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Economic Interdependence and Interstate Conflict

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In this article, we review three publications regarding trade and interstate conflict and aim to further delineate the debate of whether economic interdependence is a cause of war or peace. The recent U.S.-China trade tensions under the Trump administration have warranted a renewed interest in the qualification of the veracity of either peace or conflict in an age of increasing interdependence. In this analysis, we aim to contribute to the base of knowledge of interdependence and interstate conflict and argue that three strategies merit additional attention. First, research should turn to previously neglected secondary and tertiary boundary conditions under which trade can have an influence on the likelihood of conflict. Second, additional effort should be made towards revealing and delineating causal mechanisms instead of taking for granted the most prevalent frameworks of major paradigms. Third, it would be prudent to reconceptualize key concepts and assumptions when trying to understand the effects of economic exchange on belligerence.

Keywords: economic interdependence, interstate conflict, security externality, intra-industry trade, relative gain

Introduction

Political scientists and economists have long been interested in whether economic interdependence is a cause of war or peace. Although considerable progress has been made over the past decades, the field has not moved beyond preliminary analyses of the causal mechanisms, and, thus, narrow and static applications of the grand theories are common. Consequently, scholars have found no consensus regarding the link between interstate commerce and conflict. While the literature partially qualifies the assertion that extensive commercial bonds between nations create a deterrent to conflict, it has been daunting at times to find empirical support for such peace-through-globalization hypotheses.

Earlier Studies of Economic Interdependence and Interstate Conflict

Liberalism

Many scholars align with traditional liberalism and conclude that economic openness should have a pacifying effect on armed conflicts. These optimists draw on the work of classical liberals such as Kant to stress the importance of interdependence as a key casual factor to reduce the chance of military conflict between states

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(Polachek, 1980; Oneal & Russett, 1997, 1999). In this camp, scholars identified three possible pathways that lead trading partners to peace: the welfare gains of trade, state preferences and increased inter-state information flow and communication.

The first claim of the liberals is what scholars have labeled "liberal commercialism".[1] Such a liberal commercialism argument focuses on the absolute mutual welfare gains that trade promotes, and its ultimate pacifying effect. Based on this logic, states are deterred from initiating conflict against a trading partner for fear of losing the welfare gains associated with the trading relationship (Polachek, 1980). Following the same deductive reasoning, liberal institutionalists further articulated the increased opportunity cost among trading partners that hinders the possibility of war: the opportunity costs of waging war are high when trade levels are high, and this serves to restrain actors who might otherwise have an incentive for war (Keohane & Nye, 1972; Copeland, 2015).

Another thread of the liberal argument focusing on state preferences pointed to economic exchange as substitute means of military conquest to acquire resources for promoting political security and economic growth. As trade and foreign investment increase, there are fewer incentives to meet these needs through territorial expansion, imperialism and foreign conquest (Rosecranece, 1986).

The third liberal argument — cast primarily at the level of country dyad — is that economic exchange increases information flow and promotes communication between private actors in different countries as well as between governments. Increased contact and communication, in turn, are expected to foster cooperative political relations (Doyle, 1997; Hirschman, 1977, p. 61; Stein, 1993; Viner, 1951, p. 261). To this point, the notion of trans-nationalism highlights diminished role of the military, which are substituted by multiple channels of communication (Keohane & Nye, 1972).

Realism

Realists, on the other hand, suggest that high levels of trade might provide states with more reasons to fight (Waltz, 1970). Realists' arguments focus on two dimensions: state interests; and how trade might change the distribution of power in the anarchic system. Consequently, realists identified two logics that link interstate commers and war: dependency asymmetry and thus vulnerability, and disproportionate distribution of gains.

The causal mechanism that incentivizes dependent great powers to war lies in the dependency asymmetry and vulnerability thereof, generated by "opening-up" trading relationships. Treating states as self-help unitary actors in the anarchic system, pessimistic scholarly accounts argued that it is within states' interests to be concerned with relative gains and thus the fear of being cut-off from vital goods and markets.[2] As Waltz put it, while actors in domestic politics have little reason to fear specialization, the anarchic structure of international

[1] In a collective volume, Globalization and Armed Conflict (2003), Scheneider et al. introduce four possible arguments regarding the effect of trade on interstate conflict: Liberal commercialism argues that trade promotes peace due to absolute mutual welfare gains. The Marxist/dependency theorists indicate that trade leads to conflict due to negative consequence of asymmetrical dependence. The neorealism supposes trade causes the distributional conflict because of states' relative gains concerns. Trade is irrelevant to conflict. Copeland, on the other hand, identified three causal claims: the liberalism, realism and neo-Marxism. The commercial liberalism is what Copeland identified as the opportunity cost model.

[2] Offensive realists have focused on the relative gain concerns, which may advantage trading partners. These critics of commercial liberalism asserted that the disproportionate gains of economic relations may lead to tension and conflict. The economic dependence tends to disproportionately benefit some states, which implies disproportionate costs for the more dependent state. Mearsheimer (1992, p. 223) observes that states requiring vital goods, fearing cut off, will seek "to expand political control to the sources of supply, giving rise to conflict with the source or with its other customers."

politics forces states to worry about vulnerability, compelling them "to control what they depend on or to lessen the extent of their dependency." (Waltz, 1979, p. 106). Scholars such as Gilpin and Krasner also emphasized that states have political reasons to minimize their dependence on foreign commerce, and thus the fear of cut-offs which might lead powerful states to war (Gilpin, 1977, 1981, and 1987). Hence, as trade flows and the extent of interdependence increases, so do incentives to take military action to reduce their economic vulnerability (Gilpin 1981, pp. 140–141; Liberman, 1996).

Other realist scholars focused on the distributional effects of economic gains among states that could change power dynamics in the system. Realists have pointed out that the distributional consequences of the disproportional gains from trade will shift power dynamics among the great powers and thus affect interstate power relations. Shifting power relations, in turn, are widely regarded as a potential source of military conflict (Gilpin, 1981; Levy, 1989; Mearsheimer, 1990).

The Bargaining Literature

The bargaining literature that addresses the relationship between trade and conflict has largely been constructed by realist scholars. Grieco's strategic choice approach utilizes trade gains and its security externality to explain how trading relationship flourish among allies. According to Grieco, the increase in real income frees more economic resources for military use, and therefore create potential security gains for trading partners and threats to enemies.[3] Using tariff game models between allies and adversaries, Gowa showed that free trade is more likely to flourish within political military alliances. Assuming polarity is the root cause of the international behavior, Gowa further suggested that an international bipolar system facilitates more free trade due to stronger alliance stability. It is worth noting that for Gowa, the impact of trade on conflict is an epiphenomenon, and caused by other factors (Gowa, 1994).

Other formal theory scholars utilize the liberal argument that globalization facilitates information flow and communication to arrive at the liberal prediction that trade should be associated with peace. For example, Gartzke and Li suggested that globalization reduces the uses of bluff and deception, makes communications among states more credible and therefore facilitates agreements without resorting to militarized violence (Gartzke & Li, 2003).

A Summary of the Publications

Studies selected in this review essay represent the latest efforts in the literature to reconcile the marked disparate views regarding the link between trade and armed conflict. These publications — by Copeland, Kleinberg et al., and Peterson and Thies — seek to further advance the literature and attempt to solve the debate by isolating boundary conditions that facilitate either a pacifying or hostile effect of economic ties. These authors point to several previously neglected areas of considerations: conditions posited are the variables of time, concentration of extradyadic trade relationships, and the products being traded. Together, they move toward filling a void in the scholarship of interdependence and conflict.

Trade Expectations Theory

Dale C. Copeland's book *Economic Interdependence and War*, is a carefully crafted contribution to the

[3] Grieco further invoked the relative-gains argument to assess the possibility of cooperation between trading partners. According to this hypothesis, the fear of feeding a potential enemy through an intensification of trade is the major impediment to any attempt at creating lasting institutions and trade relationships between non-allied states (Grieco, 1988).

literature on economic interdependence and interstate conflict (Copeland, 2014). The book proposes an alternative trade expectations theory: for any expected value of conflict, negative expectations of future trade prospect increase the incentive and likelihood of a dependent state's choice of hardline policies or war. Conversely, a positive outlook on future trade and investments increases the security confidence of a country and therefore reduces the incentives to go to war.

Utilizing both the realism paradigm and the bargaining literature, Copeland focuses on the time dimension to explain that it is not the current trading relationship of dependency asymmetry, but it is the future that political leaders are truly concerned with. While liberal theory would typically focus exclusively on the opportunity-cost calculated at the current level of interdependence, the realist theory focuses on the concern of the current dependency asymmetry and vulnerability. Copeland's main concern with the literature is not that it is wrong but rather that it is under-specified: When two countries are highly interdependent today but one of them feels vulnerable in the future due to negative future shocks, the war incentives may exist (p. 16).

By introducing a secondary condition to solve the debate in the literature, the contributions of Copeland's book are manifold. First, by treating such a relationship in a more progressive way, the confounding variable of time that Copeland points out is a plausible one. In a dynamic trading relationship that involves power struggle, it is likely that states' conditions change over time; therefore, it is the future, not the present or the past, that leaders of a country are truly concerned with. Therefore, Copeland's approach, in short, is a basic reorientation of the thinking about interdependence and war away from theories of comparative statics and toward dynamic theories that incorporate the future within their core deductive logic (p. 17). Second, while empirical evidence supports both views, Copeland further asks when, and under what conditions, will trade and investment ties between nations lead to either peace or military conflict.

> Note that commercial factors are not only far more important to the outbreak of war than realists and liberals have previously thought, but that their impact can cut both ways. The real puzzle to be solved thus becomes this: when and under what conditions will the trade and investment ties between nations lead to either peace or military conflict (Copeland, 2014, p. 1).

Copeland correctly notes that while understanding that the primary conditions of the relationship between trade and war are necessary, the lack of census on this topic has likely resulted from the inadequacy of understanding the sufficient conditions of the relationship. In this sense, Copeland's argument fuses the liberal and the realist insight that commercial ties can give actors a large material incentive to avoid war with the realist insight that such ties also create vulnerabilities that can push leaders into war (p. 2).

Extradyadic Trade

Kleinberg et al. share a common objective as Copeland: to introduce secondary variables to identify previously neglected boundary conditions. Kleinberg et al. study the extradyadic environment to understand the relationship between trade concentration and interstate conflict (Katja B. Kleinberg, Gregory Robinson & Stewart L. French, 2012). According to the authors, greater concentration of extradyadic trade implies less outside trading partners and therefore makes dyadic conflict less likely as it affords potentially belligerent states fewer substitutes for dyadic trades (p. 532). By measuring opportunity costs by means of the size of trade as well as a state's ability to replace it, they argue that when states have fewer alternatives to their existing trades, risk of violent conflict declines.

Unlike Copeland focusing on the time dimension, Kleinberg et al. utilize the relationship among constituent states. The contribution of Kleinberg's argument is to understand how the outside environment affects the dynamics within a dyadic. Their argument is a plausible one, as there are often many trading partners for each state in the international system: states often maintain ties with numerous suppliers and markets to satisfy their needs. The extent of trade outside the dyad should have an impact on possible armed conflict within the dyad. Over time, they also adjust their trade relations with any partner, sometimes gradually in response to changes in supply and demand, sometimes abruptly in response to political developments (p. 533).

Additionally, their piece advances the current literature by introducing a more holistic view on opportunity costs — which is not only measured by the volume of trade but also the potential substitutes available outside a trading relationship. To this point, it can be argued that trade substitution also serves as one of the determinants in a leader's trade expectations. Therefore, Copeland's piece can be strengthened by Kleinberg et al.'s argument.

Intra-industry Trade

The reconceptualization of trade composition using new trade theory — intra-industry trade — has been the focus of Peterson and Thies's publication, *Beyond Ricardo: The Link Between Intra-Industry Trade and Peace* (Timothy M. Peterson & Cameron G. Thies, 2012). Their approach represents another front in the trade-conflict debate over how to conceptualize and measure the main concepts of interest — conflict and economic interdependence (Barbieri, 1996; Gartzke & Li, 2003; Hegre, 2000).

Peterson and Thies argue that intra-industry trade is particularly pacifying because it promotes similarity of interests and preferences among trade partners without evoking vulnerability, contrary to inter-industry trade. Intra-industrial trade serves to reduce conflict because the pacifying elements of trade remain such as trade gains that function either as an opportunity cost, or to facilitate information flow, communication and intercultural exchange (pp. 752–753). Meanwhile, the potentially aggravating impacts are diminished, such as the incentive to use trade as leverage in bargaining and potential resentment in which primary commodity exporting countries are vulnerable to exporters of manufactured goods (pp. 752–773).

Peterson and Thies further point out that development itself and overall trade have ambiguous effects on conflict, whereas intra-industry trade should be uniformly pacifying. Their statistical analyses demonstrate that higher proportions of dyadic intra-industry trade significantly reduce militarized conflict; overall trade interaction typically has no effect on the likelihood of dyadic conflict when controlling for intra-industry trade; and finally, development alone has no effect on the likelihood of dyadic conflict in the absence of intra-industry trade (pp. 755–756).

Peterson and Thies shared the same notions as the other two sets of authors that trade is not everywhere nor at all times pacifying. All three sets of authors correctly contend that the pacifying impact of liberalization may itself be a conditional phenomenon. By using the new trade theory, the strength of Peterson & Thies is two-fold. On the one hand, it explores a previously uncharted territory by arguing that the type of product traded likely has an impact on the probability of peace or conflict. Using the intra-industry trade model to understand the trade composition is a novel insight that makes up for the omitted variable bias in most of the literature including those of Copeland and Kleinberg et al.'s.

On the other hand, the new trade theory and intra-industry trade can realistically explain what is happening in today's trading market, when countries largely trade intermediary goods that is part of the value chain. The

composition of trade has changed markedly since the pre-World War I era.[4] And yet, trade composition used to measure inter-industry specialization are still in accordance with the Ricardian and Heckscher-Ohlin models (p. 748). In fact, states today often exchange similar commodities following intra-industry specialization (Krugman, 1979, 1981). While most scholars still use the classical economic models of trade, such a novel approach provides a fresh breeze in the study of trade and war.

The Causal Mechanisms

Whiles Kleinberg et al., Peterson and Thies advance the liberal literature, Copeland attempts to build a defensive realism theory focusing on the trade-security dilemma. However, Copeland's causal path towards such a theory and his characterization of offensive realism beg more clarification.

Copeland characterizes structural offensive realism as "economic realism" and criticizes their focus on belligerence. According to Copeland, economic realism claimed that the states will always "assume the worst" in economic competition and endorses expansionist strategies against geopolitical rivals (p. 7). Throughout his analysis, it seems that Copeland mainly takes issue with opportunism and thus the rebuttal of "aggression" remains the focus of his theory. His theory, therefore, accords with most of the other aspects of the offensive realism theory, except for the belligerent tendency of dependent states.[5] This is somewhat a narrow refutation of offensive realism. In fact, Mearsheimer's offensive realism at least encompasses two dimensions: security power maximization and relative gain concerns.[6] However, while Copeland claims his theory is fundamentally realist due to its concern of long-term security (p. 27), little effort has been made to disqualify the underlying logic of belligerence — the relative-gains considerations.

In building his trade-security dilemma theory, Copeland at times claims the primacy of commercial power while at other times declares his position should not retreat to the "welfare-maximization" logic.[7] However, the primacy of commercial power itself implies states concern about absolute gains. In his analysis of the trade-security dilemma, he certainly shows a preference towards the primacy of commercial power. As a result, it is not clear where he draws the boundaries between his theory, the offensive realism and the liberal theory. To understand his position, it will be helpful to further elaborate on the possible causal logics that link trade and potential conflict. In the sections below, we will first analyze three publications' positions on how interdependence could be a crucial variable by showing that powerful states do trade with each other. Then, we will move on to the discussion of the direct and indirect causal relationships.

Dual Nature of Trade: Why Do Powerful States Trade With Each Other?

Copeland claims that offensive realism argued for a possible spurious relationship between trade and conflict:

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[4] According to Milner (1999), Intra-industry trade has expanded considerably in the period since the second world war and now accounts for the majority of total international trade — between 55 percent and 75 percent (Peterson & Thies, 2012, p. 748).

[5] According to Copeland, dependent states do not initiate war; instead, they respond to the restrictive actions by reducing benefits and imposing costs of adjustment. Furthermore, a bargaining model shaped a self-reinforcing feedback loop of mistrust and hostility that ultimately lead a dependent state to initiate war (Copeland, 2014, pp. 47–48).

[6] In fact, Mearsheimer's offensive realism begins with the assertion that great powers "emphasize on relative power and security maximization as motivations of states' behavior" (Mearsheimer, 2001). Also see Glenn H. Snyder's review on "Mearsheimer's world — offensive realism and the struggle for security", 2002.

[7] According to Copeland, the trade-security dilemma involves the implication of actions that states take to improve the certainty of future access to resources, investments and markets over the long term. This is not a security maximization concern; it is more of a commercial power maximization concern.

economic interdependence is usually not as salient a variable precisely because great powers have clear reasons not to trade with one another in the first place.[8] Should trade be an independent variable of interest? Is the relationship between trade and war epiphenomenal? To this point, all three sets of authors depart from offensive realism in the sense that they all share a common belief that the relationship between economic interdependence and interstate conflict is not epiphenomenal: they are indeed causal.

Why do powerful states trade in the first place? Such a question is best related to the dual nature of trade. Hirschman states the dual nature of trade gains, which captures the trade dilemma. Great powers need to trade with each other and yet, they are afraid of becoming over-dependent:

> The influence which country A acquires in country B by foreign trade depends in the first place upon the total gain which B derives from that trade; the total gain from trade for any country is indeed nothing but another expression for the total impoverishment which would be inflicted upon it by a stoppage of trade. In this sense the classical concept, gain from trade, and the power concept, dependence on trade, now being studied, are seen to be merely two aspects of the same phenomenon (Hirschman, 1945, p. 73; quoted in Baldwin, 1980, p. 478).

Two prominently identified causal mechanisms in the literature that relate to the dual natural of trade gains are opportunity costs and vulnerability. Using the logic of increased opportunity costs among trading partners, Kleinberg et al. align with the liberal camp. Copeland has advanced a defensive realism argument while focusing on leaders' future expectations towards dependency and future vulnerability. Both sets of authors refute the possibility that fears of dependency may prevent great powers from trading with each other in the first place.

According to Copeland, the reason why great powers engage in a trading relationship lies in "economic realities": economies of scale, diminishing marginal returns, and the proliferation of raw material inputs (pp. 30–32). Although the concerns of dependency and vulnerability are very much relevant, they are within leaders' future calculations, not the present or the past. War may break out when "the dependent power no longer believes that the system is working for it and has reason to think that a preventive war, or increasingly coercive politics, might be able to reestablish secure access to the resources, investments and markets that are being denied to it or will be denied in the near future" (p. 7). Thus, fear of dependency may be in the future while the trade gains are at present. Using this logic, the incentives that drive great powers to trade in the first place may very well be the prospect of a current symmetrical trading relationship — a balance between gains and dependence. Conveniently, the dual nature of trade misses each other in the dimension of time, and, thus, the conflict is resolved.

Copeland's argument, however, does not directly address the role of future opportunity costs and the potential pacifying effect of trade ties. To this point, Copeland's analysis of why great powers trade in the first place may not be a holistic one. His argument can be strengthened by Kleinberg et al.'s and Peterson and Thies's arguments.

Kleinberg et al. advance the commercial liberalism literature of opportunity costs by pointing to the structural impact of the level of extradyadic relationship on potential belligerent states' behaviors. For Kleinberg et al., states are deterred from initiating a conflict for fear of losing welfare gains. As Kleinberg et al. see it, if a state can shift quickly and cheaply from one trading partner to equally beneficial trade with another partner, the opportunity costs of dyadic conflict will be low and the associated constraints on belligerent actions will be small (p. 531). In other words, the availability of substitutes for dyadic trade will affect the size of the prospective

[8] Scholars have argued that great powers both have a relative gain concern and a fear of vulnerability (Grieco, 1988, 1993; Mearsheimer, 1994, 2001; Buzan, 1984; Copeland, 2014).

opportunity costs of belligerence toward a trading partner and the likelihood of interstate conflict.

To Peterson and Thies, the dilemma between opportunity costs and dependency asymmetry is resolved by the pacifying effect of intra-industry trade. In fact, great powers are mainly engaged in intra-industry trade, in which the opportunity cost of losing the absolute trade gain is highlighted, while the concerns of dependency and vulnerability are eliminated.

Overall, these three publications together may answer the question as to why great powers may engage in trading relationships — they are controlling for the possibility of becoming vulnerable. The present trade gains versus a future dependency on trade, the opening of multilateral trading relationships at the same time and the combined character of intra-industry trade may very well fog a leader's judgement about the outcome of the dual nature of their trade. Therefore, it may not be surprising that great powers engage in trading despite the potential vulnerability and future adjustment costs, combined with their current concern of trade gains.

Nevertheless, the possibility that trade could be an independent variable is one thing; to establish a causal relationship is yet another that involves solving the endogeneity problem. Three publications, to varying degrees, assume causal relationships between trade and conflict can be established by the mechanisms of opportunity cost or trade dependency without considering the underlying debate of absolute or relative gain concerns. This is a bold assumption. In fact, absolute and relative gain concerns may help to define the paradigmatic divide. As one will see in the following analysis, using these two separate logics, there are two possible causal pathways pushing trade to either conflict or peace: direct and indirect pathways.

The Direct Causal Path: Military Power Versus Commercial Power

One of Copeland's contributions in his book is to advance a possible direct causal link between trade and security. It has to do with the reorientation of states' primary concern from security maximization to commercial power. It thus stands to reason that either opportunity costs or dependency will make a direct impact on peace or conflict as states pursue their primary commercial interests. Copeland makes a convincing argument on the precedence of commercial power and how it affects international relations.[9]

Earlier realist scholars such as Waltz and Gilpin recognized the importance of commercial power: without a strong and vibrant economy, great powers cannot sustain their positions in the system (Wlatz, 1979; Gilpin, 1981). Copeland goes one step further and claims that military power rests ultimately on economic power. According to Copeland, liberalism cannot explain the economic concerns of Adolf Hitler prior to the collapse of the global economic system, or his strategic worries in the 1930s about Germany's future dependence on raw materials and food (p. 6). Indeed, the realist focus on military power may be misleading; security studies should focus on commercial power dynamics. If history shows that a great power's security is very much a function of its position in the global commercial system, the entire field of "security studies" will need to be reoriented away from its traditional focus on military matters and reconnected with the insights of international political economy (p. 3). Copeland also points out economic efficiency in modern times depends on participation in an international division of labor, which permits scale economies in production (pp. 30–32).

If economic gains are states' ultimate concerns, then the dependent variable of security studies will be commercial power, while military power itself will turn to an intervening variable or even an independent variable.

[9] Thus far, no clear consensus has emerged in the literature about the causal precedence between trade and conflict (Keshk, Pollins, & Reuveny 2004; Hegre, Oneal, & Russett, 2010).

In other words, military power is a means, not an end. Yet, such a premise of primacy of commercial power itself may be a daring claim. Such a reorientation will clearly require reconceptualization of the definition of power: are states ultimately concerned with inherent power, relational power, or structural power? Does globalization (interdependence) as a structural variable change a state's interests in the kind of power it seeks? A better understanding of the primacy of commercial power as a state's primary concern will require a thorough inquiry into reconceptualizing and operationalizing 'power' in international relations. Until then, such a direct causal link between interdependence and armed conflict may remain elusive in the literature.

Additionally, such a reorientation to commercial power and welfare invariably implies that states do concern about absolute gains. Although not explicitly stated, Copeland and the other two publications shared this implicit logic that all states who engage in peaceful relations and trade can expand their wealth. The absolute gain argument focuses on maximization of gains in general regardless of the gains of others, which is to say, a non-zero-sum game (Powell, 1991). One possible causal path where Copeland's theory could work is through the primacy of commercial power, and thus the concern of absolute gains, combined with dependency asymmetry. One could argue such a position is realist in the sense that it focuses on power; one could also argue that such a position is more liberal because it is clearly predicated upon absolute welfare gains.

The Indirect Causal Path: Security Externality

While the primary concern of commercial power, to some extent, can work through dependency vulnerability and thereby the impetus to war, such a path may not be the dominant one. An indirect offensive logic could very well be at play here. As discussed, the offensive logic claims the primacy of security maximization and concerns of relative gains. Using such a logic, in order for trade to have an impact on security outcomes, it will require a translation of trade gains to security gains. Mearsheimer claimed that states should still worry about relative gains because gaps in gains can be translated into a military advantage that can be used for coercion or aggression (Mearsheimer, 1994).

This indirect causal path is achieved through what is known as 'security externality'. Although not explicitly stated, both Copeland and Peterson and Thies's logic of dependency vulnerability could very well work through the concept of 'security externality'. According to Grieco and Gowa, the security externality of trade results from the increase in real income due to efficient uses of resources accomplished by trade. Gowa assumed that trade along the line of comparative advantage has net economic benefit: mutual gains, revenue, and income earned in the form of money will increase a country's resources and spending power. Trade increases the potential militant power of any country that engages in it because an increase in real income contributes to military resources, which can be an important means to wield power and produces security gains (D. Baldwin, 1985, p. 216; Hirschman, [1945] 1980, p. 14; McKeown, 1982; Root, 1984; Srinivasan, 1987, p. 352; Gowa, 1994).

Security externalities can work defensively or offensively. In an offensive world, with the intention to reduce vulnerability, security externality incentivizes potential dependent powerful states to war. This logic is what currently dominates the literature in realism. Copeland departs from this logic by considering the defensive tendencies of such dependent states: dependent states simply respond to the restrictions of trade and investment flows of less dependent states.

However, security externality may also work defensively through another causal mechanism of the distributional consequences of such security gains. According to Copeland, it is always the dependent states that gain relatively in a trading relationship (p. 9). Following this logic, dependent states may advance their positions

in the international system due to security power gained through trade. A changed power dynamic, in turn, may send a dependent state X to a spiraling situation initiated by states that feel threatened by state X's newly gained security power through externality. This could be one of the reasons that motivated less-dependent states to restrict trade in Copeland's case. However, none of the authors seem to consider such a possible indirect causal path.

One may question whether such a scenario could exist without the reality of relative gains. This is a valid concern since the changing power dynamic can only be achieved by relative gains. The same logic applies to the direct causal path that links commercial power primacy, dependency asymmetry and war. One could similarly question whether such possibilities really exist without an inherent belligerent tendency and especially a relative-gains concern. The relative-gains considerations will be discussed in the following sections.

Structural Constraints of Economic Interdependence and War

Anarchy and Relative Gains

Copeland has correctly pointed out that the existing literature is missing a defensive realism perspective on economic interdependence and war. To realists, the concern of relative gains permeates in two dimensions: they determine state interests; they change the distribution of power in the anarchic system. In the latter argument, economic interdependence tends to disproportionately benefit the most powerful states and entails unequal costs on others: this inequality leads to tensions and conflict. Therefore, both realist arguments — dependency asymmetry and the disproportionate distributional consequence — are predicated upon the concerns of relative gains.

Both Copeland and Kleinberg et al. implicitly reject the offensive realism argument that relative gains are the main concerns of a state. However, they have failed to properly address how the overall structure in the international system creates incentives for trade or military conflict. In fact, as much as Copeland tries to design a defensive realism theory, his focus on leader expectations in an uncertain future hardly make such theories structural.[10]

Kleinberg et al.'s analysis is largely based on the opportunity cost model; however, it is unclear whether the realist rational could be at work for the perceived pacifism among belligerent states. The analysis completely ignores how dependency asymmetry and hence vulnerability may be altered due to the concentration of extradyadic trade. One could argue that the dependency asymmetry logic may very well be the cause of reduced conflict within the dyad. If greater concentrations of extradyadic trade mean less trading contraction within a dyad, then a state faces less risk of dependency and vulnerability. Therefore, it is unclear if it is the increased opportunity costs or the reduced vulnerability within the dyadic relationship that is causing the dampening effect on the potential belligerent states.

Copeland rejects the offensive realism pessimism on the basis of two premises. First, offensive realism failed to explain why great powers trade with each other and hence get into a dependency asymmetry and vulnerable position in the first place. Second, offensive realism cannot explain why great powers remain confident about their interdependent relationship for long stretches of time. The rebuttal of these premises was discussed in the

[10] Copeland claimed that his deductive logic has a strong neorealist root. It recognizes the states in anarchic systems — that is, those systems lacking a central authority — always have reason to worry about not just future military attack but also a cutoff from the sources of future economic power (Copeland, 2014, pp. 429–432).

previous section: clearly, states have good reasons to establish trading relationships even under the constraints of relative gain concerns. In this section, I will propose possible arguments about when the relative-gains considerations are slight.

The first condition likely lies in the systemic changes of anarchy. The offensive realist position is nested in the international anarchic assumption. Recently, such an assumption and its implications have been fundamentally challenged by scholars like Lake. In "Escape from the State of Nature: Authority and Hierarchy in World Politics", Lake pointed out that there has always been a wide variety of hierarchical relationships within the international system, and relationships in which the sovereignty of the subordinate polity is ceded in whole or in part to a dominant state (Lake, 2007). The advent of unipolarity, Lake noted, once again revived a hierarchy between states.

This newly redeemed wisdom may shed light on our understanding of relative gain concerns. Does hierarchy under the American unipolar system change a state's incentive for relative-gains considerations? It is likely. States may have less relative gain concerns in a hierarchic system; instead, they may focus on absolute economic gains achieved through economic development. On the one hand, with hegemony facilitating order and stability in the system, states are not self-helped, and, thus, may have more impetus for cooperation. On the other hand, hegemony may facilitate information flow, and, thus, states are not insulated from communication. Such structures may indeed motivate states for cooperation.

Secondly, the concentration of power as Mansfield elaborated in the 90s will likely have an impact on the relative gain concerns, when taking both future and extradyadic circumstances into consideration. In *Power, Trade and War*, Mansfield advanced an inverse relationship between commerce and conflict, subject to the system structure of power concentration. According to Mansfield, the distribution of power has a non-monotonic influence on trade and war. Instead of measuring polarity, he argued, measure of concentration takes into account both the number of great powers and the relative distribution of power. Mansfield found that concentration of power exerts an inverted U-shape relationship on war and a U-shape on trade (Mansfield, 1994). Mansfield's model of the high concentrations of power associated with a lower likelihood of war is compatible with the hegemonic stability theory. In such power dynamics, one could argue that a state's relative gain concern may very well be removed due to hegemonic mechanisms such as stable alliances.

Furthermore, Mansfield's low concentration of power being equally conducive to peace is echoed by Snidal. Snidal maintained that in a multipolar system where more than a small number of states have roughly equal power results in states that will not worry much about relative gains (Snidal, 1994). Consequently, increasing the number of states in the system decreases concerns for relative gains because more actors enhance the possibility of protecting oneself through forming coalitions (Mearsheimer, 1994, p. 32).

The third possibility is what Grocieo and Gowa advanced in the bargaining literature regarding whom to trade with. In the international anarchy where every state ensures its security either by itself or allies, trading with its allies strengthen its security. Therefore, as long as great powers trade with allies, there will be positive security externalities due to strengthened alliances. Strong alliance stability, in turn, alleviates relative gain concerns (Joanne Gowa, 1994, pp. 38–52).

In short, both Copeland and Kleinberg have not made a convincing argument that justifies their quick dismissal of the offensive realism argument. They failed to address constraints that may affect a state's relative economic gain concern. As we can see, reconceptualization of some of the key fundamental principles and concepts will likely shed light on our understanding of the primacy of relative gains or absolute gains and the

theoretical precedency of liberalism, and offensive or defensive realism.

Distributional Consequences of Globalization

Three publications lopsidedly expanded on the more prevailing literature of opportunity costs and dependency asymmetry. However, they all miss an important causal mechanism of the distributional consequences of globalization. The distributional consequences of economic gains can be domestic and international. As discussed previously, internationally, it may shift the power dynamic and thus qualify the realism logic that interdependence serves as a source of military conflict.

Another aspect of the distributional consequence that is largely missing in the reviewed publications is at the domestic level: how globalization shapes state preferences. Such a mechanism works through a liberal logic; however, it captures the essence of what Gourevitch coined as "the second image reverse" — how systemic variables may affect and work through domestic forces (Gourevitch, 1978). In this case, globalization as a structural variable may make an impact on conflict or peace through domestic interests, either directly or through a mediating variable of "development". In this vein, scholars have suggested that development has altered state preferences away from conquest and towards trade, since modern production processes "de-emphasize land, minerals, and rooted labor in favor of intellectual and financial capital" (Rosecrance, 1986; Hegre, 2000; Gartzke, 2007, p. 172).

Kirshner in his book *"Appeasing Bankers: financial caution on the road to war"* asserted that open international financial flow as a structural variable turned bankers into an influential vested interest group, and it resulted in bankers being almost invariably seeking peace instead of war (Jonathan Kirshner, 2007; Copeland 2015). Similarly, Stephen G. Brooks posited that among the advanced states, there are no longer any economic actors lobbying the government for war. In particular, FDI conquest substitution theory shows that the current structure of the global economy now makes it feasible for foreign direct investment to serve as an effective substitute for conquest in a way that was not possible in previous eras (Brooks, 2013). Therefore, it has become unnecessary for economic actors to directly lobby the government as the structural changes have clear incentives for peace.

In short, while Kleinberg et al. and Peterson and Thies focus on the lineage of the liberal argument, Copeland focuses on subjective determinants at the individual level. However, advancement in the structural theory is not only possible but also desirable. Neglected attention at the structural level reduces the theoretical leverages of the publications selected in this essay.

Implications of the Liberal Theory

All three publications lopsidedly and conveniently focus on the "opportunity cost model" of the liberal argument.[11] However, the opportunity cost model invariably emphasizes a state's interests in absolute gains and thus implies states are unitary actors. In fact, the prevailing theoretical divide sees a scholarly reservation to characterize such neo-liberal institutionalism as liberal. The opportunity cost model, at its core, is a modified structural realism argument.[12] The authors' characterization of liberal theories, therefore, begs a discussion of

[11] Copeland attacks this model while the other authors support such a model.

[12] Outside the literature of political economy, liberal institutionalism is considered "modified structural realism". For example, Mearsheimer claimed that liberal institutionalism can hardly be called a heretical alternative to realism, but instead should be seen as subordinate to it (Mearsheimer, 1995).

other liberal causal mechanisms. Liberal theory, instead, focuses on state preferences, interest formation, primacy of social actors, and the logic of appropriateness (Moravscik, 1997; March & Olsen, 1998). In this section, I will discuss the implications of interstate commerce and interstate conflict based on these neglected aspects of the liberal theory.

Primacy of States Versus Economic Actors

The discussions of the distributional consequences of globalization have to do with the impact of the changes in the system on domestic interest groups. In this section, the purpose of the discussion is in opening the black box: how might domestic politics shape a state's preferences and their leader's calculations (Katzenstein, 1978, 1985; De Mesquita et al., 1999).

Copeland has indeed noted that the liberal perspective that unit-level factors such as authoritarianism, ideology, and internal social conflict are the ultimate causes of war (p. 34). However, Copeland seems to imply that all unit-level variables, such as welfare or profit-maximization drives, pressure group politics, and desires for reelection - are all assumed to have no effect whatsoever on a state's decision-making or behavior (p. 27). As a result, domestic variables can only be shown to be occasionally determinative. Such an assumption of domestic autonomy of leaders may be too vast to assume. In fact, domestic interests may be essentially endogenous to a leader's calculations and such an assumption does not violate the assumption of rational security maximization.

Interest formation and domestic politics have been the focus of Narizny's study: *The political economy of grand strategy.* Narizny has clearly constructed such micro-foundations of the "Grand strategy" as a general guideline of national security and diplomacy (Narizny, 2007). Specifically, different interest groups separate into opposing coalitions and conflicts among party lines. Parties select leaders who share the priorities of their electoral and financial supporters. The selection process ensures that executive decision-makers will represent their coalition interests. In Copeland's case, leaders may not solely calculate inter-state conflict but also domestic conflict, and therefore, the future expectations should not be restricted to inter-state calculations. In states where powerful economic actors exist, a leader's future expectations may be largely swayed by domestic factors favoring peace or war, and, thus, the role of leaders is, at best, limited.

The liberal lineage of the literature in interdependence and conflict shall thus focus on identifying the winners and losers of globalization. Krugman has pointed out that it is firms, not states, that are the trading entities (Krugman, 1979, 1981). Such a claim also implies that that the literature shall orient away from a state centric view and towards a deeper understanding of social economic actors. Economic actors can be domestic or transnational.

In "New Trade, New Politics: Intra-Industry Trade and Domestic Political Coalitions", Madeira argued that the winners of intra-industry trade are likely to be big companies (Madeira, 2016). Peterson and Thies, on the other hand, largely treat states as unitary actors and thus fail to consider multinational companies as independent actors. Such a consideration is important because, as the causal mechanism expands, the argument could go both ways. Economic actors — such as bankers — may no longer lobby for war; however, big international arms dealers and weapon producers can be powerful confounders to international peace. When these companies seek higher profit by "making money, making war", we haven't seen such the peaceful trend predicted by Peterson and Thies.

Regime Type

One of the most prominent liberal theories — the democratic peace — is largely missing in the discussion of all three publications. There is little discussion about regime type and how it may affect the likelihood of interstate conflict within the framework of globalization. According to liberals, coherent democracies are less likely to go to war with one another (Mansfield & Snyder, 2002). Regime type is likely to have an effect beyond a leader's calculations and states as unitary actors.

Copeland has downplayed the significance of the regime type on security outcomes by simplifying it to a "capitalist peace".[13] However, such a narrow reading fails to recognize the other causal mechanisms behind the democratic peace, including identities, norms and values, as well as the logic of appropriateness (Levy, 1988; Moravscik, 1997; March & Olsen, 1998). Consequently, there may very well be an interaction between regime type and the variables discussed in the three publications. It is likely that the relationship between these variables in democracies may be different than those in autocracies.

Spillover of Civil Conflict

Another source of interstate conflict has to do with the spillover of civil conflict. One plausible indirect causal pathway that is completely missing in all three publications is the possible spillover effect of civil conflict to international conflict. Liberal theories such as the diversionary theory of war or the scapegoat hypothesis speaks directly to such a possibility. The tendency of people in a wide range of circumstances to support assertive national politics which appear to enhance the power and prestige of the state may lead decision-makers, under certain conditions, to embark on aggressive foreign politics and even war as a means of increasing or maintaining their domestic support (Levy, 1988).

In this vein, Schneider et al. in a collective work *Globalization and armed conflict*, have suggested that the next generation of studies analyzes the impact of economic integration on domestic stability (Schneider et al., 2003). Many possible causal paths that link globalization and civil conflict or peace have been studied extensively. Among them, how globalization affects civil conflict through economic development, inequality, information flow and communication are well established (Barbieri & Reuveny, 2005). Thus, an indirect relationship working through domestic distributional consequences to interstate conflict is likely and plausible.

Determinants of Leaders' Trade Expectations

In his trade expectations theory, Copeland specifies what kind of actors are likely to play important roles in shaping estimates of the future, and how these factors are logically likely to act — either alone or in conjunction with others — to driver a leader's belief about the future security of their state (p. 17). In fact, all three authors implicitly warrant the importance of leadership in shaping the relationship of trade and conflict. However, a few of the concepts in their discussions need further clarification.

Leadership Time Horizon

Copeland assumes that leaders of states are primarily concerned with protecting their long-term security

[13] Democracies, because of their liberal economic structures and ideologies, are generally more oriented to free trade — or at least freer trade — than authoritarian states, which makes them "likely to feel confident about the long-term prospects for open commerce".

(p.27). However, a leader's future expectations can vary by leadership time horizon. For example, Steinberg and Malhotra pointed out that different authoritarian regime types may imply different leadership time horizons (Steinberg & Malhotra, 2014). A longer guarantee of leadership, such as in a monarchy or one-party system, may prompt leaders to be more concerned about long-term economic growth, while short-term leadership stability, such as in a military autocracy, may sway leaders to be primarily concerned with staying in power and is likely to be influenced greatly by current power dynamics. Therefore, short-term trade expectations and long-term trade expectations likely have different implications.

Decision-Making Process

Theorizing the decision-making process can be a challenge itself. Cognitive challenges such as misperception and group-think can certainly hinder the validity of a theory on a leader's expectations.[14] Additionally, there is little discussion oriented towards the opaque decision-making processes of autocratic leaders. Overlooking authoritarian leaders' trade expectations poses external validity threat to Copeland's trade expectations theory, as well as the other two publications. One might question whether it is the *post hoc* analysis or the ultimate structural constraints that have shaped the decision-making outcome of the leaders. To circumvent these challenges, more refined methodological tools may be adopted. Nelson and Katzenstein, for example, used elite interviews with open questions to study risk and uncertainty during the 2008 financial crisis (Nelson & Katzenstein, 2014). Such methods prove to be one of the more powerful tools in exploring parameters and understanding opaque decision-making mechanisms.

Furthermore, how institutional path dependence affects the decision making is largely missing in their arguments. For example, how a country ends its colonialism — violence, such as the U.S. or peace, such as Canada — might affect their future choices when facing a security decision prompted by trading relationships. Future research could seek to understand how historical institutionalism, critical junctures, and sequencing affect the decision-making process of leaders.

Conclusions

Three publications reviewed in this essay have advanced our understanding of economic interdependence and interstate conflict by further identifying previously neglected boundary conditions. While the urgency to continue this effort prevails, revisiting and refining causal mechanisms identified by the grand theory is of equal importance. As one can see in this analysis, some key questions beg more clarification, such as the primacy of commercial power or military power and the conditions under which absolute-gain or relative-gain concerns take precedence. Consequently, new research efforts should emphasize reconceptualization of the key concepts, such as trade compositions, power and anarchy. These theoretical debates may continue through the lens of the "levels of analysis". Additionally, departing from the narrow focus of the dual nature of trade, but addressing state preferences, the primacy of social economic actors and the distributional consequences of globalization, may yield useful findings. Moreover, all three studies focus on great powers, which provide relatively few observations and leads to low external validity of their arguments.

[14] Jervis laid out the challenges of misperception during the decision-making process. Janis focused on the pathology of group think and its ineffectiveness in decision-making process (Jervis, 1976; Janis, 1972).

It is important that the insights of these publications stimulate continued dialogues and debates on the study of globalization and the probability of war. Only a combined effort may produce the leverage necessary to adequately explain and further predict dynamic outcomes of great power politics in an age of increasing economic interdependence.

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