

# Economic interdependence and Political Conflict

## - Manipulation of Economic Interdependence and Dependent Policy as National Security Strategy -

NAGASAWA Yuji<sup>1</sup>

### Abstract

This article surveys the theory of the relationship between economic interdependence and political conflict. Does economic interdependence increase or decrease the probability of war among states? Many authors examine the question of whether economic interdependence constrains or motivates interstate conflict. While liberals affirm economic interdependence produces common interests among nations and fosters cooperative political relations, realists assert that rather than fostering cooperation, increased interdependence generates political discord. For a long time, the links between interdependence and conflict have been the subject of the International Political Economy. How and to what extent does interdependence influence political conflict? What causes this relationship? The purpose of this paper is to explore manipulating asymmetrical interdependence and dependent policy as a national security strategy, and to demonstrate that the dependent policy in East-West trade functioned as a buffer between the EC and the Soviet bloc and it became another security strategy during the Cold War.

### Manipulation of Economic Interdependence

What are the causal mechanisms driving the relationship between economic interdependence and political conflict? When two countries enter an economic relationship characterized by interdependence, are they constrained in their military behavior toward one another or are they adding one more source of disagreement over which conflict may emerge? Such questions have been of interests to scholars for centuries. Some have pursued these questions with hope that economic interdependence will help to extinguish interstate conflict. Others have warned that such interaction merely provides one more reason for states to fight one another.<sup>2</sup>

J. Nye and R. Keohane attempted to solve this puzzle in the classic literature on economic interdependence. They assert that “asymmetrical interdependence can be a source of power”<sup>3</sup>.

---

<sup>1</sup> Associate Professor of Tohoku Bunka Gakuen Univ.

<sup>2</sup> Mark J. C. Crescenzi, *Economic Interdependence and Conflict in World Politics*, Lexington Book, 2005, p.2.

<sup>3</sup> Robert O.Keohane, and Joseph S. Nye, *Power and Interdependence*, Little, Brown and Company, 1977,p.11.

A less dependent actor in a relationship often has a significant political resource, because changes in the relationship (which the actor may be able to initiate or threaten) will be less costly to that actor than to its partner<sup>4</sup>.

They assert that a less interdependent actor can manipulate asymmetrical economic interdependence to achieve political goals. Similarly, K. Knorr insists that “power arises from an asymmetrical interdependence”<sup>5</sup>.

The coercive power that actor A can derive from asymmetrical economic interdependence over actor B depends upon three factors: First, A must have a high degree of control over the supply of something B values, be it a market, a source of goods, or economic aid, including credits and gifts. Second, B’s need for this supply must be intensive. Third, B’s costs of compliance must be less than the costs of doing without the supply<sup>6</sup>.

However, a less interdependent actor can not always manipulate asymmetrical economic interdependence. In some cases, a less dependent actor chooses the option of increasing dependency on other actor in the pursuit of political goals.

For example, the EC’s economic diplomacy toward the Soviet Union and the Central and Eastern Europe (CEE) during the New Cold War (1979-1984) was the case<sup>7</sup>. The EC pursued an appeasement foreign policy toward the Soviet Union and the CEE, while American government employed an economic containment policy. In the late 1970s, these two approaches clashed, as the EC became more assertive in countering US diplomacy. This was evident in the response to the Soviet invasion of Afghanistan in December 1979. Although the US restricted exports to the Soviet Union and imposed a grain embargo, the EC was attempting to isolate trade relations with the Soviet Union and the CEE from the deterioration in the political relations between the superpowers. The EC considered East-West trade as a security policy appeasing the

---

<sup>4</sup> Ibid., And then, Keohane, and Nye carefully pointed out “This advantage does not guarantee, however, that the political resources provided by favorable asymmetries in interdependence will lead to similar patterns of control over outcomes. There is rarely a one-to-one relationship between power measured by any type of resources and power measured by effects on outcomes. Political bargaining is the usual means of translating potential into effects, and a lot is often lost in the transition”.

<sup>5</sup> Klaus Knorr, “International Economic Leverage and its Uses”, in Klaus Knorr and Frank N. Trager, eds., *Economic Issues and National Security*, University Press of Kansas, 1977, p.103.

<sup>6</sup> Ibid.

<sup>7</sup> Nagasawa Yuji, “Reisenki ni okeru seiou-shokoku no taisoren seiji-keizai-senryaku(Western European Countries’ Strategy toward the USSR during the Cold War)”, *The KEIZAI GAKU: Annual Report of the Economic Society*, Vol.60, No.4, Tohoku Univ., Jan.1999, pp.165-182. \_\_\_\_\_, “Touzai-oushu-boueki no rekishiteki-imi(East-West trade in Europe and its Historical Significance)”, *Russian-Eurasian Economy*, No.926, Institute of Eurasian Studies, Sept.2009, pp.2-21.

Soviet Union and the CEE. The EC employed the policy of raising economic dependency on the Soviet Union by increasing import of natural gas. Conversely, the Soviet government gained the power to manipulate the export of natural gas to the EC. The EC decided to renounce the capacity to manipulate East-West trade for adversary political goals. It stands in contrast to the economic sanction of the United State toward the Soviet Union. Why did the EC employ the dependent policy? The reason why the EC employed the dependent policy toward the Soviet Union is not only for importance of the imported goods (e.g., natural gas) but for national security. Raising import of natural gas from the Soviet Union relieved political tension between the EC and the Soviet Union during the Cold War. In sum, the dependent policy functioned as a buffer among two blocs and it became another security strategy.

Concerning this point, J. Gowa contends that “trade with an adversary produces a security diseconomy, trade with an ally produces a positive externality<sup>8</sup>” and that “because trade generates security externalities, adherence to a policy of free and non-discriminatory trade may not be optimal for states in an anarchic international system<sup>9</sup>”. Gowa’s argument is on the assumption that international system is anarchic. During the Cold War, the EC traded with adversary bloc (the Soviet Union and the CEE), but trading with an adversary became another security strategy. This fact proves that the dependent policy became another security strategy of the EC toward the Soviet bloc during the Cold War.

### **Economic interdependence and Political Instability**

Neoliberals have stressed the absolute gains from international cooperation, while neorealists have emphasized relative gains. Kenneth Waltz insists that “the structure of international politics limits the cooperation of state”<sup>10</sup>.

In a self-help system each of the units spends a portion of its effort, not in forwarding its own good, but in providing the means of protecting itself against others. Specialization in a system of divided labor works to everyone’s advantage, though not equally so. Inequality in the expected distribution of the increased product works strongly against extension of the division of labor internationally. When faced with the possibility of cooperating for mutual gain, states that feel insecure must ask how the gain will be

---

<sup>8</sup> Joanne Gowa, *Allies, Adversaries, and International Trade*, Princeton Univ. Press, 1994, p.6.

<sup>9</sup> Ibid., p.7. Gowa conducts joint research with Edward D. Mansfield, pursuing the economic interdependence and security of nations. Also, Mansfield uses the concept of “security diseconomy”. Joanne Gowa, “Bipolarity, Multipolarity, and Free Trade”, *American Political Science Review* 83, Dec.1989, pp.1245-1254. \_\_\_\_\_ and Edward D.Mansfield, “Power Politics and International Trade”, *American Political Science Review* 87, June 1993, pp.408-417. Edward D.Mansfield, “The Effects of International Politics on Regionalism in International Trade”, in K. Anderson and Blackhurst eds., *Regional Integration and the Global Trading System*, Harvester Wheatsheaf, 1993, pp.207-217. \_\_\_\_\_, *Power, Trade, and War*, Princeton Univ.Press, 1994, pp247-253.

<sup>10</sup> Kenneth N.Waltz, *Theory of International Politics*, McGraw-Hill, 1979, p.105.

divided. They are compelled to ask not “Will both of us gain? but “Who will gain more?” If an expected gain is to be divided, say, in the ratio of two to one, one state may use its disproportionate gain to implement a policy intended to damage or destroy the other. Even the prospect of large absolute gains for both parties does not elicit their cooperation so long as each fears how the other will use its increased capabilities.<sup>11</sup>.

Waltz seems to have a weak point in this argument. However he assumes that international society has “self-help system”, this assumption easily leads to uncooperative relation among the nations. When he insists that “each of the units spends a portion of its effort, not in forwarding its own good, but in providing the means of protecting itself against others<sup>12</sup>”, he takes for granted that international society has anarchic system in which states compete for relative gains. By this assumption he reached easily the favorable conclusion that the international system is on uncooperative relation.

States that are heavily dependent, or closely interdependent, worry about securing that which they depend on. The high interdependence of states means that the states in question experience, or are subject to, the common vulnerability that high interdependence entails. Like other organization, states seek to control what they depend on or to lessen the extent of their dependency. This simple thought explains quite a bit of the behavior of states: their imperial thrusts to widen the scope of their control and their autarchic strivings toward greater self-sufficiency<sup>13</sup>.

Waltz’s argument seems to be out of date, especially when he asserts that “their imperial thrusts to widen the scope of their control and their autarchic strivings toward greater self-sufficiency”. Because the imperialistic states retreated after World War II, nation states had tendency to choose commercial channels than using the military force for increasing national welfare. Also he couldn’t answer why states which worry about securing goods they depend on can not make cooperative relations, since it is possible that concern of securing goods leads states to cooperate with each other. As mentioned above, the reason why the EC employed the dependent policy toward the Soviet Union is not only for importance of the imported goods (e.g., natural gas) but for national security during the Cold War. Raising import of natural gas from the Soviet Union relieved political tension between the EC and the Soviet Union. In sum, the dependent policy functioned as a buffer among two blocs and it became another security strategy.

Joseph M.Grieco contends that neoliberal institutionalisms have been preoccupied with actual or potential absolute gains from international cooperation and have

---

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.,p.105.

<sup>13</sup> Ibid.,p.106.

overlooked the importance of relative gains<sup>14</sup>. He suggests that “*the fundamental goal of states in any relationship is to prevent others from achieving advances in their relative capabilities*<sup>15</sup>” (italics in original). The most difficult point on relative gains and absolute gains is that the behavior of states pursuing relative gains may be very similar to the behavior of states pursuing absolute gains. In case studies it is not clear whether states pursue absolute gains or relative gains.

John J. Mearsheimer argued that “states that depend on others for critical economic supplies will fear cutoff or blackmail in time of crisis or war, giving rise to conflict with the source or with its other customers. Interdependence, in other words, will probably lead to greater security competition<sup>16</sup>”.

Neorealists assert that since states must be primarily concerned with security and therefore with control over resources and markets, one must discount the neoliberal optimism that trading partners will never change the relationships simply because both states benefit absolutely<sup>17</sup>.

### Neoliberal and Neorealist

The arguments of neoliberals and neorealists display critical differences. While neoliberals argue that the more dependent state is less likely to initiate conflict since it has more to lose from breaking economic ties, neorealists maintain that such state is more likely to initiate conflict, to escape its vulnerability<sup>18</sup>.

Being less dependent can be a source of power; in situations of asymmetric interdependence, a less interdependent actor can manipulate asymmetrical economic interdependence to outcome political goals. Therefore, in evenly balanced mutual dependence, both states can not manipulate the interdependence, although such

---

<sup>14</sup> Baldwin, David, *Neorealism and Neoliberalism: the Contemporary Debate*, Columbia Univ. Press, 1993, p.6.

<sup>15</sup> Joseph M. Grieco, “Anarchy and the limits of Cooperation: a Realist Critique of the Newest Liberal Institutionalism”, *International Organization*, Vol.42, No.3, Summer 1988, p.498.

<sup>16</sup> John J. Mearsheimer, “Disorder Restored,” in Graham Allison, & Gregory F. Treberton, eds., *Rethinking America’s Security*, W.W.Norton, 1992, p.223.

<sup>17</sup> Concerning neorealist’s argument, Dale C. Copeland pointed out “a state vulnerable to another’s policies because of dependence will tend to use force to overcome that vulnerability”. Dale C. Copeland, “Economic Interdependence and War”, *International Security*, Vol.20, No.4, 1996, p.11.

<sup>18</sup> E. Morse described that “the growth in international interdependence does not warrant any optimistic conclusions concerning the institutionalization of world peace” Although generally Morse is regarded as a neoliberal, he employed the realist concept concerning economic interdependence and political stability. Then he asserted that “rather, interdependence in a world of nation states is far more destabilizing than its earlier proponents or detractors would admit. It leads to breakdowns in both domestic and international mechanisms of control and does not guarantee the development of new instruments to maintain political order”. Edward E. Morse, *Modernization and the Transformation of International Relations*, Free Press, 1976, p.116.

perfect symmetry is quite rare. Many cases prove the economic interdependence can be a source of power but less dependent state is not likely to control the asymmetrical interdependence for military purpose and to use a military force. Since the imperialistic states retreated after World War II, nation states had tendency to choose commercial channels rather than using the military force for increasing national welfare, as R. Rosecrance pointed out.

Trading states recognize that they can do better through internal economic development sustained by a worldwide market for their goods and services than by trying to conquer and assimilate large tracts of land<sup>19</sup>.

Today as more production by domestic industries takes place abroad, and technology, knowledge, and capital become more important than land, the function of the state is being further redefined. The state no longer commands resources as it did in mercantilist yesteryear; rather, it negotiates with foreign and domestic capital and labor to lure them into its own economic sphere and stimulate its growth<sup>20</sup>.

By making foreign investment and developing trade states do not need to conquer other nation's territory to increase the national welfare. Concerning this point, Rosecrance asserts "the most advanced nations shifted their effort from controlling territory to augmenting their share of world trade"<sup>21</sup>. Rosecrance's argument is extremely simple, so even neorealists agree with him in thinking that after World War II, "the most advanced nations shifted their effort from controlling territory to augmenting their share of world trade". Rosecrance's argument is a comprehensive liberal argument for interdependence and peace.

The main difference between neoliberals and neorealists has to do with their emphasis on the benefits versus the costs of interdependence. Although neorealists assert that states seek to control what they depend on or to lessen the extent of their dependency, this hypothesis can not explain the EC's dependent policy in East-West trade during the Cold War.

## Conclusion

This article surveys the theory of the relationship between economic interdependence and political conflict. While neoliberals assert economic interdependence produces common interests among nations and fosters cooperative political relations, neorealists argue that rather than fostering cooperation, increased interdependence generates political discord. It is important to explore the causal mechanisms driving this

---

<sup>19</sup> Richard Rosecrance, *The Rise of the Trading State: Commerce and Conquest in the Modern World*, Basic Books, 1986, p.25.

<sup>20</sup> Richard Rosecrance, *The Rise of the Virtual State: Wealth and Power in the Coming Century*, Basic Books, 1999, p.5.

<sup>21</sup> Ibid.

relationship. As Keohane, Nye and Knorr pointed out, being less dependent can be a source of power. In situations of asymmetric interdependence, less interdependent actor can manipulate asymmetrical economic interdependence to outcome political goals. Therefore, in evenly balanced mutual dependence, both states can not manipulate interdependence. Although such perfect symmetry is quite rare, less dependent state is not likely to manipulate asymmetrical interdependence for military purpose and to use a military force because after World War II imperialistic states retreated and states tend to choose commercial channels than using military force for national welfare.

A less interdependent actor can not always manipulate asymmetrical economic interdependence to achieve political goals. In some cases, a less dependent actor chooses the option of increasing dependency on other actor in the pursuit of political goals. For example, the EC's economic diplomacy toward the Soviet Union during the New Cold War (1979-1984) was the case. The EC employed the policy of raising economic dependency on the Soviet Union for increasing import of natural gas. It stands in contrast to the economic sanction of the United State toward the Soviet Union. The reason why the EC employed the dependent policy toward the Soviet Union is not only for the importance of the imported goods (e.g., natural gas) but for national security. Raising import of natural gas from the Soviet Union relieved political tension between the EC and the Soviet Union. In response to the Soviet invasion of Afghanistan in December 1979, although the US restricted exports to the Soviet Union and imposed a grain embargo, the EC was attempting to isolate trade relations with the Soviet Union and the CEE from the deterioration in the political relations between the superpowers. The EC considered East-West trade as a security policy appeasing the Soviet Union and the CEE. In sum, the dependent policy functioned as a buffer among two blocs and it became another security strategy.

## References

- Baldwin, David, *Neorealism and Neoliberalism: the Contemporary Debate*, Columbia Univ. Press, 1993.
- Copeland, Dale C., "Economic Interdependence and War", *International Security*, Vol.20, No.4, 1996, pp.5-41.
- Crescenzi, Mark J. C., *Economic Interdependence and Conflict in World Politics*, Lexington Book, 2005.
- Grieco ,Joseph M., "Anarchy and the limits of Cooperation: a Realist Critique of the Newest Liberal Institutionalism", *International Organization*, Vol.42,No.3, Summer 1988
- Gowa, Joanne, "Bipolarity, Multipolarity, and Free Trade", *American Political Science Review* 83, Dec.1989, pp.1245-1254.
- \_\_\_\_\_, and Mansfield Edward D., "Power Politics and International Trade", *American Political Science Review* 87, June 1993, pp.408-417.
- \_\_\_\_\_, *Allies, Adversaries, and International Trade*, Princeton Univ. Press, 1994.
- Keohane, Robert O., and Nye, Joseph S., *Power and Interdependence*, Little, Brown and

Company, 1977.

Knorr, Klaus, "International Economic Leverage and its Uses," in Knorr, Klaus and Trager, Frank N., eds., *Economic Issues and National Security*, University Press of Kansas, 1977.

Mansfield, Edward D., "The Effects of International Politics on Regionalism in International Trade", in K. Anderson and Blackhurst eds., *Regional Integration and the Global Trading System*, Harvester Wheatsheaf, 1993, pp.207-217.

\_\_\_\_\_, *Power, Trade, and War*, Princeton Univ.Press,1994.

Mearsheimer, John J., "Disorder Restored", in Graham Allison, and Gregory F.Treberton, eds., *Rethinking America's Security*, W.W.Norton,1992.

Morse, Edward E., *Modernization and the Transformation of International Relations*, Free Press, 1976.

Nagasawa Yuji, "Reisenki ni okeru seiou-shokoku no taisoren seiji-keizai-senryaku(Western European Countries' Strategy toward the USSR during the Cold War)", *The KEIZAI GAKU: Annual Report of the Economic Society*, Vol.60, No.4, Tohoku Univ., Jan.1999, pp.165-182.

\_\_\_\_\_, "Touzai-oushu-boueki no rekishiteki-imi(East-West trade in Europe and its Historical Significance)", *Russian-Eurasian Economy*, No.926, Institute of Eurasian Studies, Sept.2009, pp.2-21.

Rosecrance, Richard, *The Rise of the Trading State: Commerce and Conquest in the Modern World*, Basic Books, 1986.

\_\_\_\_\_, *The Rise of the Virtual State: Wealth and Power in the Coming Century*, Basic Books, 1999.

Waltz, Kenneth N., *Theory of International Politics*, McGraw-Hill, 1979.