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Audit of the Conventional Wisdom

The Audit of Conventional Wisdom

In this series of essays, MIT's Center for International Studies tours the horizon of conventional wisdoms that define U.S. foreign policy, and put them to the test of data and history. By subjecting particularly well-accepted ideas to close scrutiny, our aim is to re-engage policy and opinion leaders on topics that are too easily passing such scrutiny. We hope that this will lead to further debate and inquiries, with a result we can all agree on: better foreign policies that lead to a more peaceful and prosperous world. Authors in this series are available to the press and policy community. Contact: Michelle Nhuch (NHUCH@MIT.EDU, 617.253.1965)

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Pax Mercatoria: Does Economic Interdependence Bring Peace?

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Do high levels of international trade lead to peace? Norman Angell authored the best-selling book on international politics in history, arguing that economic interdependence between Germany and England made any war between the two unthinkable—an illusion. His book, *The Great Illusion*, was translated into 17 languages and sold one million copies; Angell himself won the Nobel Peace Prize.[1] Unfortunately, within a few years of publication, Britain and Germany eagerly threw themselves into the abyss of the First World War.

The analytic literature on the Commercial Peace is much less robust than scholarship on the Democratic Peace, the latter positing the improbability of war between democracies.[2] The Commercial Peace literature displays less consistency and theoretical rigor, with precise causes largely untested. Statistical analyses of trade relationships generally find that trade is conducive to peace; however, numerous case studies find that international trade either played no part in particular leaders' decisions about war or prompted them to escalate rather than become dependent on others.[3]

Nonetheless, some patterns emerge. Trade highly concentrated with a single partner correlates with conflict, as does a marked difference in states' respective dependence. At the same time, however, high levels of trade with the aggregate international market correlate with cooperation.[4] The nature of the traded goods matters—trade in commodities with substantial strategic applications (*e.g.*, oil or high-tech capital equipment) is most conducive to conflict.[5]

Most important, high levels of economic exchange act as an accelerant: extensive trade enhances *either* cooperation or conflict.[6] The implication is that specific outcomes are contingent on economic interdependence's interaction with some domestic institutional factor: states' strategic response to global market forces will vary according to their internal political-societal composition.

Economic Sectors and Foreign Policy

A growing body of research indicates that the domestic institutions and dominant sectoral coalitions of the trading nations determine the effect of economic interdependence on states' foreign policy. Put simply, international trade has distributional consequences, producing relative winners and losers in each society, affecting these groups' foreign policy preferences. When constituencies advantaged by global markets dominate the political system, national policy will favor conciliation and multilateral cooperation—including when the median voter is both politically empowered and gains from trade.

On the other hand, when groups uncompetitive in global exchanges have the power to turn their sectoral preferences into the "national interest," the state will likely pursue a foreign policy of confrontation and the unilateral quest for advantage.[7] Imperial Japan, for example, actually had a higher level of economic interdependence than did its 1920s democratic predecessor, but nonetheless embarked on aggressive imperialism.

Two other sectoral characteristics of the dominant political coalition can determine state response to economic interdependence. Sectors have different exposure to parts of the global economy: some sectors' major markets are the core countries of the world economic system (the wealthiest and most powerful states); others, however, are linked tightly to the global economic periphery (the poorer, less stable states); others still depend on the domestic market and have no interest in paying for active foreign policies of any type. Sectors reliant on the core will favor cooperation with other Great Powers to ensure continued access to these rich markets. Those tied to fixed investments or key markets in the roiling periphery will favor aggressive policies to project state power into these zones, creating spheres of influence.

Finally, sectors differ in their benefit from public expenditures on military power: some (the classic "military-industrial complex") can expect lucrative long-term contracts, while others can only expect to foot the fiscal bill.

At any given level of economic interdependence, a state dominated by political affiliates of globally uncompetitive, periphery-linked, security-spending advantaged sectors will pursue a more expansionist and confrontational policy than a state led by actors from globally competitive sectors whose markets are internal or in the core and that make minimal gains from defense spending. Wilhelmine Germany embodied the first type of state due to its notorious coalition of "Iron and Rye"—the dual dominance of the corporate chieftains of heavy industry and the agrarian Prussian officer-aristocrats.[8] A striking example of the second type of state, led by a political coalition of finance and export-oriented industry, is 1920s Japan, which embraced conciliatory multilateralism. When these sectoral differences coincide with partisan cleavages, struggles over foreign policy can hinge on fundamental strategy, as in the 1930s' debate in the United States over isolationism versus engagement.[9]

All else being equal, cooperative and multilateral security policies will likely encourage peace, while confrontational and unilateral policies are more likely to lead to conflict. Beyond this, globalization influences the ways these policies may interact in specific instances.

Many hope trade will constrain or perhaps pacify a rising China, resurgent Russia, and proliferation-minded Iran, as it well may. Nonetheless, any prudent analysis must incorporate caveats drawn from states' particular political economy of security policy. In non-democratic states, however important global markets may be

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to the economy in aggregate, elites will be most sensitive to sectoral interests of their specific power base. This mismatch can cause systematic distortions in their ability to interpret other states' strategic signals correctly when genuine conflicts of interest emerge with a nation more domestically constrained.

Leadership elites drawn from domestic-oriented, uncompetitive, or non-tradable constituencies will tend to discount deterrent signals sent by trading partners whose own domestic institutions favor those commerce-oriented interests, believing such interests make partners less likely to fulfill their threats. For example, one reason the BJP government of India decided to achieve an open nuclear weapons capability was that its small-business, domestic-oriented heart constituency was both less vulnerable to trade sanctions and less willing to believe that the US would either impose or long sustain such sanctions, given its own increased economic interests in India.[10]

Sometimes, deterrent signals may not be sent at all, since one nation's governing coalition may include commerce-dependent groups whose interests prevent state leaders from actually undertaking necessary balancing responses or issuing potent signals of resolve in the first place; the result can be fatally muddled strategy and even war—as witness the series of weak attempts before the First World War by finance-dominated Britain to deter "Iron and Rye"-dominated Germany.[11]

The emergence of truly global markets makes it all the less plausible under most circumstances that a revisionist state will be unable to find some alternative source of resources or outlet for its goods. Ironically, the more the international economy resembles a true global marketplace rather than an oligopolistic economic forum, the less likely it would appear that aggressors must inevitably suffer lasting retaliatory cut-offs in trade. There will always be someone else with the capability to buy and sell.[12]

Peaceful Relations in a Globalized World

American policymakers should beware claims of globalization's axiomatic pacifying effects. Trade creates vested interests in peace, but these interests affect policy only to the extent they wield political clout. In many of the states whose behavior we most wish to alter, such sectors—internationalist, export-oriented, reliant on global markets—lack a privileged place at the political table. Until and unless these groups gain a greater voice within their own political system, attempts to rely on the presumed constraining effects of global trade carry substantially greater risk than commonly thought.

A few examples tell much. Quasi-democratic Russia is a state whose principal exposure to global markets lies in oil, a commodity whose considerable strategic coercive power the Putin regime freely invokes. The oil sector has effectively merged with the state, making Russia's deepening ties to the global economy a would-be weapon rather than an avenue of restraint. Russian economic liberalization without political liberalization is unlikely to pay the strong cooperative dividends many expect. China will prove perhaps the ultimate test of the *Pax Mercatoria*. The increasing international Chinese presence in the oil and raw materials extraction sectors would seem to bode ill, given such sectors' consistent history elsewhere of urging state use of threats and force to secure these interests. Much will come down to the relative political influence of export-oriented sectors heavily reliant on foreign direct investment and easy access to the vast Western market versus the political power of their sectoral opposites: uncompetitive state-owned enterprises, energy and mineral complexes with important holdings in the global periphery, and a Chinese military that increasingly has become a de facto multi-sectoral economic-industrial conglomerate. Actions to bolster the former groups at the expense of the latter would be effort well spent.

At home, as even advanced sectors feel the competitive pressures of globalization, public support for internationalism and global engagement will face severe challenges. As more sectors undergo structural transformation, the natural coalitional constituency for committed global activist policy will erode; containing the gathering backlash will require considerable leadership.

Trade can indeed be a palliative; too often, however, we seem to think of economic interdependence as a panacea; the danger is that in particular instances it may prove no more than a placebo.

article footnotes

1 Peter Beinart, "An Illusion for Our Time: The False Promise of Globalization," *The New Republic*, October 20, 1997.

2 See Michael E. Brown, Sean M. Lynn-Jones, and Steven E. Miller, eds., *Debating the Democratic Peace* (Cambridge, Mass.: MIT Press, 1996).

3 Contrast John R. Oneal and Bruce Russett, "Assessing the Liberal Peace with Alternative Specifications: Trade Still Reduces Conflict," *Journal of Peace Research*, Vol. 36, No. 4 (1999), pp. 423-442, with Norrin Ripsman and Jean-Marc Blanchard, "Commercial Liberalism under Fire: Evidence from 1914 and 1936," *Security Studies*, Vol. 6, No. 2 (Winter 1996/97), pp. 4-50. Economic interdependence may stimulate other conditions conducive to international peace, such as democratization, regional trade institutions, and more frequent leadership summits. Such arguments, however, ultimately rely on other, autonomous, explanatory theories; an early analysis of the synergy is Oneal and Russett, "The Kantian Peace: The Pacific Benefits of Democracy, Interdependence, and International Organizations, 1885-1992," *World Politics* Vol. 52, No. 1 (1999), pp. 1-37.

4 Katherine Barbieri, *The Liberal Illusion: Does Trade Promote Peace?* (Ann Arbor, Mich.: University of Michigan Press, 2002) and John R. Oneal, "Measuring Interdependence and Its Pacific Benefits: A Reply to Gartzke & Li," *Journal of Peace Research*, Vol. 40, No. 6 (November 2003), pp. 721-725.

5 Han Dorussen, "Heterogeneous Trade Interests and Conflict: What You Trade Matters," *Journal of Conflict Resolution*, Vol. 50, No. 1 (2006), pp. 87-107.

6 Christopher Gelpi and Joseph M. Grieco, "Economic Interdependence, the Democratic State, and the Liberal Peace," in Edward D. Mansfield and Brian M. Pollins, eds., *Economic Interdependence and International Conflict: New Perspectives on an Enduring Debate* (Ann Arbor, Mich.: University of Michigan Press, 2003), pp. 44-59.

7 Kevin Narizny, *The Political Economy of Grand Strategy* (Ithaca, N.Y.: Cornell University Press, 2007), applies a similar model to US and British security policies from 1870 to 1939. P. R. Goldstone, *Golden Links, Iron Chains: Economic Interdependence, the Political Economy of Security Policy, and War* (Ph.D. dissertation, MIT, in progress) develops the model using US, British, German, and Japanese security policy.

8 The seminal work remains Eckart Kehr, *Battleship Building and Party Politics in Germany, 1894-1901: A Cross-Section of the Political, Social, and Ideological Preconditions of German Imperialism* (Chicago: University of Chicago Press, 1975).

9 Peter Trubowitz, *Defining the National Interest: Conflict and Change in American Foreign Policy* (Chicago: University of Chicago Press, 1998).

10 CIA India analyst, private communication with author.

11 Paul A. Papayoanou, "Interdependence, Institutions, and the Balance of Power: Britain, Germany, and World War I," *International Security*, Vol. 20, No. 4 (Spring 1996), pp. 42-76.

12 Stephen G. Brooks, "The Globalization of Production and the Changing Benefits of Conquest," *Journal of Conflict Resolution*, Vol. 43, No. 5, (1999), pp. 646-670, argues globalization ultimately makes conquered economies less exploitable. Decision-makers, however, seem to focus on the more immediate term.

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