Classics in the Economics and Security Literature:
One View of the Landscape

A Very Rough Draft Paper

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Author’s disclaimer: This is a very early draft of an old working paper I happened to have sitting on my hard drive. After speaking with Rosella, she seemed to think that it might be interesting grist for the mill for when we get together in New Orleans. It is by no means exhaustive and is only a preliminary effort to organize and categorize some of the overlapping literatures that bridge the realm of IPE and Security Studies. Although its incompleteness (and, for many in this crowd, remedial nature) makes me hesitant to share, I’ve been persuaded that the potential benefit to our collective endeavor ought to outweigh any personal embarrassment I suffer from sharing something so inchoate and self-referential. In any event, I hope it gets some fruitful conversations going.

This paper provides an overview of some of the major works that seek to bridge the subfields of international political economy and security studies in international relations. My purpose in writing it was to think synthetically about how the various mini-literatures within economics and security seemed to fit together. My secondary motivation in writing it was to help me clarify how my own research agenda fits into the existing body of scholarly work that intersects economics and security. As such, I ought to apologize in advance for the paper’s frequently annoying self-referential tone. Rest assured, these will be wrung from a final version, but I did not have the time to purge them before ISA. Lastly, being a rather old draft, it also does not include many of the more recent works in these areas. As you read, if you happen to think of pieces that ought to be referenced/discussed that are missing from this draft, please do let me know (along with any other comments and suggestions for how to improve it).

Overview of the Field & Where My Work Fits In

The literature that seeks to bridge economics and security studies is distributed in three broad topic areas as depicted in the diagram below. At the intersections of these broad topics, scholars have also produced more specialized works. The diagram’s central point of intersection identifies the body of literature that is most germane to my areas of research: namely the scholarship addressing questions about the nature, causes and exercise of international economic power.¹

¹Although my own work is most directly located at the central point of intersection, various aspects of my work broadly touch on each of these areas of inquiry. At the same time, my work seeks to address specific shortcomings of each of these families of the literature on economics and security.
The Landscape of the Economics-Security Literature

I begin this review of the literature by focusing first on the three large circles (the areas labeled: “A,” “B,” and “C”) each of which represents a broad topic concerning the relationship between economics and security. The upper left circle, which I have labeled “Economic Foundations of Military Might” encapsulates works that pertain to questions of the war-making potential of states. In the abstract,
a nation’s military capabilities are often fundamentally dependent on its economic position. This “Economic Foundations of Military Might” portion of the Venn diagram includes works that address the relationship between a country’s economic base and its international position.

The study of the economic basis of national power has roots going back to the very foundations of modern social science. Adam Smith, Alexander Hamilton and Friedrich List were each very conscious of the security ramifications of a state’s economic orientation. Each of these thinkers had a seminal point of view regarding national security and the proper role of the state vis a vis commerce. Smith articulated an elegant case for moving away from what was, at that time, the dominant model of mercantilism toward a liberal economic system in which state power is maximized by allowing free market forces to operate as extensively as possible. This minimally intrusive state is contrasted by List’s mercantilist strategy. List believed that the state should take on a central role in directing and defending the economy as part of a larger effort to ensure that economic activities maximally contributed to the state’s strategic objectives. Hamilton also believed in using economic policy as an instrument of national power and unification. His views helped define the terms of debate regarding a government’s appropriate relationship to private sector actors in matters of strategic significance. Domestic business-government dynamics continue to

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3 Edward Mead Earle is credited with bringing these thinkers to the attention of modern political science. See his Chapter 6 entitled “Adam Smith, Alexander Hamilton, Friedrich List: The Economic Foundations of Military Power,” from Edward Mead Earle, Gordon Alexander Craig, and Felix Gilbert, Makers of Modern Strategy: Military Thought from Machiavelli to Hitler (Princeton: Princeton university press, 1943) pp.117-154. Earle argues that each of these authors were quite clear in placing security concerns above mere economic opulence. Moreover each advocated a more or less nationally-serving economic strategy that was designed to enhance the security of his respective homeland: Smith—a system of free trade when Britain enjoyed a hegemonic position that outgrew more narrow colonial mercantilism; Hamilton—an infant industries argument to spur a nascent American military-industrial capability that would enable continued independence; List—a unifying system of internal free trade and external protectionism designed to bring about a greater Germany.


5 Friedrich List et al., National System of Political Economy (Philadephia: J.B. Lippincott & co., 1856)

6See, for instance, Hamilton’s “Report on Manufactures” that was submitted to Congress on December 5, 1791 in which Hamilton made the case for protecting American infant industries that had considerable implications for ongoing American efforts to maintain its independence. Alexander Hamilton and Henry Cabot Lodge, The Works of
play an important role in determining a state’s ability to use its economic power. These three classic theorists laid the epistemological foundations that future generations of scholars would build upon when exploring the relationship between international economics and security. List’s arguments in favor of economic nationalism continue to inspire notions of “state capitalism,” national champions, and other economic strategies in which the state provides a heavy guiding hand to the economy. Hamilton’s ideas of protecting strategic and infant industries helped lay the foundation for many strategic trade and protectionist-oriented perspectives. Smith, of course, became the intellectual grandfather of a liberal, free trade-oriented approach to international economic relations that argued that states will stand to benefit most when allowed to freely engage with each other under conditions of minimal political distortion.

Smith’s view is an argument that states stand to maximize their own individual welfare by engaging in unfettered commercial interaction—but what if states cared more about their relative welfare compared to other states rather than their absolute gains? Almost two hundred years later, these ideas underpinned another important body of literature located in this “Economic Foundations of Military Might” portion of the diagram. This body of literature addresses whether states are motivated by absolute or relative gains from trade. Like the works of Smith, Hamilton and List, at its core this debate lay questions about why states pursue international economic interaction. Was commerce ultimately designed to fuel national power or simply sought as a goal in itself to improve popular welfare? If states were primarily concerned with their performance vis a vis other states in the system, it was because the international environment was anarchic. Scholars like Joseph Grieco, Michael Mastanduno, and James Morrow argued that under conditions of international anarchy, military power necessarily became the final arbiter of interstate conflict and thus, states were constantly forced to consider the eventual security ramifications of economic gains. This logic resulted in an emphasis on how much a given state benefitted from economic interaction relative to other states, since economic performance would provide the foundation for military might—the “buck” ultimately stops at relative military capabilities.

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Alexander Hamilton (New York and London: G. P. Putnam's sons, 1904) Vol. IV pp. 70-198. Hamilton’s policies on public debt, the national bank, munitions production, the US Navy, and his military policies all point to his “jealous regard for the political and economic power of the nation.” From Earle, Craig, and Gilbert, Makers of Modern Strategy: Military Thought from Machiavelli to Hitler, p.130


8 The logic of this position locates the relative gains debate literature squarely in this portion of the Venn diagram.
On the opposite side of this debate were scholars like Duncan Snidal, John Ruggie, and Arthur Stein who believed that states, in fact, were concerned with the absolute gains that accrue from economic interaction. Drawing on the assumptions of economics in which actors are motivated by maximizing their own benefits, these scholars downplayed the intrinsic connection between economic gains and a nation’s international competitive position. According to the absolute gains view, states were primarily concerned with gaining wealth as an end in itself (to make their domestic populations better off, to become economically more advanced, etc.). The logic of this position implies that all states would want to cooperate and engage in mutually-beneficial economic interaction as long as that interaction made them better off than they would be without it. Yet, many of these scholars found empirically that international economic cooperation is by no means automatic—rather states need to overcome certain intrinsic characteristics of international relations that make economic interaction between states difficult. The prominent group espousing this position came to be known as the neoliberal institutionalists. Much of the neoliberal institutionalist works focused on how states solved cooperation and cheating problems endemic to what is essentially a positive-sum pursuit of wealth.9

This neoliberal institutionalist assumption of absolute gains was challenged most prominently by Joseph Grieco who argued that gains among competitive states are relative rather than absolute. He contended that states are more concerned about how much they are benefiting relative to other states and that states’ considerations of their absolute gains alone will not be enough to determine whether they cooperate or not.10 In other words, states are not just concerned with how well off they become as a result


of economic interaction, but rather place considerable weight on how well off other states are doing in relative terms.

The relative versus absolute gains debate was somewhat artificial since the empirical reality is that states often pursue both relative and absolute gains (just as Carr and Viner had put forward a generation earlier, states often pursue both power and wealth). What is still missing from this field is a theory that tells us about how states think about an integrated strategy that seeks to maximize both “power” and “plenty.” This is one of the gaps in the literature that my work on the role of economics in grand strategy seeks to address.

A third group of scholars working on the topic of “Economic Foundations of Military Might” have been concerned with the measurement of national economic standing as part of an effort to measure the relative strength of “great powers.” Such works often focus on long-run economic developments, natural resource endowments, improvements in factor productivity, etc. They tend to emphasize the fundamental economic building blocks of military power. A good deal of this literature is concerned with questions of international power dynamics and how macro-economic factors may serve as leading indicators of future military might. Although these works tend to be empirically detailed, they often

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neglect to give sufficient attention to the idiosyncratic characteristics of a given national economy that may make specific conversion of economic potential into actual military power more or less efficient; in other words, the effective conversion exchange rate between economic and military power. For instance, a largely agrarian economy may be considerably less efficient at converting its economic capabilities into military might than a say an industrial economy; even if both countries have the same size GDP. As we will see below, these types of questions are treated directly in the literature on mobilization. This mobilization literature is really a subset of both the literature on economic foundations of military might (discussed above) and the body of scholarship that addresses topics related to the domestic political economy of defense—to which we now turn.

If the scholarship located in first large circle focused outward on international military capabilities and the economic dynamics that underpinned military might, the second major family of literature focuses inward and examines questions involving the domestic political economy of defense. Such works focus on explaining economic outcomes in the defense arena like procurement decisions, bureaucratic politics, the dynamics of the military-industrial complex, and budgetary analysis. Scholarship on these topics frequently addresses issues relating to the interaction between business sector actors and the government. This focus on commercial actors deserves to be highlighted. The important questions surrounding the role of commercial actors are often neglected in other analytical perspectives on the exercise of international economic power that treat the state as the exclusive unit of analysis. Indeed, works in the “Political Economy of Defense” arena seem to suggest that a deeper examination of the domestic business-government bargaining dynamics may yield important insights regarding the ability of the state to realize its strategic objectives through the use of its economic power. In particular, I believe a principal-agent approach provides useful leverage for understanding these types of business-government interactions.

The last large circle (labeled “C”) encompasses works whose primary concern is the effect of economics on the likelihood of conflict. Whereas the works related to the political economy of defense

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14 For a typical example of this literature see Solomon W. Polachek, “Conflict and Trade,” *Journal of Conflict Resolution*, vol. 24, no. 1, March, 1980 pp. 57-78. Other works include: William K. Domke, *War and the Changing Global System* (New Haven: Yale University Press 1988); Mark Gasiorowski, ‘Economic Interdependence and
tend to be domestically-oriented, scholarship in this third large circle tends to focus on interstate
dynamics and the extent to which economic relations may be related to conflict. Many of the scholars
that are currently doing work at the intersection of economics and security studies today focus their
efforts on the relationship between economic interaction and the likelihood of war (or peace). Being
mainly concerned with the relationship between economics and conflict, almost all of this literature is
largely outside the scope of my areas of research. That said, this corner of the international relations
literature does occasionally touch on areas that are germane to my focus on how states use economic
power. For example, when states seek to use economics as an alternative lever of power (thus avoiding
military conflict), they are engaging in behavior that is of interest to my work.\textsuperscript{15} Specifically, some
strands of the economics and conflict literature argue that economic developments in the international
system have mitigated the likelihood of conflict. For instance, Richard Rosecrance contends that trade is
simply a more efficient mechanism than military conquest for acquiring material benefits like new
markets and cheaper resources. Rosecrance added that as trade in the international open system became
more and more widespread, war has become an increasingly costly method for pursuing national
interests.\textsuperscript{16} Stephen Brooks also attempted to highlight the role of multinational corporations and the
impact of globalization on "the changing calculus of conflict" in his 2005 \textit{Producing Security}.\textsuperscript{17} Brooks
argues that globalization--specifically the disaggregated supply chains that characterize production
networks--has made conflict less likely. However, I would argue that globalization is not necessarily
predisposed to be an unqualified force for peace, rather globalized economic interaction merely provides
an alternative channel of international power projection. The activities of multinational corporations can
be used by states to further their strategic objectives. Others on the topic of globalization and its impact
on conflict like Carl Kaysen and John Mueller also explore the use of economics as an alternative to

\textsuperscript{15} As mentioned below, works located in this area of the Economics and Conflict literature would be reflected in the
section of the diagram labeled "G."
\textsuperscript{16} See Richard Rosecrance, \textit{The Rise of the trading State: Commerce and Conquest in the Modern World} (New
\textsuperscript{17} Stephen G. Brooks, \textit{Producing Security: Multinational Corporations, Globalization, and the Changing Calculus of Conflict}
military power. One need not agree that economic conflict has superseded military conflict as the dominant means of international competition or that a high degree of economic interaction has made war obsolete to recognize that states have a range of tools for pursuing their strategic interests. Economic levers of power are certainly one of those. Understanding exactly how such levers of power are exercised is a key element of this literature that deserves deeper exploration.

It should be noted that such works that explore economics as an alternative tool of national power are not the norm in this family of literature. Indeed, most work located in this prolific literature on economics and conflict takes economic interaction as being exogenous and focuses its attention on the statistical correlation between economic interaction (or lack thereof) and the onset of war. Broadly speaking, this literature can be organized into four causal arguments: 1.) “Economic interaction causes peace,” 2.) “Economic interaction does not cause peace,” 3.) “Economic interaction does not cause war,” and 4.) “Economic interaction causes war.”

On this first proposition—that economics causes peace—there exist a number of different rationales of why economics might bring about peace. The most common variant of why trade fosters peace is that states are unwilling to jeopardize the stable benefits they enjoy from continued economic interaction. Conflict would run the risk of destroying the economic links that are beneficial—and in some cases, crucial—to the nation’s continued progress and prosperity. Most variants of this theory trace their roots to Cobden.

He argued that trade promoted peace by fostering economic dependence between nations. States would then come to realize that their own continued prosperity depended on the well-being of their trading partners and the continued maintenance of strong economic links between them. Norman Angell carried Cobden’s theory into the modern era and argued that the use of military means...
will not improve the conqueror’s wealth.\textsuperscript{21} As such, conquest had been replaced as a mechanism for wealth-building by the more efficient wealth-building tools of international economic trading ties.

Solomon Polachek is generally credited with formalizing this view.\textsuperscript{22} Polachek’s work touched off a vigorous debate that continues today. Polachek’s utility model posits that the primary cost of conflict is the lost potential welfare gains from trade.\textsuperscript{23} If the system is peaceful and trade is flourishing, Polachek concludes, all countries will be benefiting and none will have the incentive to jeopardize the system by initiating conflict. He later elaborated this point and demonstrated that even if a complete severing of trade relations did not result, conflict would lead to less favorable terms of trade. In his 1992 article, Polachek showed that the more interdependent two countries are, the less likely they are to fight each other.\textsuperscript{24} Unfortunately, Polachek does not control for other causes of war in his models. Some of these strategic factors may account for his results. Oneal & Russett did include controls for geographic contiguity, relative economic growth, each of the dyad’s members’ relative military capabilities, and whether they were allies.\textsuperscript{25} Dale Copeland and Paul Papayaonou produced some of the most thought-provoking work to grow out of the Polachek scholarship. Copeland developed a theory that stresses the actor’s perceptions of future likelihood of free trade.\textsuperscript{26} Copeland’s synthesis incorporates elements of both liberal and realist views producing a more compelling theory than most of the work in this area. Papayaonou posited that concern for jeopardizing economic benefits would manifest itself differently depending on the nature of domestic institutions.\textsuperscript{27} Papayaonou’s work extends Arad and Hirsch who

\begin{thebibliography}{99}
\bibitem{21} Norman Angell, \textit{The Great Illusion} (New York: G. P. Putnam’s Sons 1908—reprinted 1933).
\bibitem{23} Solomon W. Polachek, “Conflict and Trade,” \textit{Journal of Conflict Resolution}, vol. 24, no. 1, March, 1980 pp. 57-78. Polachek is often considered to be the seminal formal work on this perspective.
\bibitem{24} Solomon W. Polachek and Judith McDonald, “Strategic trade and the Incentive for Cooperation,” in Manas Chatterji & Linda Forcey (eds.) \textit{Disarmament, Economic Conversion and Peace Management} (New York: Prager 1992) pp. 273-284. This work examined the actor’s elasticity of import demand and export supply toward the target country and found that the more inelastic this demand and supply was—i.e. the less easily the country could switch to substitute goods—the less likely the country would become involved in conflict with the target country.
\bibitem{27} See Paul A. Papayaonou “Interdependence, Institutions and the Balance of Power,” \textit{International Security}, vol. 20, no. 4, 1996 pp. 42-76. For additional historical evidence that includes the turn of the century Franco-Russian alliance, Pre-WWI and Pre-WWII decision-making and early cold war economic containment strategy, see Paul A.
examined the effect of trade on domestic economic actors and concluded that enhanced trade generated incentives for consumers, producers, exporters and importers to lobby for continuation and expansion of healthy trading relationships. Using a similar line of reasoning, functionalists like Haas, Deutsch and Mitrany also claim that economic interaction causes peace. This school of thought claims that economic interaction causes additional economic and non-economic linkages to form between societies. For these theorists, economic interaction promotes better communication, reduced misunderstanding through greater cultural familiarity and fosters institutions that help diffuse conflicts before they can escalate. Patrick McDonald focused his domestic-oriented rationale for how economics causes peace on the proliferation of a particular institution: private property rights. Each of these theorists struggle with understanding the causal mechanisms that are operating to generate the outcomes they observe. However, statistical correlation is a notoriously difficult tool to use to establish specific causality. For understanding exactly how economic interaction generates externalities related to a nation’s security, I would suggest that we need to look at in-depth case studies that reveal causal relationships between a given type of economic interaction and the security effects of that interaction.

The second causal argument of this literature—that economics does not cause peace—grew up mainly in opposition to the affirmative positions just discussed. For the most part, theories in this category tend to stop short of claiming that economic relationships necessarily result in war. Rather, these authors argue that economic interaction tends to sow the seeds for conflict more than economic interaction tends to bolster peace. Since these theories offer more mitigated support for the answer that economic interaction causes war, I have categorized them as ‘not causing peace’ rather than ‘causing war per se.’ Because of its historical breadth, one of the more interesting theories in this area is put forward by Katherine Barbieri. Barbieri examined an extensive set of state dyads dating from 1870-1938, finding...
“little empirical support for the liberal proposition that trade provides a path to interstate peace.”\(^{33}\)

Instead, she found that increased trade interaction frequently corresponded with militarized conflict. To explain why increasing economic links tend to foster conflict, she speculates that the benefits of trade may be subject to diminishing returns while the costs or risks associated with increased economic links may grow exponentially as countries become more and more dependent.

As Hirschman illustrates, this sort of dependency can be leveraged to impose political control over the dominated states. This sort of policy was Germany’s strategy toward the states of Eastern Europe. In his 1945 work, Hirschman documented how Germany developed a conscious national strategy for making the states of Eastern Europe economically dependent on Germany. The intention was to have Germany manipulate this dependence to force political and further economic concessions from the dependent states.\(^{34}\) Carried to its logical extension, such dependence can create tensions between the trading partners when the target state perceives the dependency as threatening its sovereignty.\(^{35}\)

The third proposition—that economics does not cause war—is largely a group of authors that argue against the significance of economic interaction as a cause of conflict. In this category are those theorists who contend any independent impact that trade may have on the likelihood of war is overshadowed by more germane strategic factors that account for why a state becomes involved in a war.\(^{36}\) Neorealists generally relegate economic interaction to the status of “low politics” and are skeptical that any economic considerations might play a significant role in determining whether a state decides to go to war.\(^{37}\) However, classical realists do tend to allow for trade to be used as a tool for the state to exercise its influence and extend its power.\(^{38}\) In this perspective, trade is seen as largely instrumental and subservient to the larger pursuit of power. It is to be preserved only as long as it increases a country’s power position but if war is a more effective method for increasing that country’s position then war ought to be pursued. Authors like the classical realists who largely argue for the primacy of non-economic causes as the root of war, also nonetheless recognize that economic interaction can be usefully used by


\(^{35}\) See Hirschman above. For more on the costs associated with any sort of economic relationship, see Cooper above.


states in their pursuit of strategic goals. This group of theorists may be summarized as believing that strategic interests are the primary cause of war and that economic interests will be sacrificed to security interests if a serious conflict should develop. While this group of theorists may be correct in asserting the ultimate primacy of a state’s strategic interests, this position begs the question of how states may nonetheless pursue their interests through economic rather than military means. Precisely how states exercise such power in a contemporary international environment deserves to be better understood.

The final causal argument in this economics and conflict body of literature states that economic interaction is a cause of war rather than peace. This theoretical perspective traces its roots to Rousseau who argued that “interdependence breeds not accommodation and harmony, but suspicion and incompatibility.” Rousseau believed that interaction generated inequality and made states conscious of that inequality and that, in turn, bred discontent and insecurity both of which fostered conflict. For Rousseau, greater economic interaction simply offers more opportunity for conflicts to arise. Later authors elaborated on Rousseau’s theoretical proposition by seeking to identify specific mechanisms and proximate economic causes for conflict.

In fact, as it often the case with cumulative bodies of scholarship that build on earlier works, the search for specifying economic causes of conflict has produced a distinct subset of the economics and security literature: those works that address strategic goods and issues of sensitive trade. This subset of the literature deals with the economic activity related to resources, technologies, knowledge or other assets that carry significant implications for a nation’s military power. These works both borrow from and trace their intellectual heritage to the conceptual overlap between the literature on economics and conflict and the literature on the economic foundations of military might. Bridging families of work (like the “Strategic Goods and Sensitive Trade” literature) are subsets of the three large families of literature on economics and security that have been discussed up to this point. As such, they are situated at the areas of overlap between the three large circles on the diagram.

42 For example, the “Strategic Goods and Sensitive Trade” literature portion of the diagram shaded with green wavy lines (labeled “D”) is formed at the juncture of the “Economic Foundations of Military Might” and the “Economics & the Likelihood of Conflict” circles. This area of intersection reflects the intellectual overlap that is inherent in the strategic trade literature. Trade in strategic goods or sensitive technologies is a form of economic interaction that often directly carries implications for a nation’s military capabilities. At the same time, competition over strategic natural resources or vital supplies may constitute a cause of conflict.
Anne Uchitel provides a good illustration of this sort of “bridging” work. Her argument that the nature of certain assets makes them more or less strategically significant places her squarely into the “Strategic Goods & Sensitive Trade” literature—labeled “D” in the diagram. At the same time, she argues that economic interaction (specifically transactions in, or competitions for, such goods) may be a cause of war rather than peace. She contends that countries that are dependent on imports of strategic goods will be forced to “adopt expansionist policies and offensive military strategies.” For Uchitel, it is not so much the need for markets as the need for a reliable supply of strategic material that is likely to cause a state to go to war. Framed in this light, her work may be thought of as reflective of the economics and conflict literature. At the same time, Uchitel is implicitly noting that states require certain critical goods if they are to be able to develop military capabilities—an important theme in the economic foundations of military might family of literature. For these reasons, Uchitel and the rest of the “Strategic Goods and Sensitive Trade” literature may be conceptually located at the intersection of the “Economic Foundations of Military Might” literature and the “Economics and Conflict” literatures.

Although there was a considerable amount of scholarly work done on “strategic trade” in the 1980s, much of what constituted this “strategic trade literature,” (despite its name) had very little to do with grand strategy. Rather, such works typically focused instead on the relative merits of protectionism. A refreshing exception is Marc Busch’s, Trade Warriors: States, Firms, and Strategic Policy in High Technology, which provides useful insight about how well states can internalize and capitalize on the

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43 Uchitel’s emphasis on the nature of the goods being traded is an interesting insight and deserves to receive additional attention.
44 See Anne Uchitel’s chapter, “Interdependence and Instability,” in Jack Snyder and Robert Jervis (eds.), Coping with Complexity in the International System (Boulder: Westview Press 1993). Quote is from p. 243. She presents Nazi Germany, Imperial Japan, and Great Britain in the interwar period as evidence of her theory. Whereas Germany and Japan had to adopt offensive strategies to secure their strategic materials, Great Britain could afford to rely on a more defensive strategy that ensured its continued access to colonial supplies.
45 A typical example of such work is Paul R. Krugman, Strategic Trade Policy and the New International Economics (Cambridge, Mass.: MIT Press, 1986). Although this edited volume does a fine job presenting various perspectives on “strategic trade,” there is very little discussion of grand strategy and the role of economics in pursuing national strategic interests. For the most part, these are treated as exogenous factors. For instance, James Brander’s chapter provides a seminal essay in favor of strategic trade. His case is one made explicitly on exclusively economic grounds. See James A. Brander’s Chapter 2 “Rationales for Strategic Trade and Industrial Policy,” in ibid. pp. 23-46. “This paper is concerned exclusively with the economic rationale for certain trade policies; economic objectives are the only objectives considered. This is not to deny that there are legitimate noneconomic grounds for trade policy. Export subsidies, for example, might well have a role in helping to provide key exports to countries with friendly governents, whereas export restraints might be used to inhibit technology transfer to unfriendly countries. Such policies are undoubtedly important, but they are not taken up here.” ibid. p. 24. Unfortunately, such sentiments reflect the relatively narrowly economic scope that colors much of the strategic trade literature.
beneficial externalities associated with particular patterns of trade.\textsuperscript{46} Unfortunately, even his work largely neglects questions of grand strategy and the various techniques and tools that states use to manipulate their commercial actors. In fact, remarkably little empirical work has been done that explicitly examines the specific causal mechanisms by which countries use economic interaction to further their larger strategic goals.\textsuperscript{47}

In his work on strategic goods Robert Gilpin pointed out that economic nationalists fear interdependence because it is likely to lead to greater uncertainty about the continued supply of strategic goods which would then be a cause for insecurity that would increase the likelihood that conflict would result.\textsuperscript{48} Although Gilpin posits the more traditional causality: that countries may directly clash with other countries in a competition to secure strategic goods, he and Uchitel share a common view that economic interaction need not necessarily always lead to peace. In fact, in areas of strategic significance, economic interaction (whether trade or investment) is often fraught with national security complications.

The competitive dynamics that are an undercurrent in Gilpin’s “economic nationalism” logic also seem to underpin the causal links between economic interaction and conflict for the “Leninist Imperialism” literature. However, both Gilpin and Uchitel offer a rationale that differs substantially from the well-known Marxist-Leninist views of capitalist imperialism that believe states compete for access to ever decreasing new markets.\textsuperscript{49} Such competition sows the seeds for eventual imperialism and military conflict as states intervene on behalf of their commercial interests.\textsuperscript{50}

Just as the “Strategic Goods & Sensitive Trade” literature can be thought of as a subset of the “Economics and War” literature that argues that economics may be a cause of war, so too can we

\textsuperscript{47} Many strategically-focused works have often neglected the role of commercial actors, while works that examine commercial actors tend not to consider their behavior in a strategic international context. See: Karen M. Sutter, "Business Dynamism Across the Taiwan Strait," \textit{Asian Survey} 42, no. 3 (May/Jun, 2002), 522. A notable exception is \textit{Rich Nation, Strong Army} (Ithaca: Cornell University Press, 1996) in which Richard Samuels outlines how Japan has pursued technological advancement to further its national interest.
\textsuperscript{49} Vladimir Ilyich Lenin, \textit{Imperialism, the Highest Stage of Capitalism} (New York: International publishers, 1933).
\textsuperscript{50} Choucri & North offer a related logic of how trade causes war with a greater emphasis on the Malthusian (rather than class) impetus. See Nazli Choucri & Robert C. North, “Lateral Pressure in International Relations: Concept and Theory,” in Manus I. Midlarsky (ed.), \textit{Handbook of War Studies} (Boston: Unwin Hyman 1989) pp. 289-326. In their view, the finite resources available make states increasingly competitive in their drive to secure access to cheap resources. As trade expands, greater and greater amounts of resources must be found to fuel growing populations. These pressures cause states to go to war to guarantee their access to resources.
conceive of the “Leninist Imperialism” literature (labeled “F” in the diagram) as another argument of how economics may cause war rather than peace. Due to its emphasis on conflict, the “Leninist Imperialism” literature may be categorized as a subset of the larger “Economics and Conflict” literature. Whereas the “Strategic Goods & Sensitive Trade” literature drew on elements of both the “Economic Foundations of Military Might” and the “Economics & the Likelihood of Conflict” literatures, theories of Leninist imperialism combine domestically-oriented political economy aspects found in the “Political Economy of Defense” literature with the internationally-oriented interstate dynamics characteristic of “Economics & the Likelihood of Conflict” literature.

Theories of Leninist imperialism frequently point to capitalist expansionary tendencies as a root cause of war. This literature often argues that commercial (capitalist) actors enjoy such extreme levels of agency that they influence and even direct the behavior of the state.\(^{51}\) Much of this literature argues that commercial actors must be the unit of analysis since the state is little more than a puppet of the capitalist class that is constantly searching for new markets. This quest often places states in conflict with other states who are competing for the same markets and/or resources. While this focus on the commercial actor is a helpful contribution to scholarship on economics and security, the majority of this literature overstates the agency that commercial actors enjoy in foreign policy. In addition, a considerable portion of this literature is prone to conspiratorial biases that undermine the reliability of its findings.

If the Leninist imperialism literature views commercial actors as using states to pursue their capitalist interests, the literature on economic mobilization flips this causality and examines states’ efforts to harness the capabilities of commercial actors and direct those efforts toward war. This “Mobilization and Wartime Economics” literature lies at the intersection of a country’s domestic political economy and its latent economic power base (labeled “E” in the diagram).\(^{52}\) It focuses on a narrow subset of the more general defense problems of organization and structural architecture found in the political economy of


\(^{52}\) This body of literature is indicated by the red, brick-like pattern reflecting the overlap between the “Economic Foundations of Military Might” and the “Political Economy of Defense” circles.
defense literature. The mobilization literature can also be considered a specific component of the “Economic Foundations of Military Might” literature since the “Mobilization and Wartime Economics” literature explicitly concerns itself with how those basic economic building blocks are actually translated into war fighting capabilities (usually under wartime conditions). Such works are concerned with the process of wartime industrial mobilization—or how states practically convert their potential war fighting capability into actual military power.53

The works found in both the “Economic Foundations of Military Might” and “Mobilization and Wartime Economics” segments have been primarily concerned with understanding phenomena related to an economy’s ability to fuel a country’s military power. Although useful for calling attention to the economic dimension of national power, these literatures tend to omit the non-military applications of economic power that can be just as important in realizing a country’s strategic objectives. In other words, issues surrounding a country’s application of its direct economic power (rather than having to convert it to military power first) are largely unaddressed in this area of the literature.54 Developing a better understanding of how states go about such exercising of direct economic power is a key contribution of my first book (forthcoming, Cornell UP).

Up to this point, we have discussed the three large families of literature pertaining to the relationship between economics and security; namely: A.) the economic foundations of a nation’s outward-oriented military might, B.) the inward-oriented questions of domestic political economy of defense, and C.) the inter-state dynamics that involve economics and conflict. We have also adjusted our aperture and explored the three bodies of what I have called “bridging scholarship” that conceptually

54 The area that has given more attention to international economic power is that literature found at the heart of the diagram—namely the literature on the nature, causes and use of international economic power. This literature is the focus of the next section.
emanate from the areas of overlap between these three families; namely: D.) strategic goods and sensitive trade, E.) mobilization and wartime economics and F.) Leninist imperialism.

In the literature review thus far, I have cast the net wide and offered a (necessarily shallow) tour of the full range of the bodies of literature that seek to address aspects of the relationship between economics and national security. This effort was partly to situate my own work in the context of the larger bodies of economics and security literature. I have borrowed from and been inspired by various elements found across these literatures. At the same time, my critiques of these efforts, my perceptions of gaps and overlaps in the literatures as well as areas of their underdevelopment have helped guide the focus of my own research agenda.

Although aspects of each of these six bodies of literature speak to my research focus, none are as directly germane as the body of literature found at the core of the diagram in the region labeled “G.” This body of literature specifically seeks to explore the nature, causes and exercise of international economic power. This literature is located at the center of the Venn diagram, reflecting the intellectual intersection of a part of each of the literatures discussed above. Questions relating to international economic power synthesize elements of a nation’s economic foundation, its domestic strategic political economy and the competitive struggle for power in the international arena. In addition, the best work examining the nature, causes and exercise of international economic power often incorporate both elements of the principal-agent dynamics that lay at the heart of the mobilization and Leninist literatures as well as the consideration of security externalities that drive much of the strategic goods literature. My own work seeks to extend the literature at the intersection of these intellectual currents. Let us therefore turn to the extant scholarship found at this core: the literature on “Economic Statecraft.”

**Evolution of the Study of Economic Statecraft**

A good deal of the scholarship from the World War II era that laid the foundations for modern political science also recognized the importance of understanding the relationship between economics and security. One of the best known, early efforts to examine how states could use their economic relations to pursue security goals is Albert Hirschman’s study of Germany’s trade relations with its weaker Eastern

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55 Much of the mobilization and political economy of defense works discussed above date to the World War II or to the post-War era.
European neighbors. Hirschman depicted the German state policies designed to establish, deepen and exploit asymmetric structural economic dependence on the part of Eastern European states on Germany before World War II. By the time that Hirschman wrote his well-known book, Herbert Feis had already discussed how pre-World War I powers used investment and finance to facilitate their own security policies. Both of these works helped to frame how states could use various types of economic interaction to pursue their strategic goals. Eugene Staley premised his 1935 work, *War and the Private Investor*, on the notion that the economic behavior of private sector actors cannot be fully understood without also considering the political and military contexts that frequently influenced ultimate economic outcomes. His work drove home the importance of considering the commercial actors when examining how states wield their international economic power. In particular, Staley’s framing of his cases reflected the heart of the principal-agent challenge inherent in economic statecraft: namely whether the commercial actor or the state is ultimately driving the strategic outcome. The classical realist E.H. Carr also made a seminal contribution to our understanding of economic power when he stated that “the military and economic weapons are merely different instruments of power.” This critical insight provides the basis for my assumptions that economic power may be studied in much the same way that the field of security studies examines the nature and application of military power. Jacob Viner elaborated on the relationship between wealth and power in his 1948 piece, “Power Versus Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries.” Viner argued that wealth and power are not mutually exclusive goals for states to pursue. Rather, Viner believed that power is complementary to wealth and vice versa. While I do not directly disagree with Viner, I offer a slightly different approach more in line with Carr’s perspective. I would argue that the pursuit of wealth is really little more than the national pursuit of power by other means.

58 Eugene Staley, *War and the Private Investor; a Study in the Relations of International Politics and International Private Investment* (Garden City, N.Y.: Doubleday, Doran & Co., inc., 1935). This work was an early attempt to systematically examine cases in which commercial actors behaved in ways that were conducive to states’ strategic objectives. Staley was also keen to note that his research often found governments doing the bidding of their commercial actors as well.
59 Carr, *The Twenty Years’ Crisis, 1919-1939; an Introduction to the Study of International Relations*, pp. 117-120.
60 See Jacob Viner, “Power Versus Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries” *World Politics*, 1,1 pp.1-29. Viner examines evidence primarily from British and French Mercantilists showing that rather than claim power is more important than wealth, states sought both.
Although some of these early works in the field of economics and security examined ways states may seek to further their strategic goals through private sector or quasi-private sector actors, most of this literature is largely framed in mercantilistic terms that do not account for the complex relations between the state and the firm in a more modern, liberalized economic context. Although the broad, general concepts pertaining to the role of the state in managing its economic affairs may still provide insightful conceptual leverage, much of the specific empirical relevance of these early works are naturally rather limited in a contemporary Twenty-First Century context.

Later works did seek to explore how states could use economic power to achieve their interests in a more modern, globalized and interdependent environment. Authors in this spirit include Klaus Knorr, Robert Gilpin, Robert O. Keohane, and Joseph S. Nye whose work on the nature and exercise of modern transnational economic power was both insightful and path breaking. Knorr’s work carried Carr’s initial insight—that economic power and military power are merely two sides of the same coin—into a more modern multinational context. Knorr sought to provide a theoretical framework for understanding how modern states harness, aggregate and utilize the economic tool in international relations. Knorr applied economic concepts and principles to parse out the nature, mechanics and consequences of economic power. In many respects, my work is an extension of Knorr’s efforts to analyze the economic dimensions of the strategic international power dynamics between states in the international system. Although Knorr provided an intriguing foundation for the study of economic power, his enumeration of the various uses of economic leverage lacked a unifying logic as well as a mutually exclusive and collectively exhaustive categorization. By building a framework based on understanding the relationship between economics and security to be one of “security externalities,” I bring a unifying conceptual organization to many of the “uses” of economic power that Knorr first itemized.

While Knorr’s work is an important contribution, he focused on the macro-level strategic aspects of economic power: “Our focus on government policy excludes from major consideration those kinds of

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61 See especially Staley’s War and the Private Investor and Hirschman p. 170.
international relations that occur between private groups and individuals across national boundaries.\(^{64}\) As a result, he was not able to fully explore the tactical dimensions of the actual exercise of economic power. One area in particular that seems to be lacking in Knorr’s work is the role of commercial actors.\(^{65}\) Even though “many of these interactions are fostered by governments (e.g., international trade conducted by private business), and their regulation often raises issues of foreign policy” Knorr was not able to go into any significant level of detail regarding the operational role of commercial actors in the exercise of economic statecraft.\(^{66}\) By developing a commercial actor-based approach to economic power, I extend some of Knorr’s principles and examine how they actually play out in modern practice.

Other important authors that contributed to the development of this economic power literature, while providing important theoretical insights, likewise tended to lose sight of the commercial actors. Susan Strange made a significant contribution with her depiction of the structural dimension of economic power.\(^{67}\) Although mainly concerned with national macroeconomic goals, Richard Cooper was among the first to elucidate the constraining nature of modern interdependence on states’ use of economic tools to achieve their objectives in the international system.\(^{68}\) Keohane and Nye explicitly sought to examine the various ways in which states were made vulnerable to economic pressures from other states in this interdependent world.\(^{69}\) Their notions of asymmetry and dependence exploitation inform many of the concepts and ideas put forward in my work. Although these works blazed important new paths in the study of international economic power, they often sacrificed specificity in their efforts to build a general theoretical foundation for the exercise of economic power.

One portion of the literature that has sought to lend precision to the discussion of the tools of economic statecraft is the literature on sanctions. Unfortunately, much of this prolific body of literature

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\(^{66}\) *ibid.* p. 28.

\(^{67}\) Susan Strange, *States and Markets* (London: Pinter Publishers, 1988). Although the systemic architectural designs of the international regime do clearly confer a significant source of power to the hegemon, like other works in the hegemonic theory literature, Strange’s focus on the third level of analysis prevents her from directly engaging the role of commercial actors. Cheryl Christensen also discusses the importance of structural power in the context of economics and security in her Chapter 5 “Structural Power and National Security,” in Knorr and Trager, *Economic Issues and National Security*, pp. 127-159.


focuses rather narrowly on the effectiveness of sanctions. The quantitative nature of much of this work makes it difficult to gain insight into the actual causal mechanisms behind states’ use of economics in pursuit of their objectives. Like the economics and conflict literature discussed above, the quantitative approach used by a good deal of the sanctions literature precludes a deep exploration of the causal logics underpinning the contending schools of thought. In addition, as is often the case in social science research, much of this work tends to focus rather narrowly on a phenomenon that is relatively easily measured, namely sanctions imposed by states or other intergovernmental bodies. By not paying sufficient attention to other (albeit perhaps less easily measured) causal mechanisms, this narrow approach focused on sanctions may be missing a wide range of security consequences associated with various other more subtle mechanisms of economic statecraft like foreign aid policy. Finally, almost all of these works have been limited to trade sanctions—thus missing the empirical richness of the full panoply of economic interaction and the security externalities related to non-trade based economic interaction like financial and monetary relations.

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David Baldwin’s *Economic Statecraft* is one of the best efforts to provide order to the myriad tools states could call upon to achieve their national interests.\(^{72}\) Baldwin’s work made a number of important contributions that I seek to build upon. Like Baldwin, my work also builds on Lasswell’s four-part classification scheme of national power\(^ {73}\) in seeking to develop and expound the economic set of tools available to states to pursue their national objectives. I also share Baldwin’s assumption that “foreign policy is generally viewed as purposive behavior, i.e., activity oriented toward some end, goal, objective, or aim.”\(^ {74}\) Baldwin also seeks to illuminate both “positive” and “negative” consequences from economic statecraft—he points out that scholarship on economic statecraft often fails to adequately appreciate the strategically beneficial aspects of economic interaction.

One area of Baldwin’s work that I seek to improve on is his definition of “economic statecraft.” In particular, Baldwin’s concept is poorly specified to develop a deeper understanding of how states actually exercise their economic power. Baldwin focuses his scholarship on the phenomenon of “economic statecraft” which he defines as “influence attempts relying primarily on resources that have a reasonable semblance of a market price in terms of money.”\(^ {75}\) Essentially, Baldwin’s definition begins by saying that *statecraft* defines the range of tools, policies, etc. that a state has at its disposal to pursue its interests in the international system.\(^ {76}\) This definition is straightforward. He goes on to define *economic* as those transactions, goods, etc. which can be measured and priced in terms of money.\(^ {77}\) This logic leads Baldwin to conclude that *economic statecraft* defines the activities, policies, etc. of a state that rely on resources that have a price tag. His purpose in constructing such a definition seems to be to emphasize that the term “economic” merely defines the means employed (rather than the end-state goals that are sought—which may be purely political). I do agree with this perspective and in the practice of international relations, states do seem to frequently seek to achieve non-economic ends by way of using economic means. However, this does not seem to be a particularly innovative nor analytically helpful insight. It would be more interesting if we could say something about exactly how it is that states use such tools. What is different about state use of economic tools as opposed to other means of international influence? What are their limits? Are there any patterns that we can explore regarding conditions that are likely to result in “success?” If so what are those conditions? Exactly in what manner do state

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\(^{72}\) Baldwin, *Economic Statecraft*.


\(^{74}\) Baldwin, *Economic Statecraft*, p. 16.

\(^{75}\) *ibid.* p. 30. Baldwin actually introduces this definition on page 13-14 of Chapter 2, but develops it more fully in his Chapter 3 “What is Economic Statecraft?”

\(^{76}\) See *ibid.* pp. 8-9 in which he borrows from Harold and Margaret Sprout and K.J. Holsti.

\(^{77}\) *ibid.* pp. 31-32.
applications of economic instruments produce the strategic consequences that states seek? Baldwin’s definition of economic statecraft is too vague to provide useful analytical leverage on such questions. In my own work, I offer a more specific, analytically precise definition of economic statecraft that moves away from Baldwin’s “intentionally broad” definition in favor of an understanding of economic statecraft that frames the strategic outcomes as security externalities that result as a consequence of the economic activities of commercial actors. Defining economic statecraft in this way allows us to be more precise about the conditions under which and the manner in which states seek to use economic interaction to promote their strategic goals.

By focusing the analytical lens on the consequences of various patterns of economic interaction, my work is also able to move beyond another limitation of Baldwin’s formulation: namely, that specific policy tools are categorized simply as “positive” or “negative.” On pages 41 and 42, he provides a table of policy tools that states may use to pursue their national objectives. These tools are categorized as either “negative” (having a harmful effect on the target) or “positive” (having a beneficial effect on the target) and as having to do with either “trade” or “capital” (by which he means financial flows). His definition of economic statecraft as essentially the economic means to realize foreign policy objectives may be partly responsible for this narrow, binomial categorization. The outcome of economic statecraft (i.e. the end it is designed to achieve) is largely exogenous for Baldwin. He is primarily concerned with identifying the economic set of tools that states can use to pursue a range of foreign policy goals. By framing economic statecraft as an issue of security externalities, my approach focuses on the security effects of economic interaction and thus is better able to illuminate and distinguish the specific types of security concerns arising out of various patterns of economic interaction. Rather than merely categorizing the various policy tools that states can use to engage in economic statecraft (which, as Baldwin admits, may be an almost infinite list of policy tools), I organize the space differently. I put forward a comprehensive typology that distinguishes the specific security effects that state policies may seek to bring about. By framing the conceptual space in this way, I am better able to distinguish and specify the causal pathways that link the economic behavior of commercial actors to the ultimate security consequences for states. This approach provides a much clearer view of the inner workings of economic statecraft—exactly how states use economics to pursue their foreign policy objectives. This higher

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78 On pp. 40-41 he provides a long list of the “wide variety of foreign policy goals.” ibid.
79 “These tables are intended to illustrate the wide variety of economic techniques and do not purport to be exhaustive.” ibid. p. 40. One can imagine a dizzying array of policy options available for the state to influence economic conduct: laws, conditionalities, regulations, tariffs, taxes, licensing, quotas, bilateral and multilateral regimes, fiscal measures, subsidies, etc.
resolution on the actual conduct of economic statecraft permits a richer categorization of the conceptual domain of economic statecraft than Baldwin’s positive/negative framework.

Although Baldwin set out to cast a wide net encompassing all the various positive and negative mechanisms states could pursue across all types of economic interaction—trade as well as financial relations—in the end, most of his book focused on sanctions. However, ten years later, Jonathan Kirshner’s *Currency and Coercion* would help address the lack of systemic scholarship on the use of monetary tools of economic statecraft. Each of these works made important contributions to the study of economic statecraft, but in seeking to develop the theoretical context for the exercise of contemporary economic power, these works tended to focus almost exclusively on the state and drifted away from the commercial actor-driven approach that characterized the earlier generation of scholarship (e.g. Staley).

One notable exception is Robert Gilpin’s *US Power and the Multinational Corporation*. Gilpin argued that multinational corporations thrive because the international system’s hegemon creates and maintains an international environment in which private sector actors can benefit and thrive. At the abstract level, Gilpin’s work seeks to directly account for the role of commercial actors in international strategic relations. However, Gilpin was mainly motivated by an effort to explain the long-term rise and decline of hegemons in the international system. The field is still lacking a middle-range theory that bridges the levels of abstract theory and the more concrete applications of exactly how commercial actors do the strategic bidding of the hegemon.

Although Gilpin’s work is largely compatible with the theory put forward in my first book, there are inevitably, some areas of friction: First, Gilpin’s book emphasized the unique role of the hegemon in the international system and the benefits accruing to the hegemon’s multinational corporations (MNCs). This perspective stands in contrast to my work that argues that any state is more or less theoretically capable of using its commercial actors to further its national strategic interests. Moreover, there does not seem to be any a priori reason to assume that the MNCs of non-hegemonic states would not also accrue benefits in a modern, liberalized global regime (e.g. WTO). Second, Gilpin’s normative position highlighting the danger of national over-reliance on investment returns also seems not to have been borne out by the facts in the American case as it has developed since the time of his writing.

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81 “. . .[T]his book argues that the international political order created by dominant powers primarily in their security interests has provided the favorable environment for economic interdependence and corporate expansionism.” Gilpin, *U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment*, p. 19.
Finally, Gilpin’s work left many questions unanswered—is it only the hegemon’s corporations who can benefit or can all commercial actors? If all commercial actors benefit, then can other non-hegemonic states also pursue their strategic goals through the use of commercial actors? How? What are the processes through which such strategic alignment of interests between the commercial actors and the national strategic interests actually take place? To what degree can states shape and influence the behavior of their multinational firms? In what way does the behavior of MNCs affect national security? Gilpin’s work was an important step forward in considering the inter-relationship of modern multinational corporations and US national interests. His book frames a discussion of how the behavior of MNCs served that interest. As with Knorr, my work attempts to build on elements of Gilpin’s theoretical foundation and examine the resulting theory in the empirical context of contemporary Chinese interests.

Many of the other works in the literature on globalization that sought to explore the role of commercial actors tended to overstate the autonomy of multinational corporations and the erosion of the nation state as the dominant actor in international relations. My own work demonstrates that even if the direct, classical mercantilist power of the state to dictate policy to its private sector actors has diminished under a more liberalized system, sufficient power remains for the state to influence and generate incentives for the private sector to behave in ways that are conducive to state interests. Although many of the exaggerated claims of a “vanishing state” have since been largely corrected, the field has yet to develop a middle range theory that would connect the micro-level behavior of commercial actors who possess some degree of autonomous agency to the macro-level strategic outcome of how modern sovereign states actually mobilize their economic interaction to further national security goals. It is not

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enough to simply “bring the state back in” to our analyses—as scholars, we should also illuminate how states interact with their commercial actors in a strategic context.

Summary

In summary, there is a long tradition of scholarly work that has sought to understand how states use economic power. As reflected in the Venn diagram, this body of literature incorporates elements of several different types of works that have sought to bridge the economics and security studies fields. A comprehensive approach to understanding the exercise of economic statecraft synthesizes elements of a nation’s basic economic foundation, its domestic strategic political economy and the competitive struggle for power in the international arena. Moreover, a complete analysis should include both elements of the principal-agent dynamics that pervade the business-government relations at the heart of the mobilization and Leninist literatures as well as a deeper understanding of security externalities that drive much of the strategic goods literature.

Inspired by the early Twentieth Century classical realists who emphasized the importance of both national strategic goals and the role of commercial actors in pursuing those goals, my work seeks to address a number of gaps in the literature. My own work seeks to extend and tactically operationalize some of the earlier work done on the nature of economic power and how states actually mobilize commercial actors to pursue national strategic interests in a contemporary context. Specifically, my first book tries to answer the following questions: In what manner do states seek to use economic interaction to further their larger strategic goals? What is the role of commercial actors in states’ strategic efforts to wield economic power? Why do these efforts succeed or fail? What factors facilitate or hinder effective economic statecraft?

When attempting to answer such questions, the existing literature has tended to take too narrow of an approach. In particular, existing efforts to explore this topic have generally fallen victim to some combination of three limitations. First, existing literature has focused mainly on the most readily observable form of economic interaction: a statistical examination of trade—thus missing the empirical richness of the full panoply of economic interaction and the security externalities related to non-trade based economic interaction like financial and monetary relations.

Second, much of the work that has been done on the issue of using economic interaction to pursue larger strategic goals has been framed in the context of sanctions, missing the wide range of security
consequences associated with various other mechanisms of economic statecraft. Framing the issue through this sanctions lens may omit more subtle mechanisms that seek not only compliance, but a deeper transformation of interests themselves. Starting from this standpoint, the field ought to embrace a theoretical approach and research agenda that is not narrowly limited to sanctions, but rather encompasses a broad range of economic activities like aid, investment flows, etc. and their concomitant security effects.

Finally, much of the literature dealing with the use of economics to pursue strategic goals tends to traditionally take a state-centric approach. By focusing predominantly on states as the unit of analysis, these perspectives give relatively little consideration to a rigorous treatment of the role of commercial actors—the agents actually responsible for conducting most of the economic activities of the modern state. The behavior of these commercial actors plays a crucial role in determining economic interaction, and ultimately, how states may use that economic interaction to pursue their strategic interests more or less effectively. In my own work, I adopt a principal-agent framework that facilitates a meaningful exploration of the business-government dynamics that are so important for understanding how states use economic interaction to further their strategic interests.

Although economics and its relationship to security has been a long time topic in the international relations literature, the field continues to lack an integrated theory that links microeconomic, firm-level behavior with the macro-level grand strategy of states. As a result, we have little sense of the microfoundations of economic statecraft as practiced in grand strategy. My first book provides an account of how aggregate economic agents’ micro-level incentives and consequent behavior generate national security outcomes at the level of state grand strategy. Commercial actors, acting on their own interests, engage in various forms of cross-border economic interaction. This interaction often generates security externalities. Moreover, even in a modern, liberal economic system in which states themselves are not directly responsible for conducting the majority of economic interaction, states can create incentives for commercial actors to behave in ways that encourage the creation of security externalities that are conducive to a state’s strategic interests. Thus, states can pursue strategies that seek to manipulate these externalities by structuring the incentives of the commercial actors involved. I define such manipulation as economic statecraft.

86 In a modern, liberal economic system, most of the economic interaction that takes place is conducted by commercial actors. These commercial actors engage in economically rational decisions which result in international economic interaction.
87 States in highly charged security environments are particularly likely to be sensitive to such security externalities. These externalities may be usefully distinguished from one another by their security effects and the manner in which these effects are generated.