinary fulfillment of forward obligations for the supply of weapons to the victim of the attack;

Refusal to fulfill financial obligations as punishment for the aggressor;

It should be noted that many components of this system of tools are quite effectively used and brought to a high degree of procedural concreteness.

7. In this publication, we want to focus in more detail on our proposed financial instrument, which we have called "surprise attack bonds." This working title of SAB – "Surprise Attack Bond" - reflects both its form and its essence.

The "Surprise Attac Bond" is a debt instrument under which the issuer receives funds from investors and in return pays a coupon yield slightly higher than the current yield on standard bonds. If a pre-determined catastrophic event occurs (in our case: a surprise attack), the issuer can use the principal amount to offset the cost of repelling aggression. Thus, SAB (Surprise Attac Bond) bonds capitalize on the risks of a military threat and represent a working way to combine insurance obligations with debt obligations and access local and global financial markets.

In relation to military conflicts, SAB bonds are aimed at financially covering external political risks, in particular the risk of invasion, threat to territorial integrity, statehood or violation of other points of the peace Treaty. Certain types of SAB bonds can be used to create financial protection against major terrorist attacks and internal shocks, as well as risks of

large-scale man-made and natural disasters..

SAB bonds, as in the practice of previously issued CAT bonds (Catastrophe bonds) [2, 6], are structured through special purpose companies (SPVs) that isolate the bonds from the risk of the (military-political) issuer. The SPV issues bonds and stores the proceeds in a collateral account, then they are invested in low-risk securities. The proceeds from these investments + the issuer's non-executive premium are used to pay interest to investors. Repayment period-the period of validity of the peace Agreement or another one proposed by the issuer.

If the peace period has passed without violations, the bonds will be repaid. If an attack takes place, investors lose the right to return their invested capital (partially or completely). Their losses are compensated in the post-war period in a number of reparations payments.

The very fact of placing bonds among central banks and other large investors of the guarantor countries provides some political support to the issuing country and is the core of future coalitions of allies (guarantor-investor-political ally-military ally). The placement of bonds on open markets for mass investors is in itself the basis for the formation of sympathies, sentiments and expectations of society.

Thus, SAB bonds are intended to provide financial assistance in the event of a threat of military aggression, terrorist acts and riots. This is a proposed mechanism for independent preventive actions to strengthen the security of a single country, coalition or regional association of allied countries.

In terms of economic content and basic characteristics, SAB bonds are similar to a well-proven product (catastrophe bonds), complemented by settings for managing the risks of military aggression and effective rapid response to an attack. SAB bonds are like other financial instruments of this kind (insurance policies..) They can also be used in cases of natural disasters and man-made disasters. But unlike these tools, which can only mitigate the consequences of an already existing disaster (trigger event), SAB bonds prevent a military attack to some extent, or at least reduce its likelihood.

In the context of political relations and military conflicts, SAB bonds have no analogues. In addition to providing financial benefits, they play an additional threefold role as a stabilizer, regulator and indicator of relations between various participants in the political arena.

As a built-in stabilizer, SAB bonds, thanks to impressive and instant payments, contribute to the automatic restoration of socio-economic balance in the country under attack and guarantee the provision of military spending.

As an indicator of relationships, SAB bonds show the true limits of the political support that the issuing country can rely on in emergency situations. The placement of bonds in the allied and guarantor countries shows the willingness (or unwillingness) of partners to provide assistance not only in the form of "paper guarantees", but also in real investments. In addition, investors' unwillingness to invest in SAB securities suggests that they consider the likelihood of aggression to be

high.

As a regulator of political relations, the purchase of SAB bonds by foreign investors (including central banks) in allied countries strengthens the attitude of their governments towards the security of the issuing country.

It should also be noted that the placement of bonds on open markets for mass buyers from different countries (including residents of countries that are political opponents and even potential aggressors) is in itself the basis for the formation of sympathies, sentiments and expectations of society. There is an interest of ordinary citizens in the peaceful termination of the term of the bonds, the payment of income and the return of capital.

2. Basic Terms

Surprise Attack Bond (SAB) -- a debt instrument in which the issuer receives funds from investors and in return pays a coupon yield slightly higher than the current yield on standard bonds. If a predetermined catastrophic event occurs (in our case: surprise attack), the issuer can use the principal to offset the cost of repelling the aggression.

Investor, sponsor, ally, guarantor - the government of the guarantor country(ies) or an international consortium of allied states and/or large financial companies and/or non-institutional participants.

Issuer - authorized representative of the country (countries, blocs, political and regional associations) strengthening its security. Typically: Central Bank, specially created company, (sovereign and/or inter-country).

A special purpose vehicle (SPV) is an independent, specially created company that places bonds (i.e., allocates risk), accumulates principal and additional premiums, and makes interim and final payments. In addition, a special purpose vehicle (SPV) makes SAB redemptions at the end of the issue term.

Trigger event-a predetermined event, a set of events that is an indicator of a surprise attack. The trigger triggers repayments, i.e. financial stabilization mechanisms. A trigger event for SAB bonds may be an invasion or a major provocation, or a large-scale terrorist attack or other event that disturbs local, regional or global equilibrium, or the terms of an existing Treaty. Such events may also include natural and man-made disasters, armed insurrections and coups, etc.... A trigger event should be defined in internationally recognized terms of specific actions in order to avoid ambiguity and ensure an automatic response when funds are deployed.

The main types of bonds:

- 1) Bonds of military needs. Their parameters are formed in the pre-war period on the basis of direct calculations of capabilities and needs of the issuing country in the purchase and production of defensive weapons, air defense systems, payment of mercenaries.
- 2) Bonds with model losses: They are developed in the pre-war period on the basis of a simulation model that

predicts financial losses from an invasion regardless of the actual parameters of future aggression.

- 3) Parametric bonds: Their performance is determined based on specific, quantifiable parameters of aggression (invasion, bombing, shelling...) e.g. size of territorial losses, destruction, number of casualties, displaced persons..... The same scheme can be used to provide compensation for the costs of liquidation of the consequences of major terrorist attacks, natural and man-made disasters.
- 4) Compensation Bonds: Post-War Period. Used in the post-war period to compensate for actual loss suffered by a party to the Treaty as a result of aggression or other envisaged trigger event....

Main functions of SAB bonds:

- 1) Source of funding for the issuer in crisis situations, liquidity guarantee - unimpeded lightning fast access to funds.
- 2) Risk transfer: - transfer of political and other risks from the issuer to investors, guarantors and allies.
- 3) Political deterrence mechanism - acts as a financial stop signal for military conflict.
- 4) Signaling tool - acts as an indicator of real international support by allies, guarantors, reputation, investment attractiveness.

As for the use in practice of strengthening national (or block, regional) security, it is important to note that SAB securities represent the only tool for the country's leadership that provides an opportunity to strengthen security completely independently, since this large-scale financial operation (issuance and placement of bonds, cash flow management) does not require the participation or consent of political partners and counterparties. Information that the country's leadership has resorted to such a measure of protection, depending on the specific foreign policy situation, may be fully or partially open, fully or partially closed, or spread purposefully through various channels.

Finally, we need to evaluate another important distinguishing feature of this approach. Information (real or exaggerated) about significant amounts of financial resources for armaments and payment of mercenaries, which the issuer is guaranteed and promptly receives in the event of an attack, can sober up potential aggressors.

3. Conclusion

So, the essence of the outlined approach is as follows.

The global political space as an arena of constant rivalry, conflicts and crises requires updated tools for the real regulation of the behavior of participants (guided by conflicting interests) by creating a system of additional security guarantees and the careful implementation of international treaties. Such tools can be methods of financial and economic regulation – encouragement, prevention, coercion and punishment.

The author is aware that the proposed doctrine cannot stop

the wars that are already underway, but expresses the hope that it will help prevent the upcoming wars....

Abbreviations

CAT	Catastrophe Bonds
SPV	Special Purpose Companies
SAB	Surprise Attac Bond

Author Contributions

Aleksandr Rozenfeld is the sole author. The author read and approved the final manuscript.

Conflicts of Interest

The author declares no conflicts of interest.

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