

Chapter 2

THEORIES OF THE TRADE- CONFLICT RELATIONSHIP

Before turning to specific propositions about the trade-conflict relationship, I assess the central differences in the theoretical debates that drive the study of international relations. The theoretical perspective one embraces may affect his or her approach to analyzing the trade-conflict relationship. Of course, this fact is not peculiar to this field; scholars recognize that personal biases frequently affect one's research. However, many people accept standard economic assumptions about international trade as theoretically neutral and often treat economic theories as if they were laws. Similarly, people frequently assume that social-scientific inquiry presupposes the objectivity of the researcher. We must therefore remind ourselves about the ways in which a scholar's theoretical perspective influences his or her research.

My goal here is to develop a means to integrate alternative theoretical perspectives and recognize their complementary nature. Furthermore, many theoretical perspectives that do not directly address the trade-conflict relationship per se may inform our understanding about the costs and benefits of trade, enabling us to infer the logical consequences of some additional debates about trade's impact on domestic or international conditions that are relevant to the trade-conflict debate. For example, the theoretical notions about the consequences of trade on domestic conditions are relevant to liberal assumptions about the impact of trade on international relations. Thus, this chapter draws linkages between those theories that address the domestic consequences of trade and those that focus directly on the impact of trade ties on interstate relations.

When juxtaposed, the three dominant perspectives in international relations—liberalism, realism, and Marxism—provide a clearer picture of the trade-conflict relationship than can be obtained by considering any one in isolation. The tendency to approach issues of trade and other economic relationships from a single ideological position often leads scholars to neglect the valuable insights advanced by alternative schools of thought. Inevitably, this tactic hinders our ability to advance our understanding of the relationship between trade and interstate conflict.

Although I make an effort to distinguish the central differences between several schools of thought, a strict and useful typology of theoretical approaches is difficult, if not impossible, to construct. As with any theoretical categorization, particularly one examining several academic disciplines, it is difficult to reconcile inconsistencies that exist within one theoretical tradition in addressing a particular question (e.g., there is no unified voice among the challenges to liberalism). For this reason, it is useful to consider a number of propositions that emerge across, rather than within, particular schools of thought. After briefly discussing major differences in worldviews, I organize my discussion about the trade-conflict relationship according to the predictions that various theorists might make about it. These basic divisions in worldviews suggest why scholars may diverge in their evaluation of trade's consequences and its possibilities for promoting peace.

DIFFERENCES OF PERSPECTIVE

A critical distinction noted about the dominant perspectives in international relations centers on the identification of the *primary actors* in world politics and the appropriate level of analysis on which to focus one's inquiry. Liberals tend to focus on the individual and the state; for the realist, the state is the most important actor in international relations; and for the Marxist, economic class is the key unit of analysis. Propositions emerging from these three schools about trading relationships have been framed in a manner that makes them appear applicable to all actors and levels of analysis. Yet, where analysts choose to focus their inquiry may have important implications for the conclusions reached. It is important to remain cognizant of the fact that trade's impact might vary at the individual, class, state, and global levels, while also recognizing that attention to each level informs our overall understanding about the phenomenon of interdependence. Scholars often overlook the distinction between alternative foci (Singer 1961).

For example, classical liberals spoke about the benefits of trade for individuals and saw these same benefits as applicable to nations. Others may talk about the process of globalization or systemic interdependence and discuss the negative consequences for states and subnational actors. Moving down the scale of aggregation (from system to individual) often highlights the variations that exist within the system or state. In this study, I focus on the impact of trade on relations between states, but

many of the theories relevant to the discussion are cast at different levels of analysis. Further exploration is needed to uncover the ways in which trade's impact varies across levels of analysis: different initial definitions of the central actors in international relations may lead to significantly different conclusions.

Another issue of contention among different theorists may be found in the notion of the national interest, which has important implications for the topic at hand. Liberals view state action as driven by a desire to maximize social welfare. Trade is seen as a vehicle to achieving this goal. In this sense they differ from realists, who see states as motivated by power maximization. With respect to trade, realists reiterate mercantilist philosophies, viewing economic statecraft, including trade policies, as one of many instruments available to states in their pursuit of power. Marxists also recognize the desire of states to maximize wealth, but believe this goal is pursued to benefit particular classes, rather than society as a whole. For Marxists, the state is not a unitary actor, but is a structure representing the interests of the dominant classes in society. Neo-Marxists maintain that the state is fundamentally an instrument of class domination. The Marxist rejection of the liberal and realist assumption of the neutrality of the state vis-à-vis class interests leads to the conclusion that trade policies do not benefit all individuals within society, but in fact promote the interests of the dominant classes.

Alternative perspectives concerning the motivations driving state action have important implications for arguments about whether trade ties have the capacity to foster peace among states. If one accepts the liberal assumption that states' ultimate goal is the promotion of national welfare, then it is conceivable that trade and peace promote these goals.¹ If, on the other hand, one accepts the realist view that all foreign policy, including trade, exists for the purpose of achieving national security or power, then trade relationships may be viewed as temporary arrangements that can be easily broken when conditions necessitate other strategies to secure national interests. Realists do not rule out the utility of force—even against a trade partner—when the national interest is at stake. However, force may be undesirable when the trading partner is vital to the national interest. Finally, Marx himself recognized the conflict endemic in economic relations, which suggests that violence may be an integral component of such relations ([1887] 1906). This contrasts with the liberal view that economic relationships deter or serve as a substitute for violence.

I assume states pursue policies designed to maximize both power and plenty. At times a state must subordinate short-term wealth in the hopes of greater power in the long term or may sacrifice power in the short term for the sake of long-term wealth. In fact, limiting one's autonomy through economic ties in the hopes of deriving greater economic benefits would be one example of the latter, whereby the state assumes it can use that wealth for power-augmenting ventures. On the other hand, a state might direct investments into military resources, postponing other productive ventures for the sake of long-term objectives. In sum, wealth and power are complementary goals. For example, states may pursue economic policies that reduce national autonomy in the short term for the sake of acquiring additional wealth to secure power in the long term, or states may incur short-term economic losses to contribute to long-term security goals. This notwithstanding, different perceptions of the national interest may influence scholars and policymakers concerned with trade and conflict.

In a similar vein, a scholar or policymaker's view of *human nature* and of the possibilities or limitations to cooperation and peace in an anarchic world have dramatic effects on the way theorists view the potential impact of trade relations (Stein 1990, 4–13). Classical liberals devoted a considerable amount of energy toward addressing the means by which one could harness human vices. The drive for material gain was considered one of many instinctual vices, but classical liberals viewed it as less dangerous than the others, such as the acquisition of power and glory or seeking revenge (Hirschman 1977). Within the liberal tradition, competition and self-interested action promote the common good. The classical liberal economic system is not built upon the belief that individuals are directly concerned with the public good. Instead, the public good is a positive externality that arises from individual pursuit of self-interested objectives. Adam Smith argues:

He intends only his own gain, and he is in this, as in many other cases led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it, by pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. ([1776] 1937)

The liberal view that self-interested action can produce desirable outcomes is seen in various permutations of the liberal tradition and continues within international relations theories of cooperation (e.g., Axelrod 1984). For liberals, even if trade policies are motivated by self-interest, they lead to cooperative strategies and peaceful relations among actors. Realists are less optimistic about human nature; they envisage conflict (rather than cooperation or the common good) to result from self-interested action. Each state's pursuit of its own national interest—power maximization and security—produces a security dilemma, which in turn results in greater insecurity and intensifies threats to interstate peace. Although interstate cooperation may emerge, cooperative arrangements are transitory—today's ally may be tomorrow's adversary. Marxists subscribe to a conception of human nature that is similarly skeptical. For Marxists, conflict permeates social relations between classes and between factions of capital (Marx [1887] 1906). The Marxist assessment of human nature offers a glimmer of hope that the demise of capitalism will produce a positive transformation in social relations; yet, until that point, conflict remains ever present. The realist and Marxist positions stand in sharp contrast to the liberal scenario of a common good resulting from egoistic action, which in turn has implications for the ways in which theorists from these schools of thought view trading relationships.

Finally, we must consider the normative concerns of scholars. Liberals pursue different theoretical priorities than do realists and Marxists. Although concerned with issues of peace and war, liberal inquiries focus primarily on welfare issues. Realists are concerned with issues of national security, and Marxists focus on issues of poverty and equity within and between states. This leads to obvious differences in the normative priorities for evaluating trade's consequences. For example, trade may lead to greater welfare, if we think of welfare as an increase in national income, while at the same time insecurity and inequality within and between nations might grow. Again, where scholars focus their attention may lead to alternative conclusions about trade's costs or benefits.

Recognizing the differences that exist across worldviews might lead one to conclude that theorists often look at different worlds and do so with different evaluative techniques. Yet, it is possible to tease out propositions that may be interwoven to capture a more enhanced understanding of the potential relationship between trade and conflict. For example,

if I assume that welfare, security, and equality are each important normative concerns, I can adopt a more holistic approach for evaluating the conditions under which trade might contribute to peace or conflict.

THREE HYPOTHESES ABOUT TRADE AND CONFLICT

As noted in the previous chapter, three propositions about the trade-conflict relationship are easily identified in the relevant literature: (1) the liberal proposition asserting that trade promotes peace; (2) the proposition, advanced by neo-Marxists, that symmetrical economic ties may promote peace, while asymmetrical relations stimulate conflict; and (3) the proposition that trade increases conflict. Of course, we need to consider a fourth possibility—the null hypothesis, that there is no relationship between trade and conflict. I will discuss each proposition in turn.

The Liberal Claim: Trade Promotes Peace

The linkage of trade to peace and prosperity enjoys a long tradition in both economics and political science.² The trade-promotes-peace proposition can be traced to ancient writings, but it is most commonly associated with the liberal school of thought (Angell [1911] 1972; Blainey 1973, chap. 2; de Wilde 1991; Doyle 1997, chap. 7; Selfridge 1918; Viner 1937). Liberal arguments, like those predating liberalism, link the pacifying elements of trade to economic and sociological factors. Economic arguments permeate the contemporary liberal argument, but there is also an implicit (and at times explicit) assumption that the increased contact that results from trade ties promotes peace and unifies states. While related, the economic and sociological strands of liberalism rely on different dynamics to explain the trade-conflict relationship.

Perhaps the argument receiving the most scholarly attention in related literature suggests that states are deterred from initiating conflict against a trading partner for fear of losing the welfare gains associated with the trading relationship (Polachek 1980). Given the prominence of economic arguments seeking to explain the trade-peace connection, it is useful to begin with a discussion of a few key assumptions formulated from classical trade theory, where the rationale for the link between trade and interstate peace is established.³ As will become apparent, theorists critical of the assumptions underlying classical trade theory are also the most ardent critics of the trade-peace proposition.

First, liberal economists believe trade provides benefits to its participants. They do not assume that the benefits of trade are equal for all actors, but they nevertheless assume these are positive. Liberals also assume that trade occurs voluntarily; therefore, if we see two actors trading, they are doing so because they are deriving benefits from the relationship; otherwise, as rational actors, they would exit the relationship. Thus, if we witness states engaging in trade, we must assume that they are deriving benefits. According to this argument, if a state did not enjoy net benefits from a particular relationship, being a rational actor, it would terminate the relationship. As we will see, neo-Marxist scholars reject the notion that the existence of trade ties signifies voluntary exchange.

Underlying neoclassical trade theory is the notion that states are better off if they trade than they would be if they refrained from trade. The gains from trade that neoclassical trade theory assumes accrue to states arise from the possibility of exchange and from greater specialization. Through exchange, states are able to sell and therefore purchase products at a lower price than if they were pursuing economic autarky. Exchange is assumed to increase revenue as well as consumption. More important, trade increases the productive efficiency of the economy through specialization. By specializing in those products for which a state has a relative advantage, it is better able to allocate resources to efficient productive ventures. According to this argument, economic specialization and trade increase real income, both nationally and globally.

Those who argue that trade fosters peace most often maintain that intense conflict is deterred when leaders consider the welfare losses associated with an interruption to trade. For most contemporary liberal theorists, it is not the act of trade itself, but the threat of losing the economic benefits of such ties that deters states from seeking military actions against their most important trading partners. Several authors provide empirical evidence of the negative relationship between trade and conflict and/or the positive relationship between trade and cooperation (e.g., Domke 1988; Gasiorowski and Polachek 1982; Oneal et al. 1996; Oneal and Ray 1997; Oneal and Russett 1997, 1999; Polachek 1980, 1992; Polachek and McDonald 1992; Polachek et al. 1997, 1999; Sayers 1990).

Polachek's (1980) expected-utility model of trade and conflict provides a framework for understanding leaders' calculations of the relative costs and benefits of interstate trade and conflict. The model provides the

basis for understanding the arguments of both advocates and critics of the proposition that trade promotes peace. The model has been utilized, criticized, and modified by theorists within and outside the liberal school of thought.⁴ Operating within the framework of neoclassical trade theory, Polachek assumes that trade patterns emerge as a result of given heterogeneous factor endowments among nations. These trade patterns, and the accruing benefits associated with the gains from trade, affect a rational leader's foreign policy behavior, as she or he attempts to maximize social welfare. According to Polachek's model, in a leader's expected-utility calculus, the cost of conflict equals the lost welfare gains associated with potential trade losses (1980, 1992). Even if conflict does not lead to the cessation of trade, it will lead to inferior terms of trade, such as lower prices for exports or higher prices for imports (Polachek and McDonald 1992). The diminution of trade or barriers to trade that accompany conflict lead to welfare losses. Thus, increases in gains from trade in a particular relationship are believed to reduce incentives for conflict within that relationship. According to Polachek's model, the expansion of trade ties with a given state should reduce the likelihood of conflict.

A similar cost-benefit analysis is provided by those theorists who judge leaders' decisions by their assessment of the utility of pursuing trading versus military strategies for acquiring desired goods. Rosecrance (1986) argues that states pursue trading strategies when military options become too costly and less efficient relative to trade. This focus differs from Polachek's expected-utility model. Polachek's model suggests that once trade ties have been established, deterring conflict can only maximize welfare; that is, conflict only produces a negative effect on welfare in Polachek's model. For others, the cost-benefit analysis incorporates a consideration of trade versus conquest. Although liberal theorists assume that trade is the preferred strategy for acquiring resources, within the cost-benefit analysis of trade and conflict we can imagine instances in which the acquisition of resources through conflict remains a viable and at times more desirable option than trade, as suggested by the title of Liberman's 1996 book *Does Conquest Pay?* He finds support for the argument that conquest can pay under some conditions. Thus, the cost-benefit analysis for states' decisions to pursue trading versus military strategies to further the national interest may result in outcomes where the utility of conflict is greater than that for trade.⁵ Although Rosecrance focuses on the system-level characteristics altering the trade-military cal-

culus over time, from both his and Polachek's model we can assume that the utility of conflict relative to trade may also vary across space (e.g., across dyadic relationships).

An extended argument advanced by liberals regarding the trade-conflict relationship maintains that it is not merely the *volume* of trade, but also the *type* of trade existing between partners that affects utility calculations for conflict (Polachek 1980). For example, Polachek and McDonald (1992) stress the importance of measuring the elasticity of supply and demand for goods traded, providing evidence that the more inelastic an actor's import and export demand and supply to a target country, the smaller the amount of actor-to-target net conflict. States are believed to be more vulnerable relative to those whose products and purchases are in greater demand, particularly when the goods are of strategic importance. Unfortunately, it is difficult to measure the importance of different types of trade for a country, particularly if one wishes to focus on a broad historical and temporal domain. The strategic relevance of commodities changes over time, making it difficult to apply general measures of commodity importance. In addition, data for measuring the elasticity of trade are limited, so work in this area has been curtailed. Researchers generally rely on proxy measures of interdependence that assess the importance of a given relationship relative to others, rather than assessing whether the traded commodities themselves produce the dependence.

For some liberals, trade's pacifying effect results from more than economic considerations. Many eighteenth-century tracts by political economists expressed the view that commerce civilizes, polishes, and pacifies states and their citizens (Hirschman 1977, 1982). Montesquieu was among the first to cite the positive transformations that commerce brings to society (Forbes 1997). In 1749, he wrote "Commerce . . . polishes and softens . . . (adoucit) barbaric ways as we can see every day" (quoted in Hirschman 1982, 1464). Those who engaged in commerce were assumed to become more peaceful, more civilized. In 1781, Samuel Richard wrote:

Commerce has a special character which distinguishes it from all other professions. It affects the feelings of men so strongly that it makes him who was proud and haughty suddenly turn supple, bending, and serviceable. Through commerce, man learns to deliberate, to

be honest, to acquire manners, to be prudent, and reserved in both talk and action. . . . he flees vice, or at least his demeanor exhibits decency and seriousness. (quoted in Hirschman 1982, 1465)

Some contemporary liberal analysts portray business interests as more pacific and antiwar than other elements of society (Domke 1988). However, contemporary arguments generally attribute business people's peacefulness to their economic interest, rather than adopting the classical view that commerce has transformed their character. The economic argument suggests that business interests will mobilize their opposition to war in the interest of maintaining trade ties (economic profits). Some liberals add that this is particularly true in democratic societies, where public opinion has a greater impact on policymakers (Domke 1988; Ray 1995). Alternatively, one might argue that in nondemocratic regimes, the power of the business class is even more enhanced relative to democratic regimes, where alternative groups have an equal opportunity to exert influence over foreign policy. This arrangement may be due to the nondemocratic state's reliance on powerful economic actors for subsidizing state objectives. However, the argument that business interests always prefer peace to conflict is countered easily by the many instances in which businesses profit from war or in which economic interests prefer conflict to peace (Barbieri and Levy 1999).

The positive social transformation arising from commerce is not only argued by classical liberals to affect the behavior of individuals, but is assumed to transform societies—to make them less warlike. In addition, liberals assume that commerce alters relationships between societies. In *The Spirit of the Laws* (1749) Montesquieu wrote that “commerce cures destructive prejudices” (quoted in Forbes 1997, 2). Greater contacts, according to this view, produce greater understanding and more peaceful unions. In addition, increased contact necessitates the creation of mechanisms, such as laws, to resolve conflicts of interest that might arise. Trade facilitates the creation of additional linkages that bind states together.

Liberals, functionalists, and neofunctionalists argue that the expansion of interstate linkages in one area stimulates further cooperation in other areas (Deutsch et al. 1957; Haas 1958, 1964; Mitrany 1964). Of course, the unity that arises from economic ties can be attributed to the self-interested desire to maintain economic benefits and/or to the pre-

sumed social attachments that arise from close contacts. The views are not unrelated, but there are some important distinctions. Liberals envision a world community arising from a global division of labor in which national boundaries could be weakened for the good of the community and its prosperity. Trade, even if pursued for economic gains, should lead to the unification of societies through a convergence of interests and cultures. According to this view, trade breaks down the barriers and prejudices associated with national identities. States and their citizens become integrated into one global community, united by a common interest. The increased contact and intermingling of cultures that exist between trading states are assumed to have a homogenizing effect. Again, a main premise is that contact and homogenization are good for peace, a view subject to support as well as criticism. In sum, contact is presumed to reduce misperceptions, increase understanding, lead to a convergence of cultures, foster formal and informal institutions to facilitate trade, and have spillover effects into other areas that lead to greater cooperation.

Thus, while liberals recognize that gains from trade and the potential costs accompanying interdependence are not always equal, they argue that trade ties generate net positive benefits for each state involved. These benefits are not solely economic. Rather, trade is seen as a positive force for transforming individuals, society, and relations between societies. Within the liberal tradition, a clear link is therefore established between expanded trade and peace. The expansion of trade ties alone should reduce the likelihood of conflict. This link of trade to peace, as we will see, is tenuous for those who maintain that trade might entail net costs, for those who view states' concerns about absolute gains as subordinate to concerns about relative gains, and for those who view increased contact as harmful to interstate relations.

Trade's Impact Is Contingent on the Nature of Dependence

Liberal theorists describe trading relationships as universally beneficial. They also differentiate relationships according to the extensiveness of trade ties, rather than the more general context in which trading relationships exist (e.g., in relations of unequal power). Critics of commercial liberalism argue that all economic relations are not created equal; some trading relationships may promote harmonious, beneficial interstate relations, while others are plagued by tension. Neo-Marxists reject

the assumption that trade provides net benefits to all states. Trade and economic dependence benefit the powerful, but result in political and economic costs for the powerless. Dependency theorists reject the notion of universal voluntary exchange and argue that developing nations, as a result of historical-structural relationships, are not free actors and are therefore unable to make the same calculations proposed by the expected-utility models (Tétreault and Abel 1986). The existence of trade ties does not imply mutual benefits, but may instead reflect an absence of latitude on the part of some states to break free from undesirable trade relations. Neorealists contribute to the debate by adding that even when absolute gains exist, concerns about relative gains may dominate leaders' decisions (see Baldwin 1993; Grieco 1990; Mastanduno 1993; Powell 1991; Snidal 1991, 1993). Tensions may arise over how the gains from trade are distributed. Thus, trade may be devoid of the benefits and incentives presumed by liberals to serve as a restraint to conflict.

A reading of critical theories of trade leads one to infer that trade's impact on interstate relations is contingent upon the distribution of costs and benefits in a given relationship. In large part, the consequences of trade are contingent on whether dependence is symmetrical. Asymmetrical trade relations are more likely to produce disproportionate costs and benefits, where the more dependent state incurs greater costs and fewer benefits. These costs may be political, economic, or social. Asymmetrical dependence confers unequal power to the less dependent state. The advantaged bargaining position of the less dependent state may be used to gain concessions on economic or political issues (Hirschman [1945] 1980). Thus, one might hypothesize that tensions are more likely to arise in asymmetrical relations due to the exercise of power derived through such relations, the perception of negative consequences of dependence, or concerns about relative gains.

An eclectic group of theorists emphasizes the negative consequences of economic dependence (Balogh 1963; Cooper 1968; Emmanuel 1972; Gasiorowski 1986a, 1986b; Hirschman [1945] 1980; Kegley and Richardson 1980; Wallensteen 1973). Dependency theorists and neo-Marxists provide perhaps the most comprehensive assessment about the detrimental effects of economic dependence for a nation and its economic development (Amin 1977; Baran 1957; Cardoso and Faletto 1979; Evans 1979; Frank 1967; Furtado 1963; Myrdal 1957; Prebisch

1950; Seers 1963; Singer 1950).⁶ In criticizing liberal assumptions about the universal benefits of free trade, dependency theorists argue: (1) the gains from trade are enjoyed exclusively by developed states; (2) trading relations between developed and developing nations retard the development process of developing states; and (3) trade exacerbates inequalities in the wealth of nations (Singer 1950; Myrdal 1957; Seers 1963). For Seers (1963) and others, underdevelopment results from relations between states, rather than internal conditions within developing nations. "Development for one of the parties will therefore tend to imply underdevelopment for the other, depending on their relative positions within the structure binding them together" (Blomström and Hettne 1984, 18). Frank (1967) views the "development of underdevelopment" as a result of economic dependence, while Cardoso maintains that growth might occur in the periphery, but it will entail "capitalist dependent development" (see Blomström and Hettne 1984, 67, 75).

The dependency school of thought focuses primarily on relations between developed and developing states, but the negative consequences of dependence may arise within other types of interstate relations. Marxist attention to the exploitative nature of unequal exchange relations, as well as realist views about the use of economic instruments for promoting power, illustrate the long tradition of skepticism about free trade. The views expressed by Max Sering mirror those arguments located in contemporary critiques of liberalism:

It ha[s] been wrongly contended that in the economic intercourse of nations the dependence is always a mutual one, that always equal values are exchanged. As between private persons, there exist between national economies relations of exploitation and of subjection. (1900, quoted in Hirschman [1945] 1980, 11)

In his seminal work, *National Power and the Structure of Foreign Trade*, Hirschman was among the first contemporary scholars to elaborate on "how relations of influence, dependence and domination arise right out of mutually beneficial trade" ([1945] 1980, vii). He states:

The Nazis . . . had not perverted the international economic system, they had merely capitalized on one of its potentialities or side effects; for "power elements and disequilibria are potentially inherent in

such ‘harmless’ trade relations as have always taken place, e.g., between big and small, rich and poor, industrial and agricultural countries—relations that could be fully in accord with the principles taught by the theory of international trade.” (vii)

Hirschman grounds his notion of dependence on the importance of one trading partner relative to others. When one state maintains most of its trade with a given partner and lacks the freedom to alter existing trade patterns, “dependence” results. Dependence arises from a state’s inability to spread its imports and exports equally over a large number of countries. States with a limited set of trading partners are assumed to be more dependent on those with whom they trade heavily. In particular, when structural linkages exist, dependent states are less able to alter their trade patterns and may become subject to manipulation. The lack of freedom and the perpetuation of dependence preclude states from enjoying the benefits of trade as described by liberals, whose model did not show states subjected to the coercive political pressures found in relations of dependence.

Thus, a natural component of trade relations is the potential use of asymmetrical dependence as a method to exert political pressure on a trade partner. Unlike some critics of liberalism who reject the idea that all states benefit from trade, Hirschman accepts this view, but also underscores the potentially adverse consequences associated with these benefits. For liberals, the more dependent state, such as a developing nation, generally enjoys greater economic benefits from an opportunity to trade with a large state than the large state derives from the relationship. It is the dependent state’s fear of losing the gains from trade that enables the less dependent (more powerful) state to enjoy a disproportionate amount of influence in the trading relationship. In turn, the leverage accruing to the more powerful state from this asymmetrical dependence may be used to gain concessions in either the political or economic domains. Thus, it is the less powerful state’s desire to acquire and preserve the gains from trade that perpetuate relations of dependence and the consequences that entails.

In *Power and Interdependence*, Keohane and Nye (1977) build upon Hirschman’s notion of how asymmetrical dependence serves as a source of power for the less dependent state. Although these works do not explicitly address the trade-conflict relationship, they illuminate the dynamics present in asymmetrical relations. The manipulation and

potential for coercive tactics characteristic of asymmetrical relationships stand in sharp contrast to the harmonious ties described by liberals. This raises the question of whether asymmetrical dependence can ever be described as peaceful, or whether asymmetrical dependence is incongruent with the notion of peace.

Within the context of this study, I wish to assess the extent to which coercion manifests itself in explicit threats of violence. However, there are some theorists that might argue that the types of relationships involving asymmetrical dependence violate the notion of peace, by involving implicit threats and "structural violence" (Galtung 1971). What is clear is that the dynamics of asymmetrical dependence are likely to produce hostilities between actors, creating a predisposition for conflict. Still, it is equally plausible that the more powerful state has the ability to suppress conflict before it erupts, but that the types of tactics used to suppress dissent may in themselves constitute a violation of peace.

Control by the more powerful state is not confined to political or economic manipulation, but also may involve active military intervention. Wallensteen (1973) demonstrates that powerful states are more likely than minor powers to intervene militarily or engage in military confrontation with underdogs that are dependent upon them economically. For example, Wallensteen cites several instances in which the United States pursued military actions against Latin American states that were economically dependent upon the United States. Thus, Wallensteen shows that asymmetrical dependence not only threatens autonomy, but also can pose real threats to national security.

Although presumably more pronounced in asymmetrical relations, interdependence entails costs for mutually dependent states, as they become subject to the external influences of trading partners (Keohane and Nye 1977, 13). Even supporters of expanded trade ties recognize that extensive economic interdependence threatens national autonomy and poses problems for policymakers. As Cooper states:

Like other forms of international contact, international economic intercourse both enlarges and confines the freedom of countries to act according to their own lights. It enlarges their freedom by permitting a more economical use of limited resources; it confines their freedom by embedding each country in a matrix of constraints which it can influence only slightly, often only indirectly, and without cer-

tainty of effect. . . . As with a marriage, the benefits of close international economic relations can be enjoyed only at the expense of giving up a certain amount of national independence, or autonomy, in setting and pursuing economic objectives. (Cooper and Council on Foreign Relations 1968, 4)

States must resolve the dilemma of simultaneously reaping the benefits of interdependence without impeding their own national objectives. Cooper acknowledges that this is more difficult for smaller than for larger countries, since the former are forced to adjust their behavior to conform to the wishes of the states they are dependent upon (5). However, when Cooper employs the analogy of marriage to describe interdependent relationships between states he overlooks the intense forms of violence that too often manifest themselves in close relationships, such as those between spouses or lovers. Therefore, Cooper's perception of the negative consequences of interdependence and the ways in which states might overcome such adverse effects are very different from the harsher scenarios one might portray about interdependent relationships.

Trade dependence can limit autonomy beyond the economic realm. Kegley and Richardson (1980) specifically address the effect of economic dependence on foreign policy compliance, arguing that dependent trade partners are subject to the demands of the stronger trade partner when making foreign policy decisions. The influence effect of trade ties has been portrayed in a positive light by some advocates of trade expansion, who view "constructive engagement" as a means to alter the domestic and foreign policies of their trading partners. For example, many policymakers in the United States argue that the expansion of trade ties with China will provide an avenue for influencing the Chinese human rights record. Similarly, some Western policymakers consider trade to be a means to expose states to democratic systems and believe this will foster transitions to democracy. For others, the threat of severing trade ties (economic sanctions), rather than policies of constructive engagement, is preferred as a more subtle means of exerting coercive influence on trade partners than would be achieved by threats of force. In either case, trade is portrayed as an instrument to exert influence on other nations. The target of such influence attempts might then view trade ties as a challenge to their autonomy.

Gasiorowski (1986a, 1986b) and Kegley and Richardson (1980) show

that the political impact of dependence and the negative consequences of trade are more pronounced in asymmetrical relations. Gasiorowski (1986a, 1986b) provides evidence that those countries that are more dependent on trade as a source of national income are more hostile toward countries on which they are interdependent. Economic interactions are only associated with declines in conflict when the costs of interdependence are minimized, as when states design policies to reduce potential threats to national autonomy (Cooper and Council on Foreign Relations 1968; Gasiorowski 1986a).

What is unclear in debates concerning economic dependence, particularly asymmetrical dependence, is whether the use of power derived from asymmetrical dependence is sufficient to create tensions necessary for the outbreak of militarized hostilities. Relations that fail to provide mutual benefits or impose disproportionate costs on one actor may be characterized as hostile, without manifesting themselves in military conflicts. Hostilities might be suppressed when states see some benefit in preserving the relationship or when states fear more costly reprisals from breaking ties with dominant states. Russett notes that "conflict may be suppressed by the operation of a relationship where one party dominates the other" (1967, 192). It is plausible to argue that the power dynamics that characterize asymmetrical relations create a predisposition for conflict greater than that found in symmetrical trade relations. Yet, whether such hostilities manifest themselves in conflict remains an empirical question.

The pacifying influence of trade may also give way to discord when one state believes that its partner is enjoying disproportionate benefits within the relationship. Neorealists' focus on relative gains provides a basis for understanding why the presence of absolute gains may neither be sufficient to satisfy states nor create a disincentive to conflict. Although concerns about relative gains are not limited to asymmetric relations, there may be greater concerns about relative gains, since the costs and benefits in asymmetrical relations may be more pronounced in such relationships compared to those that are more balanced. Even when states are thought to benefit absolutely from trade, one state might consider its partner's disproportionate gain to be a loss to itself in terms of relative power. This is particularly the case when trading relations possess characteristics of cooperation as well as competition. For example, trading relations between the United States and Japan exemplify a contem-

porary case of the tensions that erupt over relative gains. Most liberal economists would argue that the United States and Japan both derive net benefits from their trading relationship, but we frequently see that concerns over relative gains often dominate trade disputes. R. G. Hawtry provides important insight into the sources of tensions that may arise over relative gains:

So long as welfare is the end, different communities may cooperate happily together. Jealousy there may be and disputes as to how that material means of welfare should be shared. But there is no inherent divergence of aim in the pursuit of welfare. Power, on the other hand, is relative. The gain of one country is necessarily loss to others, its loss is gain to them. Conflict is the essence of the pursuit of power. (1930, quoted in Hirschman [1945] 1980, 27)

The relevance of relative gains to trading relationships is highlighted in the work of Gowa (1994). Gowa assesses the security externalities associated with trade and argues that states choose to trade with allies in order to avoid granting the gain from trade to adversaries, which results in security externalities. She argues that it is not the increased income that is of greatest concern in trade with an adversary, but the ability of the adversary to enjoy the gains arising from specialization. Permitting an adversary the opportunity to increase its productive efficiency and redirect resources away from alternative productive ventures could allow it to increase production of military resources, which would pose a potential challenge.

The relative-gain argument depicts one state's gain in trade as being another state's potential loss. This characterization of trade is made more explicit in Marxist arguments about the structure of unequal exchange relations. For example, some neo-Marxists argue that trade between developed and developing nations siphons off resources from the poor to the rich state (see Galtung 1971). In this scenario, poor states have little power to break free from exploitative trade relations, particularly when the legacy of colonialism and neoimperialism have left poor states structurally linked to the dominant states. As noted earlier, liberals maintain that smaller states enjoy disproportionate benefits in their trading relations with large states. Whether one accepts the liberal economist or Marxist interpretation of who benefits more in relations between devel-

oping and developed states, it is clear that perceptions about the distribution of benefits might affect one's assessment of trading relations, in both theory and practice, and that perceptions seem to differ depending upon the type of trading relationship that exists. And it is perception, as well as objective reality, that creates tensions and shapes leaders' decisions to engage in conflict.

Trade Increases Conflict

A third group of theorists rejects the notion that international trade provides an impetus to peace. Although lacking a unified position, several systemic theories grounded in Marxist-Leninist or resource-scarcity perspectives predict greater conflict accompanying the expansion of trade. A similar view is expressed in the neorealist writings of Kenneth Waltz (1979), who argues that increased interdependence at the system level leads to increased conflict. His rationale, shared by critics of the contact hypothesis, is that increased contact creates potential opportunities for discord.

Within the tradition of Lenin's theory of imperialism, neo-Marxists view competition over markets and resources as an inherent feature of capitalism (Baran 1957; Sweezy 1942). This competition can easily result in violent conflict between major powers, as well as the domination of less powerful states. Lateral pressure theory also envisions conflict corresponding with shortages of resources and markets (Choucri and North 1975, 1989). Similarly, neomercantilist theories anticipate greater conflict emerging when states pursue aggressive policies for capitalist expansion under the guise of the national interest. When such behavior emerges among major powers, the result can be trade wars, investment wars, or even hegemonic wars (Sayrs 1990).

Theories maintaining that conflict is inherently related to exchange relations primarily originate as outgrowths of Marx's ([1887] 1906) notion that capitalism is exploitative in its very nature and results in conflict between classes, as well as between factions of capital. In fact, Marx favored free trade, rather than protectionism, because he felt free trade would create tensions that would accelerate the inevitable crisis and inevitable demise of capitalism (see Marx 1848). Similarly, Lenin's theory of imperialism is grounded in the aggressive nature of monopoly capitalism, whereby conflict is an integral part of capitalist expansion. Hobson rejected the notion that capitalism itself was responsible for

aggressive expansionism, arguing instead that imperialism is the result of capitalism's maladjustment ([1902] 1954).

Rosecrance (1986) provides a useful distinction between Marxist-Leninist and dependency theories in terms of their predictions about the impact of trade on international conflict. He notes that dependency theories assume a degree of collusion among developed capitalist states with conflict arising in relations between unequal partners. Lenin, however, argues that the highest stage of capitalist development—imperialism—leads to conflict among the most advanced capitalist nations as they vie for control over new markets, sources of raw materials, and scarce resources. But Rosecrance's distinction may not capture the full flavor of Lenin's theory. Lenin clearly sees capitalist states vying for control over less powerful states. In the process, capitalist states employ force to gain control over desired territories and to subjugate the inhabitants of these territories.

Although insightful, theories of imperialism and resource scarcity at the system level are less helpful in developing hypotheses at the dyadic level. Hypotheses related to imperialism may actually be more applicable to triadic-level analysis. That is, the most intense conflicts arise from capitalist competition between states vying for control over a third state. Thus, the conflicting states are not themselves interdependent, but seek to establish relations of dependence and domination with the same third party. Although not the subject of this study, theories of imperialism highlight the potential problems in assuming that the expansion of trade will always have pacifying effects on conflict. More important, if we wish to predict where conflict is most likely to occur between economic partners, two competing hypotheses emerge. Conflict between powerful nations may be the central concern, but conflict between asymmetrical partners is also likely, since powerful nations may use force or other coercive means to gain territory and markets in weaker nations or to establish and maintain relations of dependence. In general, critical theories provide a picture of trading relationships that stands in sharp contrast to the harmonious ones portrayed by liberals.

Just as theorists differ over the economic interpretations of trade's impact, scholars disagree about whether close contact through commerce or other ties is beneficial for fostering peace. As noted, Waltz (1979) maintains that increased interdependence creates more opportunities for conflict. Forbes (1997) reviews a large body of theoretical and empirical

literature relevant to the contact hypothesis (that contact has a positive effect on relations between individuals and societies, and close contact serves to break down prejudices between people and nations and to foster peaceful relations). The majority of the empirical evidence reviewed suggests that contact between individuals reduces prejudices and improves relationships, but increased contact between aggregate groups such as nations appears to be correlated with conflict. His review of contact theory highlights the need to distinguish between different types of contact. Theorists differ over which types of contact are good and which are bad for producing peaceful integration. I would argue that those situations in which actors believe they derive benefits from contact are more likely to produce desirable effects, while those in which actors believe they do not benefit are likely to increase conflict. What appears clear is that not all economic relationships, or all contacts, produce the same effect.

Trade Has an Insignificant or Counterbalancing Effect on Conflict

Realist literature suggests that the influence of trade is subordinate to other considerations in determining the incidence of international conflict (Blainey 1973; Blanchard and Ripsman 1994; Bueno de Mesquita 1981; Buzan 1984; Levy 1989; Ripsman and Blanchard 1996/97). Realist theorists have traditionally relegated economic concerns to the domain of "low politics," elevating concerns about national security to the central focus in international relations scholarship. Neoliberals argue that the traditional hierarchy of issues advanced by realist scholars is no longer viable as a framework for studying an interdependent world (Keohane and Nye 1977). Still, economic considerations remain subordinate to military concerns in realist assessments of leaders' decisions to engage in conflict. According to realist logic, trade will not create a sufficient deterrent to conflict. This does not mean that trade ties are unimportant for realists. Trade is recognized as a tool of influence. Trading relationships with states that provide strategic commodities are also valued. However, when faced with questions about whether to engage in conflict, leaders do not necessarily evaluate the potential harm that might be caused to a trading relationship.

Finally, it may be that there are enough instances in which trading relationships are conflictual and in which they are cooperative that the

two sets of cases cancel each other out. Trade may, in fact, matter in some relationships, but not in others. Trade may also contribute to conflict and to peace and do so in a manner where the examples one finds of either set of cases balance against each other. We would therefore observe a null finding—that there is no relationship, on average, between trade and conflict. The statistical result of such a situation would be akin to the conclusions made by those who say that trade is irrelevant to conflict. In the case of canceling out, trade may be very relevant, but the directional influence varies in too many instances to find one dominant pattern.

CONSOLIDATING ALTERNATIVE PROPOSITIONS

One way to reconcile the differences in the propositions advanced by alternative theoretical traditions is to consider the commonalities among various arguments. The basis of trade's pacifying effect is presumed to arise from the benefits derived from economic linkages. When such ties are believed to contribute to poverty or domestic disequilibria, the pacifying influence of trade may be neutralized. In fact, it may be reversed, whereby increased trade leads to increased conflict. Although not considered in relation to trade and conflict, Russett (1983) emphasizes the important link between poverty and conflict, and peace and prosperity. Describing the potential for violence that may result during times of economic crisis, Russett's analysis has implications for the research question at hand: for if one state perceives poverty to arise from economic relations, trading relations might become hostile; whereas when states enjoy increased prosperity from trade, trading relations might become harmonious. Similarly, Neff (1990) notes that economic nationalism tends to resurface during periods of economic recession, while free trade flourishes during periods of prosperity. In sum, beneficial trade may deter conflict, while situations characterized by disproportionate detrimental effects from trade might be associated with conflict.

Accepting the liberal premise that the gains from trade provide a disincentive to conflict, one would anticipate states refraining from engaging in conflict with their most important trading partners. While reasonable, it is apparent that the notion that trade promotes peace is only one of a number of alternative hypotheses. It is possible to envision instances in which the benefits to be gained from conflict exceed those to be gained from the preservation of the trading relationship. One can also imagine instances in

which asymmetrical dependence may give rise to conflicts or, at a minimum, fail to inhibit them. Given the aforementioned theoretical propositions, it is clear that a case can be made for the promotion of peace through trade; conflict as a product of trade; or trade having no effect on interstate conflict. Moreover, trade's impact on conflict may be contingent upon the nature of dependence in the relationship, whereby symmetrical ties may promote peace, but asymmetrical ties exacerbate conflict. This suggests that trade's impact on interstate relations is variable.

I evaluate the relative validity of each proposition relevant to the trade-conflict relationship. Several theorists offer clues about the types of trading relations that are most likely to produce mutual benefits and therefore possess the greatest potential for fostering peace. Theorists also provide clues about the conditions most likely to stimulate contempt in economic relationships, suggesting which dyads are less likely to enjoy the pacifying influence of trade.

To evaluate alternative propositions about the trade—conflict relationship, it is important to identify relationships hypothesized to promote peace. Liberals, for example, highlight the importance of extensive trade ties for reducing conflict. The balance of dependence is irrelevant to the liberal proposition that trade promotes peace. Theories critical of liberalism stress the variations that exist across economic relationships, where the symmetrical nature of dependence is an important element in assessing the consequences of trade ties. As mentioned in chapter 1, interdependence generally implies relations of mutual need and, by extension, mutual vulnerability between actors, while dependence connotes asymmetrical relations. Keohane and Nye (1977, 8–9) make a further distinction between interdependence and interconnectedness, where interconnectedness represents weak linkages among states.

Rather than thinking about the presence or absence of interdependence and dependence as a strict dichotomy, I conceptualize trade relations along a continuum, where characteristics of different types of relationships may coexist. Relations of dependence, where one state is heavily dependent on the relationship and the other lacks dependence, are generally considered in related literature to be the most conflictual (Hirschman [1945] 1980). Relations characterized by mutual need seem to entail less costly dimensions to the relationship.

It is useful to provide a graphic representation that simplifies the relationship between interdependent, dependent, and relatively independent

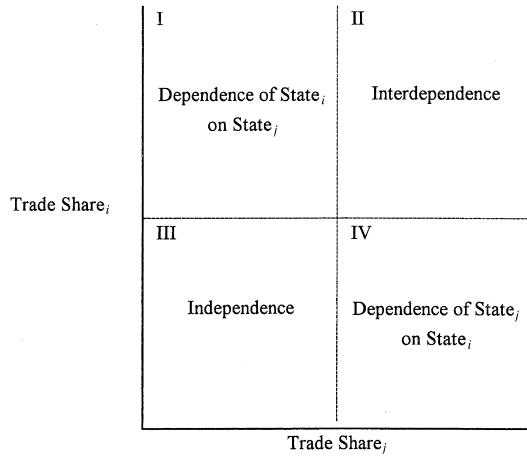


FIG. 1. Dependence and interdependence continuum

relations. Figure 1 represents a dyadic relationship, where each axis measures the trade share each state has of its partner's total trade.

Quadrants I and IV represent scenarios in which one state is disproportionately dependent upon the other partner, considered by critics of liberalism to be the most conflictual. Quadrants II and III represent conditions of mutual (symmetrical) dependence, yet in the latter case dependence is minimal. Thus, dyads falling within quadrant III have symmetrical, but not salient economic relations. To distinguish between the balance and the extent of dependence, imagine a line bisecting the origin at a 45-degree angle and extending out to the point where each state has 100 percent of its trade with one partner. The closer dyads fall to this diagonal line, the more *balanced* the relationship. For some theorists, symmetry is the most important factor for fostering peace in a relationship regardless of the extent of such ties.⁷ For other states, relations falling within lower ranges of the line (i.e., in quadrant III) lack the bonds sufficient to inhibit conflict. Taken as a whole, the various scenarios described by alternative schools of thought would suggest that relations that have both extensive and balanced trade dependence offer the greatest hope for peace (i.e., those trading relationships falling within quadrant II).

This figure is useful in considering ways in which we can capture alternative types of trading relationships. Moreover, we may do this with an eye toward considering the concerns of liberals and their critics. This will be useful when we consider how best to create measures that capture the types of relationships portrayed in alternative theoretical scenarios about the trade-conflict relationship. That will be a primary goal in the next chapter.

CONCLUSION

My review of the literature reveals highly diverse views about the impact of economic ties on interstate relations. From liberal theory, one would conclude that trade has an inverse effect on interstate conflict; the more important a trading relationship, the less likely a pair of states will be to engage in conflict. Neo-Marxist theories suggest that the impact on conflict is dependent upon the balance of dependence, where symmetry of dependence may inhibit conflict, but asymmetry may exacerbate conflict. Finally, within the realist tradition, trade relations are thought to have little influence on leaders' decisions to engage in or refrain from conflict. In the next chapter, I analyze these alternative propositions regarding the trade-conflict relationship.